GIORDANO

GIORDANO INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 709)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2021

OVERVIEW

- Group sales for the first half of 2021 were HK$1,681 million (2020: HK$1,413 million), representing an increase of 19.0% and due primarily to improved sales on the back of last year's low base.

- Gross margin grew by 2.4 percentage points to 57.0% (2020: 54.6%), attributable to fewer discounts.

- Operating expense recorded a further decrease of 2.9%, and was 54.1% of sales (2020: 66.3%).

- Profit after income taxes attributable to the Company's shareholders was HK$60 million (2020: net loss of HK$175 million). If excluding the net impairment provision for the right-of-use assets and property, plant and equipment, the net profit for the period would be HK$62 million (2020: net loss of HK$104 million).

- On June 30, 2021, the cash and bank balances, net of bank loans, was HK$932 million (June 30, 2020: HK$989 million).

- Inventory turnover on cost decreased by 14 days to 124 days with increased sales and stable merchandise inventory balances. The merchandise inventory mainly comprises evergreen and in-season items.

- Basic earnings per share were 3.8 HK cents (2020: basic loss per share of 11.1 HK cents).

- The Board of Directors has declared an interim dividend of 6.5 HK cents per share (2020: 3.1 HK cents per share) for the six months ended June 30, 2021.

The board of directors (the "Board") of Giordano International Limited (the "Company") presents the following unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2021 along with comparative figures and explanatory notes.

Consolidated Income Statement

(In HK$ million, except earnings (loss) per share)	**Note**	**(Unaudited) Six months ended June 30 2021**	2020
Sales	3	**1,681**	1,413
Cost of sales	5	**(722)**	(641)
Gross profit		**959**	772
Other income and other gains, net	4	**47**	54
Distribution expense	5	**(823)**	(916)
Administrative expense	5	**(89)**	(92)
Operating profit (loss)		**94**	(182)
Finance expense	6	**(16)**	(22)
Share of profit of joint ventures		**27**	20
Profit (loss) before income taxes		**105**	(184)
Income taxes	7	**(28)**	2
Profit (loss) after income taxes for the period		**77**	(182)
Attributable to:			
Shareholders of the Company		**60**	(175)
Non-controlling interests		**17**	(7)
		77	(182)
Earnings (loss) per share attributable to shareholders of the Company			
Basic *(HK cents)*	8	**3.8**	(11.1)
Diluted *(HK cents)*		**3.8**	(11.1)

Consolidated Statement of Comprehensive Income

(In HK$ million)	**(Unaudited) Six months ended June 30 2021**	2020
Profit (loss) after income taxes for the period	**77**	(182)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	**(27)**	(45)
Items that will not be reclassified to profit or loss:		
Fair value change on financial asset at fair value through other comprehensive income	**1**	(1)
Total comprehensive income (loss) for the period	**51**	(228)
Attributable to:		
Shareholders of the Company	**39**	(215)
Non-controlling interests	**12**	(13)
	51	(228)

Consolidated Balance Sheet

(In HK$ million)	Note	**(Unaudited) June 30 2021**	(Audited) December 31 2020
ASSETS			
Current assets			
Cash and bank balances		**1,084**	1,256
Trade and other receivables	10	**348**	395
Inventories		**494**	434
Rental prepayments		**1**	2
Income tax recoverable		**19**	7
Total current assets		**1,946**	2,094
Non-current assets			
Financial asset at fair value through other comprehensive income		**4**	3
Financial asset at fair value through profit or loss		**28**	28
Deposits and other receivable		**117**	97
Interest in joint ventures		**523**	549
Investment properties		**22**	23
Property, plant and equipment		**118**	130
Right-of-use assets		**737**	822
Goodwill		**541**	541
Deferred tax assets		**92**	96
Total non-current assets		**2,182**	2,289
Total assets		**4,128**	4,383
LIABILITIES AND EQUITY			
Current liabilities			
Bank loans		**52**	52
Trade and other payables	11	**405**	518
Lease liabilities		**403**	427
Put option liabilities		**81**	81
Income tax payables		**109**	100
Total current liabilities		**1,050**	1,178
Non-current liabilities			
Bank loans		**100**	100
Lease liabilities		**300**	340
Deferred tax liabilities		**127**	134
Total non-current liabilities		**527**	574
Total liabilities		**1,577**	1,752
Capital and reserves			
Share capital		**79**	79
Reserves		**2,197**	2,282
Proposed dividends		**103**	109
Equity attributable to shareholders of the Company		**2,379**	2,470
Non-controlling interests		**172**	161
Total equity		**2,551**	2,631
Total equity and liabilities		**4,128**	4,383
Net current assets		**896**	916
Total assets less current liabilities		**3,078**	3,205

Notes to the unaudited condensed consolidated interim financial statements

1. Basis of preparation

The unaudited condensed consolidated interim financial statements (the "unaudited interim results") for the six months ended June 30, 2021 have been prepared in accordance with the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Readers should read the unaudited interim results in conjunction with the audited annual financial statements for the year ended December 31, 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The unaudited interim results are in million of Hong Kong dollars ("HK$ million"), unless otherwise stated. The accounting policies and methods of computation used in the preparation of the unaudited interim results are consistent with those used in the audited annual financial statements for the year ended December 31, 2020, except for the adoption of amended standards during the period, as disclosed in Note 2(a).

These unaudited interim results accrue income taxes on taxable income using tax rates applicable in the respective jurisdictions.

The Board approved the unaudited interim results for issue on August 10, 2021.

2. Principal accounting policies

(a) Impact of amended standards

The Group has applied the following amended standards issued by HKICPA which were effective for the Group's financial year beginning on January 1, 2021:

–	Amendments to HKAS 39, HKFRS 4, HKFRS 7 and HKFRS 9 and HKFRS 16	Interest rate benchmark reform – Phase 2

The adoption of the above amendments to standards did not result in substantial changes to the Group's accounting policies or financial results.

(b) New and amended standards issued, but not yet effective

The Group has not early applied the new and amended standards that have been issued but not yet effective. The adoption of these are not expected to have a material impact on the financial result of the Group.

3. Sales and operating segments

The Group determines its operating segments based on its development strategies and operational control. There are two major operating segments: Retail and Distribution and Wholesale to Overseas Franchisees. Management manages the Retail and Distribution operating segment geographically and by brand.

Geographically, the Retail and Distribution operating segment in Mainland China and the Gulf Cooperation Council comprise direct-operated stores and franchised stores. Hong Kong ("HK") and Macau, Taiwan and Southeast Asia and Australia do not have material local franchised stores. Group stores span most of Asia Pacific and Gulf Cooperation Council.

As for brands, the Group presently operates *Giordano* and *Giordano Junior*, *Giordano Ladies*, *BSX* as well as other owned and licensed brands.

Adjusted EBITDA is profit (loss) before finance expense, income taxes, impairment of right-of-use assets and property, plant and equipment, depreciation and amortization, share of profit of joint ventures and unallocated corporate items. Segment results are before finance expense, share of profit of joint ventures, income taxes and unallocated corporate items. This is the measurement basis reported to management and the senior decision-makers for the purpose of resources allocation and assessment of segment performance.

Analysis of sales and operating profit (loss) of the Group's operating segment by geographic regions is as follows.

	(Unaudited) Six months ended June 30, 2021						
(In HK$ million)	Mainland China	HK and Macau	Taiwan	Southeast Asia and Australia	Gulf Cooperation Council	Wholesale to Overseas Franchisees	Total
Sales	362	177	235	531	258	118	1,681
Adjusted EBITDA	16	43	52	148	84	12	355
Depreciation and amortization							
– Right-of-use assets	(21)	(57)	(28)	(88)	(43)	–	(237)
– Property, plant and equipment and investment properties	(5)	(1)	(3)	(12)	(6)	–	(27)
Impairment							
– Right-of-use assets	(3)	–	–	(6)	–	–	(9)
– Property, plant and equipment	–	–	–	(1)	–	–	(1)
Reversal of impairment							
– Right-of-use assets	2	4	–	1	1	–	8
Segment results	(11)	(11)	21	42	36	12	89
Corporate functions							5
Finance expense							(16)
Share of profit of joint venture							27
Profit before income taxes							105

3. Sales and operating segments (continued)

	(Unaudited) Six months ended June 30, 2020						
(In HK$ million)	Mainland China	HK and Macau	Taiwan	Southeast Asia and Australia	Gulf Cooperation Council	Wholesale to Overseas Franchisees	Total
Sales	299	201	243	404	158	108	1,413
Adjusted EBITDA	(15)	34	53	110	37	13	232
Depreciation and amortization							
– Right-of-use assets	(32)	(88)	(31)	(109)	(47)	–	(307)
– Property, plant and equipment and investment properties	(6)	(4)	(5)	(15)	(7)	–	(37)
Impairment							
– Right-of-use assets	(1)	(45)	–	(16)	(4)	–	(66)
– Property, plant and equipment	1	(5)	–	(1)	–	–	(5)
Segment results	(53)	(108)	17	(31)	(21)	13	(183)
Corporate functions							1
Finance expense							(22)
Share of profit of joint ventures							20
Loss before income taxes							(184)

Further analysis of the Retail and Distribution operating segment by brand is as follows.

	(Unaudited) Six months ended June 30			
	2021		2020	
(In HK$ million)	**Sales**	**Operating profit (loss)**	Sales	Operating loss
Retail and Distribution				
Giordano and Giordano Junior	**1,320**	**61**	1,100	(176)
Giordano Ladies	**119**	**10**	113	(10)
BSX	**14**	**(3)**	26	(4)
Others	**110**	**9**	66	(6)
	1,563	**77**	1,305	(196)

3. Sales and operating segments (continued)

The Company has its domicile in HK. Sales to external customers recorded in HK and Macau (including retail and wholesale sales) are HK$295 million (2020: HK$309 million), Mainland China HK$362 million (2020: HK$299 million) and external customers from other markets HK$1,024 million (2020: HK$805 million).

Inter-segment sales of HK$428 million (2020: HK$324 million) have been eliminated upon consolidation.

4. Other income and other gains, net

	(Unaudited)	
	Six months ended June 30	
(In HK$ million)	**2021**	2020
Government grants	**16**	23
Royalty income	**15**	15
Interest income	**6**	7
Rental and sub-lease rental income	**3**	5
Fair value gain on financial asset at fair value through profit or loss	**–**	1
Net loss on disposal of property, plant and equipment	**–**	(1)
Others	**7**	4
	47	54

5. Operating profit (loss)

Operating profit (loss) is after charging (crediting):

(In HK$ million)	(Unaudited) Six months ended June 30 **2021**	2020
Cost of sales		
Cost of inventories sold	**726**	629
(Reversal of provision) provision for obsolete stock and stock written off	**(4)**	12
	722	641
Distribution expense		
Staff cost	**293**	286
Depreciation expenses		
– Right-of-use assets	**229**	298
– Property, plant and equipment	**25**	34
Rentals in respect of land and building		
– Minimum lease payments	**32**	9
– Contingent rent	**69**	59
Building management fee, government rent and rates and utilities	**52**	50
Advertising, promotion and incentives	**45**	37
Packaging and deliveries	**24**	21
Bank and credit card charges	**11**	10
Impairment		
– Right-of-use assets	**9**	66
– Property, plant and equipment	**1**	5
Reversal of impairment		
– Right-of-use assets	**(8)**	–
Others	**41**	41
	823	916
Administrative expense		
Staff cost	**63**	51
Depreciation expenses		
– Right-of-use assets	**8**	9
– Property, plant and equipment and investment properties	**2**	3
Legal and professional fee	**5**	9
Auditor's remuneration	**3**	3
Computer and telecommunication	**3**	3
Travelling	**1**	1
Rentals in respect of land and building		
– Minimum lease payments	**–**	1
Change in loss allowance for trade and other receivables	**(5)**	3
Others	**9**	9
	89	92

6. Finance expense

(In HK$ million)	(Unaudited) Six months ended June 30 **2021**	2020
Interest on lease liabilities	**15**	21
Interest on bank loans	**1**	1
	16	22

7. Income taxes

HK profits tax is calculated at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the period. Income taxes on profits assessable outside HK are calculated at the rates applicable in the respective jurisdictions.

(In HK$ million)	(Unaudited) Six months ended June 30 **2021**	2020
Current income taxes		
HK	**2**	4
Outside HK	**16**	3
Over provision in prior periods	**(4)**	(2)
Withholding taxes	**12**	16
	26	21
Deferred income taxes		
Origination and reversal of temporary differences	**2**	(23)
	28	(2)

This charge excludes the share of joint ventures' income taxes of HK$8 million (2020: HK$6 million) for the period. The share of profit of joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

8. Earnings (loss) per share

The calculations of basic and diluted earnings (loss) per share are based on the profit after income taxes attributable to shareholders of the Company for the period of HK$60 million (2020: loss of HK$175 million).

The basic earnings (loss) per share is based on the weighted average of 1,577,781,756 shares (2020:1,578,482,936 shares) in issue during the six months ended June 30, 2021.

During the six months ended June 30, 2021, the diluted earnings per share is calculated by adjusting the weighted average of 1,577,781,756 shares in issue during the period by the weighted average of 5,220,024 shares deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

Diluted loss per share for the six months ended June 30, 2020 is equal to the basic loss per share as the potential dilutive ordinary shares arising from exercise of the outstanding share options would be anti-dilutive.

9. Dividends

(In HK$ million)	(Unaudited) Six months ended June 30 **2021**	2020
Interim dividend declared of 6.5 HK cents per share (2020: 3.1 HK cents per share)	**103**	49
2020 final dividend paid of 6.9 HK cents per share (2019: 4.4 HK cents per share)	**109**	69

The distribution for 2020 final dividend was based on the total number of issued shares of the Company on June 3, 2021.

At the Board meeting on August 10, 2021, the Board declared an interim dividend of 6.5 HK cents per share (2020: 3.1 HK cents per share). The interim dividend has not been recognized as a liability at the balance sheet date.

10. Trade and other receivables

(In HK$ million)	**(Unaudited) June 30 2021**	(Audited) December 31 2020
Trade receivables	**180**	228
Less: Loss allowance	**(56)**	(60)
Trade receivables, net	**124**	168
Ageing analysis from the invoice date net of loss allowance is as follows:		
0 - 30 days	**85**	162
31 - 60 days	**18**	6
61 - 90 days	**15**	–
Over 90 days	**6**	–
	124	168
Other receivables, including deposits and prepayments	**224**	227
	348	395

Trade receivables mainly comprise amounts due from franchisees, licensees and retail proceeds due from department stores. The Group normally allows a credit period of 30–90 days. The carrying amounts of trade and other receivables are stated approximately at their fair values.

11. Trade and other payables

(In HK$ million)	**(Unaudited) June 30 2021**	(Audited) December 31 2020
Trade payables	**90**	166
The ageing analysis of trade payables is as follows:		
0 - 30 days	**61**	91
31 - 60 days	**12**	47
61 - 90 days	**5**	15
Over 90 days	**12**	13
	90	166
Other payables and accrued expense	**315**	352
	405	518

The carrying amounts of trade payables and other payables are stated approximately at their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS OF GROUP RESULTS OF OPERATIONS AND FINANCIAL POSITION

The following commentaries refer to the year-on-year comparison of the Group for the six months ended June 30, 2021, and 2020, unless otherwise stated.

OVERVIEW

- Group sales for the first half of 2021 were HK$1,681 million (2020: HK$1,413 million), representing an increase of 19.0% and due primarily to improved sales on the back of last year's low base.

- Gross margin grew by 2.4 percentage points to 57.0% (2020: 54.6%), attributable to fewer discounts.

- Operating expense recorded a further decrease of 2.9%, and was 54.1% of sales (2020: 66.3%).

- Profit after income taxes attributable to the Company's shareholders was HK$60 million (2020: net loss of HK$175 million). If excluding the net impairment provision for the right-of-use assets and property, plant and equipment, the net profit for the period would be HK$62 million (2020: net loss of HK$104 million).

- On June 30, 2021, the cash and bank balances, net of bank loans, was HK$932 million (June 30, 2020: HK$989 million).

- Inventory turnover on cost decreased by 14 days to 124 days with increased sales and stable merchandise inventory balances. The merchandise inventory mainly comprises evergreen and in-season items.

- Basic earnings per share were 3.8 HK cents (2020: basic loss per share of 11.1 HK cents).

- The Board of Directors has declared an interim dividend of 6.5 HK cents per share (2020: 3.1 HK cents per share) for the six months ended June 30, 2021.

RESULTS OF OPERATIONS

Table 1: Group results of operations

	Six months ended June 30				
(In HK$ million)	**2021**	**% to sales**	2020	% to sales	**Change**
Southeast Asia and Australia	**531**	**31.6%**	404	28.6%	**31.4%**
Mainland China	**362**	**21.5%**	299	21.2%	**21.1%**
Gulf Cooperation Council	**258**	**15.4%**	158	11.2%	**63.3%**
Taiwan	**235**	**14.0%**	243	17.2%	**(3.3%)**
HK and Macau	**177**	**10.5%**	201	14.2%	**(11.9%)**
Wholesale to overseas franchisees	**118**	**7.0%**	108	7.6%	**9.3%**
Group sales[1]	**1,681**	**100.0%**	1,413	100.0%	**19.0%**
Gross profit	**959**	**57.0%**	772	54.6%	**24.2%**
Other income and other gains, net	**47**	**2.8%**	54	3.8%	**(13.0%)**
Operating expense	**(910)**	**(54.1%)**	(937)	(66.3%)	**2.9%**
Impairment loss on right-of-use assets and property, plant and equipment	**(10)**	**(0.6%)**	(71)	(5.0%)	**85.9%**
Reversal of impairment loss on right-of-use assets and property, plant and equipment	**8**	**0.5%**	–	0.0%	**N/A**
Operating profit (loss)	**94**	**5.6%**	(182)	(12.9%)	**151.6%**
Share of profit of joint ventures	**27**	**1.6%**	20	1.4%	**35.0%**
Finance expense	**(16)**	**(0.9%)**	(22)	(1.5%)	**27.3%**
Income taxes	**(28)**	**(1.7%)**	2	0.1%	**(1500.0%)**
(Profit) loss after income tax attributable to non-controlling interests	**(17)**	**(1.0%)**	7	0.5%	**(342.9%)**
Profit (loss) after income tax attributable to shareholders	**60**	**3.6%**	(175)	(12.4%)	**134.3%**
Global brand sales[2]	**2,214**		2,019		**9.7%**
Global brand gross profit[2]	**1,322**		1,184		**11.7%**
Net cash and bank balances at period end	**932**		989		**(5.8%)**
Inventories at period end	**494**		486		**1.6%**
Inventory turnover on cost, days[3]	**124**		138		**(14)**
Stores at period end	**2,094**		2,187		**(93)**

Sales and gross profit

Group sales further rebounded and increased by 19.0% despite a reduction of 4.3% in the total number of stores. The recovery took place across most regions. Year-on-year ("YOY") sales increase was more significant in the second quarter (+44.0%) than the first quarter (+2.4%), primarily due to sales improvement on the back of the previous year's low base following the outbreak of the Covid-19 pandemic. The protracted Covid-19 movement controls in Southeast Asian countries, and the sudden surge in Covid-19 cases, particularly in Indonesia, hampered the sales increase momentum. Although there are signs of improvements of late, the unexpected outbreak in Taiwan, which had begun in May, also disrupted the Group's sales recovery.

The sales from the Group's online business have continued to grow, up by 21.6%. It contributed 10.1% to Group sales (2020: 9.8%), of which non-Mainland China platforms exceeded expectation with a 41.9% increase. Wholesale to franchisees recovered and recorded a rise of 21.1% owing to the store reopening after the relaxation of movement controls and social distancing measures, as well as new stores in emerging markets.

Table 2: Sales by channel

(In HK$ million)	Six months ended June 30				
	2021	**Contribution**	2020	Contribution	**Change**
Offline business	**1,271**	**75.6%**	1,075	76.1%	**18.2%**
Online business	**169**	**10.1%**	139	9.8%	**21.6%**
Mainland China	**125**	**7.5%**	108	7.6%	**15.7%**
Non-Mainland China	**44**	**2.6%**	31	2.2%	**41.9%**
Retail sales	**1,440**	**85.7%**	1,214	85.9%	**18.6%**
Wholesale to franchisees	**241**	**14.3%**	199	14.1%	**21.1%**
Group sales	**1,681**	**100.0%**	1,413	100.0%	**19.0%**

The gross margin improved by 2.4 percentage points YOY, with all business channels recording an increase, including direct-operated stores, wholesale and online platforms. The rise was attributable to the increase in average selling prices by offering fewer discounts on core items and new products at a higher margin. Table 3 provides an analysis of the change in Group gross profit.

Table 3: Gross profit variance analysis

(In HK$ million)	**Six months ended June 30, 2020 gross profit**	**Product costs**	**Selling price**	**Volume**	**Translational exchange impact**	**Miscellaneous**	**Six months ended June 30, 2021 gross profit**
Southeast Asia and Australia	227	(8)	24	51	9	4	**307**
Mainland China	129	14	3	14	15	5	**180**
Gulf Cooperation Council	103	(5)	(7)	70	–	1	**162**
Taiwan	149	–	8	(20)	10	–	**147**
HK and Macau	135	(3)	19	(29)	–	–	**122**
Market mix	–	(7)	15	(8)	–	–	**–**
Retail and distribution	**743**	**(9)**	**62**	**78**	**34**	**10**	**918**
Wholesale to overseas franchisees/subsidiaries	29						**41**
Group	**772**						**959**

Other income and other gains, net

Other income and other gains, comprising royalty and licensing revenue, interest income, government subsidies, and rental and sub-lease rental income, decreased by HK$7 million to HK$47 million, due primarily to the decrease in government financial relief for the Covid-19 pandemic.

Operating expense and operating profit (loss)

Operating expense recorded a further decrease of 2.9% and was 54.1% to sales (2020: 66.3%). The improved leveraging was due to sales increases, cost-cutting, and closure of non-performing stores.

The Group recorded an operating profit of HK$94 million in the first half of 2021 (2020: operating loss of HK$182 million). The net impairment provision for the right-of-use assets and property, plant and equipment was HK$2 million, significantly down from the HK$71 million recorded in the same period of 2020. With better sales and gross margin, improved operational efficiency and further rental reductions, the Group expects enhanced profitability in coming years.

Net impairment of right-of-use assets and property, plant, and equipment

Based on HKAS 36 requirements, we have performed the impairment assessment for the right-of-use assets and property, plant, and equipment. The Group made a net impairment provision of HK$2 million (2020: HK$71 million). The impairment provision reduces the net carrying amount of the assets, which decreases the future depreciation expense over their remaining lease terms.

Finance expense

The finance expense was HK$16 million (2020: HK$22 million), comprising imputed interest on lease liabilities and bank interest expenses. The reduction in imputed interest on lease liabilities primarily contributed to the decline in the finance expense.

Profit (loss) after income taxes attributable to shareholders

Profit after income taxes attributable to shareholders ("PATS") for the six months ended June 30, 2021, was HK$60 million, contrasted with the Loss after income taxes attributable to shareholders ("LATS") of HK$175 million in the same period of 2020. The net profit margin was 3.6% versus the net loss margin of -12.4% in the prior year. Table 4 below highlights some of the more significant factors behind the turnaround.

Table 4: Reconciliation of changes in PATS (LATS)

(In HK$ million)	
Reported LATS for the six months ended June 30, 2020	**(175)**
HK and Macau	**96**
Southeast Asia and Australia	**72**
Gulf Cooperation Council	**57**
Mainland China	**43**
Wholesale to overseas franchisees/subsidiaries	**13**
South Korea	**6**
Taiwan	**3**
Income taxes, non-controlling interests, finance expense and headquarter expenses	**(58)**
PATS for the six months ended June 30, 2021	**57**
Currency translation difference	**3**
Reported PATS for the six months ended June 30, 2021	**60**

ANALYSIS BY MARKET

The following market-specific comments are in local currencies or if in HK dollars, are at constant exchange rates to remove distortions from the translation of financial statements.

Greater China

Table 5: Greater China profit (loss) before income taxes

(In HK$ million, translated at constant exchange rates)	Six months ended June 30				
	2021	**% to sales**	2020	% to sales	**Change**
Total sales	**728**	**100.0%**	743	100.0%	**(2.0%)**
Gross profit	**424**	**58.2%**	413	55.6%	**2.7%**
Other income and other gains, net	**15**	**2.1%**	27	3.6%	**(44.4%)**
Operating expense	**(444)**	**(61.0%)**	(534)	(71.9%)	**16.9%**
Impairment loss on right-of-use assets and property, plant and equipment	**(3)**	**(0.4%)**	(50)	(6.7%)	**94.0%**
Reversal of impairment loss on right-of-use assets and property, plant and equipment	**6**	**0.8%**	–	–	**N/A**
Operating loss	**(2)**	**(0.3%)**	(144)	(19.4%)	**98.6%**
Finance expense	**(3)**	**(0.4%)**	(7)	(0.9%)	**57.1%**
Loss before income taxes	**(5)**	**(0.7%)**	(151)	(20.3%)	**96.7%**
Stores at period end	***988***		*1,013*		***(25)***

HK and Macau

HK and Macau recorded an operating loss, albeit less than the same period in the previous year. Sales increase and rental reductions were the critical factors behind the improvement, of which around half of the rental reductions were due to the closure of loss-making shops. Barring any unexpected Covid-19 outbreaks, the sales should continue to improve. The average rental is still high despite gloomy consumer sentiment and the absence of incoming tourists. Management is continuing to negotiate with landlords for more affordable rental arrangements.

Mainland China and Taiwan

Sales in Mainland China enjoyed a double-digit rebound despite fewer stores. Online sales and the franchising business continue to be our focus of development. The online gross margin improved with increases in selling prices and fewer discounts. Franchised stores expansion resumed during the period with a net gain of 15 stores. As of June 30, 2021, more than two-thirds of the stores were franchised, and Management anticipates the proportion will further increase.

For Taiwan, sales momentum had outperformed most markets until effectively being brought to a standstill in mid-May due to an unexpected outbreak of Covid-19 cases. The ensuing movement controls gravely hurt our sales. That said, the sales decrease has narrowed from July. Our strong brand image and successful marketing, coupled with weakened competition, we anticipate, will help resume sales momentum after the alleviation of movement controls.

Table 6: Greater China sales and store counts

(In HK$ million, translated at constant exchange rates)	Six months ended June 30								
	Sales			Franchise stores at period end		Direct-operated stores at period end		Stores at period end	
	2021	2020	**Change**	**2021**	2020	**2021**	2020	**2021**	2020
Mainland China	**332**	299	**11.0%**	**543**	528	**207**	230	**750**	758
Taiwan	**219**	243	**(9.9%)**	**–**	–	**184**	189	**184**	189
HK and Macau	**177**	201	**(11.9%)**	**–**	–	**54**	66	**54**	66
Total	**728**	743	**(2.0%)**	**543**	528	**445**	485	**988**	1,013

Southeast Asia and Australia

Table 7: Southeast Asia and Australia profit (loss) before income taxes

(In HK$ million, translated at constant exchange rates)	Six months ended June 30				
	2021	**% to sales**	2020	% to sales	**Change**
Total sales	**515**	**100.0%**	404	100.0%	**27.5%**
Gross profit	**298**	**57.9%**	227	56.2%	**31.3%**
Other income and other gains, net	**11**	**2.1%**	5	1.2%	**120.0%**
Operating expense	**(262)**	**(50.9%)**	(246)	(60.9%)	**(6.5%)**
Impairment loss on right-of-use assets and property, plant and equipment	**(7)**	**(1.4%)**	(17)	(4.2%)	**58.8%**
Reversal of impairment loss on right-of-use assets and property, plant and equipment	**1**	**0.2%**	–	–	**N/A**
Operating profit (loss)	**41**	**8.0%**	(31)	(7.7%)	**232.3%**
Finance expense	**(9)**	**(1.7%)**	(10)	(2.5%)	**10.0%**
Profit (loss) before income taxes	**31**	**6.0%**	(41)	(10.1%)	**175.6%**
Stores at period end	***572***		*586*		***(14)***

Sales in these markets registered a double-digit growth, primarily driven by Indonesia and Singapore. However, the number of confirmed local Covid-19 cases remains high in Southeast Asia. The protracted and strict social control measures and travel restrictions severely interrupted our business in tourist areas, and to a lesser extent, in the residential areas. Our efforts to shift the focus onto our online sales and stringent cost-cutting actions protected our profitability there.

Table 8: Southeast Asia and Australia sales and store counts

(In HK$ million, translated at constant exchange rates)	Six months ended June 30				
	Sales			Stores at period end	
	2021	2020	**Change**	**2021**	2020
Indonesia	**250**	160	**56.3%**	**231**	232
Singapore	**90**	66	**36.4%**	**36**	40
Thailand	**88**	89	**(1.1%)**	**159**	171
Malaysia	**46**	49	**(6.1%)**	**88**	93
Vietnam	**30**	27	**11.1%**	**49**	41
Australia	**8**	9	**(11.1%)**	**7**	7
Cambodia	**3**	4	**(25.0%)**	**2**	2
Total	**515**	404	**27.5%**	**572**	586

The Gulf Cooperation Council

Table 9: The Gulf Cooperation Council (the "GCC") profit (loss) before income taxes

(In HK$ million, translated at constant exchange rates)	Six months ended June 30				
	2021	**% to sales**	2020	% to sales	**Change**
Total sales	**257**	**100.0%**	158	100.0%	**62.7%**
Gross profit	**162**	**63.0%**	103	65.2%	**57.3%**
Other income and other gains, net	**–**	**–**	1	0.6%	**(100.0%)**
Operating expense	**(127)**	**(49.4%)**	(121)	(76.6%)	**(5.0%)**
Impairment loss on right-of-use assets and property, plant and equipment	**–**	**–**	(4)	(2.5%)	**100.0%**
Reversal of impairment loss on right-of-use assets and property, plant and equipment	**1**	**0.4%**	–	–	**N/A**
Operating profit (loss)	**36**	**14.0%**	(21)	(13.3%)	**271.4%**
Finance expense	**(2)**	**(0.8%)**	(4)	(2.5%)	**50.0%**
Profit (loss) before income taxes	**34**	**13.2%**	(25)	(15.8%)	**236.0%**
Franchised stores	**35**		35		
Direct-operated stores	**138**		145		
Stores at period end	***173***		*180*		***(7)***

The GCC's sales surged after Ramadan. The residential stores drove the recovery, but the sales from the tourist stores dropped drastically. Management is confident that the recent liberal economic policies in the region will accelerate our sales recovery.

South Korea (a 48.5% joint venture under an independent management team)

Table 10: <u>South Korea share of net profit</u>

(In Korean Won million)	Six months ended June 30 **2021**	**% to sales**	2020	% to sales	**Change**
Total sales	**89,300**	**100.0%**	85,304	100.0%	**4.7%**
Gross profit	**50,147**	**56.2%**	48,088	56.4%	**4.3%**
Net profit	**8,117**	**9.1%**	6,300	7.4%	**28.8%**
Share of net profit	**3,940**		3,058		**28.8%**
Stores at period end	***159***		*177*		***(18)***

Despite the sporadic pandemic waves, South Korea reported an overall increase in sales driven by a sharp rise in online business. In the first half of the year, sales from all online platforms contributed nearly 35% of total sales. Like our subsidiaries, the management of our South Korea joint venture has rationalized all operating expenses to lower its breakeven point.

Wholesale to overseas franchisees

Table 11: <u>Overseas franchised stores</u>

	At June 30 **2021**	2020
Southeast Asia	**185**	215
South Korea	**159**	177
Other markets	**17**	16
Total stores	**361**	408

Wholesale to overseas franchisees increased to HK$118 million (2020: HK$108 million). As the impact from Covid-19 has somewhat subsided and the sales of our franchisees gradually improved, our wholesale volume rebounded. The business expansion in the existing franchises is continuing while we are adding more franchise partners in developing economies. Management carefully selects new overseas franchise partners and offers them comprehensive consultations on store selection, merchandise planning, and financial management.

FINANCIAL POSITION

Liquidity and financial resources

On June 30, 2021, the cash and bank balance, net of bank loans, was HK$932 million (June 30, 2020: HK$989 million), a marginal decrease of 5.8%.

The bank borrowings amounted to HK$152 million (June 30, 2020: HK$167 million). The Group's gearing ratio, defined as the ratio of total borrowings less cash and bank balances to equity attributable to the Company's shareholders, was -0.4 (2020: -0.4). On June 30, 2021, the Group's current ratio was 1.9 based on current assets of HK$1,946 million and current liabilities of HK$1,050 million (2020: 1.7).

Property, plant, and equipment

During the first half of 2021, capital expenditure was HK$16 million (2020: HK$12 million); as the external business environment was volatile, we postponed store upgrades for non-strategic locations.

Goodwill and put option liabilities

The goodwill and put option liabilities arose from the acquisition of the GCC operations in the years 2012 and 2015. We have carried out impairment tests, and Management concluded that there is no impairment on goodwill for the period.

Interest in a joint venture

The balance represents a 48.5% interest in the South Korea joint venture. It was increased by our share of profit, decreased by dividend received, and reflected currency translation adjustment during the period.

Inventories

On June 30, 2021, Group inventories had slightly increased by HK$8 million, or 1.6%, to HK$494 million (2020: HK$486 million). Inventory turnover on cost closed at 124 days (2020: 138 days). The lower inventory turn days was attributable to increased sales and stable inventory balances. With prudent control of our purchase orders and nimble stock diversion between our markets, the inventory position will remain at a healthy level, given that most of the merchandise comprises core and essential items.

Although the inventories at suppliers and franchisees are not our legal liabilities, the Group responsibly tracks their levels to ensure that we do not build up excessive off-balance-sheet inventories. Our system inventories remained healthy with a stable balance, as shown in Table 12 below.

Table 12: System inventories

(In HK$ million)	June 30 2021	Dec 31 2020	June 30 2020
	At		
Inventories owned by the Group	**494**	434	486
Inventories held by 48.5% South Korea joint venture	**230**	232	214
Inventories held by franchisees in Mainland China	**50**	50	47
Finished goods at suppliers	**14**	6	20
Inventories not owned by the Group	**294**	288	281
Total system inventories	**788**	722	767

Trade receivables and payables

The trade receivables turnover days for the period were 35 days, which were down by 13 days compared to the same period last year. The decline was primarily due to better credit control and a deliberate tactic not to load up franchisees' inventories. Trade payables turnover days decreased by 18 days to 23 days due to a faster payment schedule to our long-term vendors to alleviate their financial stress stemming from the Covid-19 pandemic.

OUTLOOK

The Covid-19 pandemic has lasted for nearly two years. The Covid-19 situation remains volatile and may affect our performance due to sudden curfews, lockdowns, and movement controls. It is difficult to predict the Group's sales and profitability for the second half of the year.

Despite the challenging environment, Management will strengthen our financial position for long-term growth through reducing overheads, enhancing profitability, and maintaining a solid cash flow.

Online business and emerging market expansion are our opportunities.

Sales contribution from online platforms is gradually increasing, with online sales accounting for more than 30% of the total revenue in Mainland China and South Korea. Other markets have made significant strides in growing online sales since 2020 and which accelerated during the first half of 2021.

There are now nine franchised stores operating in Africa, nearly doubled YOY. Our valued franchisees are seasoned entrepreneurs with plans to make Giordano a brand of choice in their markets. In our experience, Giordano has fared better in developing economies than developed economies. Growth by franchising will be our expansion strategy in new markets.

We will search for better store locations with realistic rental arrangements in our existing markets, especially in HK and Macau, where the once extraordinary tourist traffic from Mainland China had prompted rentals among the highest in the world.

We will revamp our merchandise plans to satisfy the post-Covid-19 consumers. With better customer-centered product development and closer cooperation with our suppliers, we expect fewer discounts and markdowns compared with past years.

After nearly two years of Covid-19, corporations are adjusting to the new reality with streamlined operations and technology-enabled efficiencies, and Giordano is no exception. Aiming to simplify administration and reduce overheads, we have re-engineered all business processes, and the effort continues.

Overall, Management will confidently respond to the challenges that lie ahead. Given most regions were profitable even under strict social control measures in the first half of the year, the sales and profit rebound will be promising once the lockdowns and movement controls ease.

HUMAN RESOURCES

As of June 30, 2021, the Group had approximately 5,900 employees (December 31, 2020: 6,400). The Group offers competitive remuneration packages and generous, goal-oriented incentives targeted to different levels of staff. We provide senior managers with performance-based/discretionary bonus schemes and share options to reward and retain a high-calibre leadership team. We also invest heavily in training in sales and customer service, management, planning, and leadership development to maintain a skilled and motivated workforce. The Group facilitates the younger executives to take up management roles. On June 30, 2021, the average age of the Group's management team was 45 (2020: 46).

OTHER INFORMATION

Interim Dividend

The Company intends to return surplus cash to its shareholders through the payment of dividends and share repurchase. In line with its dividend policy, the Company has been paying a substantial portion of its earnings as an ordinary dividend, the amount of which may vary depending on cash on hand, future investment requirements, and working capital considerations.

After due consideration of the economic outlook, the Group's financial position, its future expansion plans and other factors, the Board has declared an interim dividend of 6.5 HK cents per share (2020: 3.1 HK cents per share) for the six months ended June 30, 2021. The dividend is payable on Friday, September 17, 2021, to shareholders whose names appear on the register of members of the Company on Thursday, September 9, 2021.

Closure of Register of Members

For determining the entitlement to the interim dividend, the register of members of the Company will be closed from Tuesday, September 7, 2021, to Thursday, September 9, 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, September 6, 2021.

Corporate Governance Code

A corporate governance report has been published and included in the Company's 2020 annual report, in which the Company reported the adoption of the code provisions as stated in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as the corporate governance code of the Company.

During the period under review, the Company has complied with all applicable code provisions under the CG Code, except for the following deviations:

Code provision A.2.1

Code provision A.2.1 provides that the roles of the chairman and the chief executive should be separate and should not be performed by the same individual.

Currently, Dr LAU Kwok Kuen, Peter holds the positions of Chairman and Chief Executive. In view of Dr LAU's extensive experience in the industry and deep understanding of the Group's businesses, the Board believes that vesting the roles of both Chairman and Chief Executive in Dr LAU provides the Group with strong leadership, allowing for more effective planning and execution of long-term business strategies and enhances efficiency in decision-making. The Board also believes that the Company already has a strong corporate governance structure appropriate for its circumstances in place to ensure effective oversight of Management.

Code provision A.4.2

Code provision A.4.2 provides that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the bye-laws of the Company, one-third of the Directors, with the exception of Chairman or Managing Director, shall retire from office by rotation at each annual general meeting. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the Chairman and, therefore, the Board is of the view that the Chairman should be exempt from this arrangement at the present time.

Save as disclosed above, the corporate governance practices adopted by the Company during the period under review are in line with those practices set out in the Company's 2020 annual report.

Securities Transactions by Directors

The Company has adopted its own Code of Conduct for Securities Transactions by Directors (the "Code of Conduct for Securities Transactions"). This is on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, and has been updated from time-to-time. Having made specific enquiries to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code and the Code of Conduct for Securities Transactions throughout the six months ended June 30, 2021.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2021.

Review of Interim Results

The unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2021, has been reviewed by PricewaterhouseCoopers, the external auditor of the Group, and in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and has fully discussed auditing, risk management and internal control systems and financial reporting matters. The Audit Committee has also reviewed the unaudited interim results of the Group for the six months ended June 30, 2021, with Management.

By Order of the Board
LAU Kwok Kuen, Peter
Chairman and Chief Executive

Hong Kong, August 10, 2021

At the date of this announcement, the Board comprises three executive directors; namely, Dr LAU Kwok Kuen, Peter (Chairman and Chief Executive), Dr CHAN Ka Wai and Mr Mark Alan LOYND; two non-executive directors; namely, Dr CHENG Chi Kong and Mr CHAN Sai Cheong; and four independent non-executive directors; namely, Dr Barry John BUTTIFANT, Mr KWONG Ki Chi, Professor WONG Yuk (alias, HUANG Xu) and Dr Alison Elizabeth LLOYD.

[1] *"Group sales" refer to consolidated sales and include retail sales from direct-operated stores and wholesale to overseas/ non-consolidated franchisees.*

[2] *"Global brand sales/gross profit", comprising all Giordano retail sales/gross profit from direct-operated stores, franchised stores, and stores operated by a joint venture, are at constant exchange rates.*

[3] *"Inventory turnover on cost" is calculated by dividing inventories held at the period end by the cost of sales and multiplied by the number of days in the period.*