GIORDANO

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Giordano Announces 2013 Annual Results

February 27, 2014, Hong Kong

Giordano International Limited ("Giordano" or the "Group") announced its 2013 annual results today.

- Sales increased by 3%; declining sales in Mainland China, Singapore, Taiwan and Australia, offset by growth in other markets, particularly Thailand and Indonesia, and the acquisition of a controlling interest last year in Giordano Middle East. Global brand sales reduced by 2% in the year.
- Gross Profit Margin increased by 2.0pp from 58.7% to 60.7%. An increase of 2.3pp was due to the consolidation of a full year of sales from Giordano Middle East. Gross margin reduced in the fourth quarter by 2.9 pp (excluding Middle East consolidation impact) mainly due to currency depreciation in South East Asia (-2.6 pp) and temporary discounting in Mainland China in response to challenging trading conditions (-3.7 pp).
- Strong cost control with comparable operating expenses (excluding Middle East acquisition) down 1% in comparison with prior year.
- Profit Attributable to Shareholders (PATS) declined by 20%. Excluding exceptional disposal gains in 2012, Profit Attributable to Shareholders declined by only 3%.
- Inventory increased by 9% due to higher inventory in Middle East and Singapore and an early Chinese New Year. Overall "system inventory", including goods held at suppliers and at China franchisees, is flat, year-on-year. Inventory profile is fresh with low volumes of Spring/Summer styles leftover from 2013.
- Free Cash Flow from operations at HK$599m (HK$675m in 2012) reflects effective management of working capital, modest investment in store portfolio and increases in key deposits in certain developing markets such as Indonesia.
- Dividend payout remains 40 HK cents per share (40 HK cents in 2012). This represents 94% of Profit Attributable to Shareholders and reflects the Group's strong cash position and an appropriate return of shareholder's funds to shareholders.

"2013 has been a challenging year for Giordano, with trading conditions across our global business reflecting weakening macro-economic forces and intense competition" remarked Dr. Peter Lau, Chairman and Chief Executive of Giordano. "Growth in consumer demand has declined in Mainland China, Taiwan and Singapore. In Mainland China, we continue to see excess inventory in the apparel market, intense discounting by competitors and new international brand expanding their presence. We have delivered modest sales growth in Hong Kong, but have seen significant rent increases imposed by landlords in some of our prime sites. Our fastest growing businesses, in South East Asia, have encountered currency volatility, particularly in Thailand and Indonesia, as well as strong inflationary cost pressure. Market demand has been temporarily depressed in Saudi Arabia by a major campaign against undocumented immigrants, as well the adverse impact of Middle East Respiratory Syndrome on tourism.”

“Against this background Giordano has achieved a creditable set of results, protecting profitability through strong cost management, closure of unprofitable stores, and gross margin discipline. Pressure on sales has reduced underlying profit by 11%. The acquisition of the Middle East businesses has reduced this decline to just 3%. As a result, the Board has recommended a final dividend of 40 HK cents, the same dividend per share that was paid out last year”

“We are responding to the new competitive landscape in Mainland China in a number of innovative ways” continued Dr. Lau. “During 2013, we instigated a systematic upgrade of our brand perception, eliminating loss makers and investing in the store ambience of those shops and counters where we see good business potential. In 2014, we plan to extend these initiatives much more deeply into our Authorised Distributor network. Additionally, we will be making sure we develop our store portfolio with consistent brand position and store ambience. We will establish new brands and lines in Mainland China to achieve this, reforming our channel strategy to flexibly direct the “right product at the right place” within our existing store portfolio. This will help to deliver growth through stronger branding, and a multi-location presence in department stores. Our operations in South East Asia have been critical to the success of the Group.“

“Strong positioning in markets such as Indonesia and Thailand will prepare us well for an economic rebound in these volatile economies. In Hong Kong we have successfully re-positioned our brands, now offering much more stylish and fashionable merchandise. We expect to build on this success in 2014. In Taiwan we will continue to improve the quality of marketing and cross-over merchandising campaigns and will upgrade a number of key stores in this market. We expect external challenges that we have faced in the Middle East in 2013 will ease going forward, enabling a return to growth in 2014.”

”When the business cycle is at the bottom, smart management teams have an opportunity to build sustainable competitive advantage. I believe our people are rising to this challenge and are excited and motivated by the prospect of meeting our challenges head on. Giordano has always weathered difficult times, exercising strong management discipline over costs and inventory, but also executing change management that generates long term value. These are such times. As we announce a solid performance for 2013, we look forward to taking the Company forward in 2014.”

(Attachment: Audited consolidated results for the year ended December 31, 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* 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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Attachment:

Consolidated Income Statement for the year ended December 31, 2013

(In HK$ millions, except earnings per share)	**2013**	2012
Sales	**5,848**	5,673
Cost of sales	**(2,297)**	(2,342)
Gross profit	**3,551**	3,331
Other income and other gains, net	**113**	294
Distribution expense	**(2,370)**	(2,173)
Administrative expense	**(466)**	(447)
Operating profit	**828**	1,005
Finance expense	**(4)**	(2)
Share of profit of jointly controlled companies	**77**	77
Share of profit of associates	**2**	29
Profit before taxation	**903**	1,109
Taxation	**(173)**	(221)
Profit for the year	**730**	888
Profit attributable to:		
Shareholders of the Company	**663**	826
Non-controlling interests	**67**	62
	730	888
Earnings per share for profit attributable to shareholders of the Company		
Basic *(HK cents)*	**42.6**	53.8
Diluted *(HK cents)*	**42.1**	53.2
Dividends	**626**	617