GIORDANO

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# Giordano Releases Third Quarter 2013 Operations Update

## Highlights

- Net Sales for the quarter increased by 5% to HK$1,333 million (2012: HK$1,270 million).
- Global brand sales (defined as sales to end customers through own stores and franchised stores) decreased by 1% to HK$1,773 million (2012: HK$1,795 million) for the quarter.
- Gross profit for the quarter increased by 9% to HK$802 million (2012: HK$733 million).
- Gross margin for the quarter increased by 2.5 percentage points to 60.2%.
- Inventory at quarter-end was HK$593 million, HK$147 million higher than same quarter-end last year. This includes HK$100 million from the consolidation of Middle East operations following the completion of its acquisition in November 2012.
- Comparable inventory at quarter-end increased by HK$47 million to HK$493 million, compared with same quarter-end last year. Inventory held by suppliers and franchisees declined by HK$38 million during the same comparison period indicating closer alliance with suppliers and franchisees.
- Net cash and bank balances decreased by HK$101 million to HK$885 million in the quarter, following a payment of HK$250 million interim dividend.
- During the quarter, the Group reduced its net footprint by 7 outlets. In Mainland China, the Group reduced the shop network by 10 outlets.
- We expect to see the Group's store portfolio increase in the coming year as Mainland China starts to increase its number of stores.

**30 October 2013, Hong Kong**

Giordano International Limited (the "Group" or the "Company") releases its 2013 third quarter operations update today. The Group's sales increased by 5% to HK$1,333 million in the third quarter of 2013 from HK$1,270 million in the same period last year. Total brand sales for the quarter decreased by 1% with comparable store sales growth down 2% compared to last year.

This was due to a combination of factors.

- In Mainland China, market conditions continue to be volatile with comparable store sales down 5%. Same store sales in the first two months of the quarter was almost on par against last year but in September sales growth was sharply negative resulting in a year-on-year 10% decline in quarterly brand sales.
- In contrast, business in emerging markets in South East Asia, notably Indonesia and Thailand, continue to grow strongly at double digit levels.

- In Hong Kong, sales were flat during the quarter compared with same period last year. Marketing campaigns in the quarter have yet to achieve the desired results and have been stepped up in the fourth quarter.
- In Taiwan, total sales declined by 7% due to continuing weak consumer demand. Marketing programs launched during the period did not help to boost sales significantly.
- In Singapore total sales declined by 7%. Some degree of regional financial instability deriving from currency volatility has been experienced in neighbouring nations (most notably in Indonesia and Malaysia) which has dampened tourist spending.
- Trading conditions in the Middle East continue to be volatile mainly due to outbreaks of Middle East Respiratory syndrome in Saudi Arabia which have adversely affected tourism in the country.

The Group continues to focus on developing quality of sales through product development, improvements in marketing and investments in store image and ambience.

- Gross margin increased by 2.5 percentage points to 60.2% from 57.7% in the same period last year.
- Gross profit dollars increased by 9%. Much of this increase has arisen from consolidation of higher margin business in the Middle East but underlying margins have increased and have helped to counterbalance headwinds in some South East Asian markets where currency depreciation has driven up costs.

The Group continues to manage costs and profitability.

- Costs in South East Asia and Hong Kong have risen due to higher rents and increasing wages.
- To counterbalance this, extensive efforts to reduce costs and headcount in China and Taiwan have helped to control operating costs in the period.
- We have also worked hard to close or turn round unprofitable stores and these efforts are ongoing.

Inventory turnover on cost was 101 days, an increase of 28 days from the same date last year, of which 17 days are due to newly consolidated inventory from the Middle East.

- Higher inventory in our own stock rooms has been offset by lower inventories held by our China franchisees. Taking this into account, inventory is more or less at the same level as it was last year.
- The profile of the inventory is largely fresh Fall/Winter product and provides a good basis for sales when the weather cools across the region.
- Management will continue to focus on this area to avoid overstocking either within our own operations, or through shipment to our franchisees.

Net cash and bank balances decreased by HK$101 million to HK$885 million during the quarter. This mainly represents the additional cash flow generated from business offset by the interim dividend paid of HK$250 million during the quarter.

**Chairman's Remarks**

"Mainland China remains the key market for the Group's growth strategy. In the last two years in Mainland China, a combination of excess inventory in the market, weakening economic demand and over supply of retail space, has resulted in tough competitive conditions for apparel retailers. Giordano has differentiated itself in this period by exercising strong discipline over product margins, inventories and overhead costs. This year, we have made extensive efforts to improve Giordano's brand position in this important market, focusing strongly on marketing campaigns and upgrading our stores to enhance the shopping experience for our customers. In addition, we are developing our women's range and store format. There has been a learning curve as we roll out these programs and we expect the effectiveness of these initiatives to improve with time. In this way, we shall enhance our brand position and customer relevance further as we go into 2014. Localization of management continues and as our new organization matures, the execution of our strategy is improving. There is, however, a long way still to go. The organization will step up its marketing and store investment programs to compliment new products which have been developed for the fall/winter season." remarked Dr. Peter Lau Kwok Kuen, Chairman and Chief Executive of Giordano.

"This general strategy will also continue in Hong Kong, Singapore and Taiwan. These markets face their own particular challenges but the need to offer relevant products in an attractive environment becomes greater all the time. We continue to see significant profitable growth in South East Asia despite economic pressures in countries like Indonesia and we will be looking to exploit further growth opportunities in this region. As our Middle East businesses step up their efforts to improve store ambience and visual merchandising, we also expect to see these markets strengthen over the coming months" continued Dr. Lau.

Dr. Lau concluded, "2013 has been a tough year so far on the back of an equally challenging 2012. Despite this, our efforts to effectively control operating costs and manage our inventories and working capital are resulting in strong operating margins and profitability. We continue to generate strong cash flows. During the year, we have successfully integrated the Saudi and Emirati businesses that we acquired in November 2012. Despite volume decline in our China business, we expect to see sales return to growth in the coming months as we deliver fresh merchandise, marketing programs and an upgraded store network."

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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* 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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