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, 2020

HIGHLIGHTS

The Group is an international apparel retailer with a portfolio of owned and licensed brands. We offer high-quality, value-for-money and easy-to-wear apparel through a network of 2,187 stores (or 2,114,000 sq. ft. of retail floor space) as of June 30, 2020.

Due to the COVID-19 pandemic, Group sales declined by 44.4% to HK$1,413 million (2019: HK$2,542 million) at a gross margin of 54.6% (2019: 59.3 %). The Group's online sales have grown to HK$139 million, or 9.8% (2019: 5.2%) of Group sales.

As a result of the drastic drop in Group sales and provision for asset impairment, the Group recorded a net loss of HK$175 million (2019: HK$161 million net profit), of which HK$102 million was attributable to the Hong Kong Special Administrative Region ("HKSAR") alone. Excluding the non-cash provision for impairment of HK$71 million under the Hong Kong Accounting Standard ("HKAS") 36 that applied to retail store assets, the Group's net loss was HK$104 million for the six months ended June 30, 2020.

Movement controls imposed abruptly in certain markets created a backlog of merchandise originally prepared for festive sales. The Group's inventory turnover on cost was substantially higher at 138 days (June 30, 2019: 92 days). The merchandise levels will gradually reduce without the need for drastic clearance discounts, as the majority of the merchandise comprises basic and essential items.

Cash and bank balances, net of bank loans, were HK$989 million on June 30, 2020 (December 31, 2019: HK$994 million). The Group's overall financial situation and working capital are robust, even with an uncertain medium-term outlook. The Board has declared an interim dividend of 3.1 HK cents per share (2019: 10.2 HK cents per share).

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, 2020 along with comparative figures and explanatory notes.

Consolidated Income Statement

(In HK$ million, except (loss)/earnings per share)	Note	**(Unaudited) Six months ended June 30 2020**	2019
Sales	3	**1,413**	2,542
Cost of sales	5	**(641)**	(1,034)
Gross profit		**772**	1,508
Other income and other gains, net	4	**54**	38
Distribution expense	5	**(916)**	(1,164)
Administrative expense	5	**(92)**	(123)
Operating (loss)/profit		**(182)**	259
Finance expense	6	**(22)**	(29)
Share of profit of joint ventures		**20**	24
(Loss)/profit before income taxes		**(184)**	254
Income taxes	7	**2**	(58)
(Loss)/profit after income taxes for the period		**(182)**	196
Attributable to:			
Shareholders of the Company		**(175)**	161
Non-controlling interests		**(7)**	35
		(182)	196
(Loss)/earnings per share attributable to shareholders of the Company			
Basic *(HK cents)*	8	**(11.1)**	10.2
Diluted *(HK cents)*		**(11.1)**	10.2

Consolidated Statement of Comprehensive Income

(In HK$ million)	**(Unaudited) Six months ended June 30 2020**	2019
(Loss)/profit after income taxes for the period	**(182)**	196
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Fair value change on financial asset at fair value through other comprehensive income	**(1)**	–
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	**(45)**	(13)
Total comprehensive (loss)/income for the period	**(228)**	183
Attributable to:		
Shareholders of the Company	**(215)**	145
Non-controlling interests	**(13)**	38
	(228)	183

Consolidated Balance Sheet

(In HK$ million)	**Note**	**(Unaudited) June 30 2020**	(Audited) December 31 2019
ASSETS			
Non-current assets			
Property, plant and equipment		**139**	171
Right-of-use assets		**942**	1,279
Investment properties		**22**	23
Goodwill		**546**	546
Interest in joint ventures		**480**	538
Financial asset at fair value through other comprehensive income		**4**	5
Financial asset at fair value through profit or loss		**28**	28
Leasehold land and rental prepayments		**4**	5
Rental deposits		**107**	181
Deferred tax assets		**69**	54
		2,341	2,830
Current assets			
Inventories		**486**	548
Leasehold land and rental prepayments		**4**	6
Financial asset at fair value through profit or loss		**–**	200
Trade and other receivables	10	**331**	353
Cash and bank balances		**1,156**	1,259
		1,977	2,366
Total assets		**4,318**	5,196
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**79**	79
Reserves		**2,227**	2,492
Proposed dividends	9	**49**	69
Equity attributable to shareholders of the Company		**2,355**	2,640
Non-controlling interests		**194**	207
Total equity		**2,549**	2,847
Non-current liabilities			
Lease liabilities		**407**	572
Bank loans		**100**	–
Deferred tax liabilities		**111**	125
		618	697
Current liabilities			
Trade and other payables	11	**459**	692
Lease liabilities		**470**	536
Put option liabilities		**59**	59
Bank loans		**67**	265
Income tax payables		**96**	100
		1,151	1,652
Total liabilities		**1,769**	2,349
Total equity and liabilities		**4,318**	5,196
Net current assets		**826**	714
Total assets less current liabilities		**3,167**	3,544

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, 2020 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 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, 2019, 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, 2019.

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 11, 2020.

2. Principal accounting policies

(a) Impact of new and amended standards

The Group has applied the following new and amendments to HKFRS issued by the HKICPA which were effective for the Group's financial year beginning on or after January 1, 2020:

– Amendments to HKAS 1 and HKAS 8	Definition of Material
– Amendments to HKFRS 3	Definition of a Business
– Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
– Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting

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

(b) New and amended HKFRSs issued but not yet effective

The Group has not early applied the new and amended standards and interpretations that have been issued but not yet effective. The adoption of these are not expected to have a material impact on the financial results 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 Wholesales 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 Middle East comprise directly-operated stores ("DOS") and franchised stores. HKSAR and Macau, Taiwan and the rest of Asia Pacific do not have material local franchised stores. Group stores span most of Asia Pacific and the Middle East.

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

	Six months ended June 30, 2020						
(In HK$ million)	**Mainland China**	**HKSAR and Macau**	**Taiwan**	**The rest of Asia Pacific**	**The Middle East**	**Wholesales 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)**

3. Sales and operating segments (continued)

(In HK$ million)	Six months ended June 30, 2019 Mainland China	HKSAR and Macau	Taiwan	The rest of Asia Pacific	The Middle East	Wholesales to Overseas Franchisees	Total
Sales	529	421	301	807	344	140	2,542
Adjusted EBITDA	48	107	61	232	115	17	580
Depreciation and amortization							
– Right-of-use assets	(35)	(77)	(28)	(98)	(40)	–	(278)
– Property, plant and equipment and investment properties	(10)	(6)	(8)	(19)	(7)	–	(50)
Segment results	3	24	25	115	68	17	252
Corporate functions							7
Finance expense							(29)
Share of profit of joint ventures							24
Profit before income taxes							254

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

	Six months ended June 30			
	2020		2019	
(In HK$ million)	**Sales**	**Operating loss**	Sales	Operating profit
Retail and Distribution				
Giordano and *Giordano Junior*	**1,100**	**(176)**	2,002	195
Giordano Ladies	**113**	**(10)**	217	27
BSX	**26**	**(4)**	56	1
Others	**66**	**(6)**	127	12
	1,305	**(196)**	2,402	235

3. **Sales and operating segments (continued)**

The Company has its domicile in HKSAR. Sales to external customers recorded in HKSAR and Macau (including retail and wholesale sales) are HK$309 million (2019: HK$561 million), Mainland China HK$299 million (2019: HK$529 million) and external customers from other markets HK$805 million (2019: HK$1,452 million).

Inter-segment sales of HK$324 million (2019: HK$599 million) have been eliminated upon consolidation.

4. **Other income and other gains, net**

	Six months ended June 30	
(In HK$ million)	**2020**	2019
Government grants	**23**	–
Royalty income	**15**	15
Interest income	**7**	11
Rental and sub-lease rental income	**5**	7
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	**4**	5
	54	38

5. Operating (loss)/profit

Operating (loss)/profit is after charging:

(In HK$ million)	Six months ended June 30 **2020**	2019
Cost of sales		
Cost of inventories sold	**629**	1,031
Provision for obsolete stock and stock written off	**12**	3
	641	1,034
Distribution expense		
Depreciation expenses		
– Right-of-use assets	**298**	269
– Property, plant and equipment	**34**	46
Staff cost	**286**	395
Impairment		
– Right-of-use assets	**66**	–
– Property, plant and equipment	**5**	–
Operating lease rentals in respect of land and building		
– Minimum lease payments	**9**	130
– Contingent rent	**59**	101
Building management fee, government rent and rates and utilities	**50**	61
Advertising, promotion and incentives	**37**	56
Packaging and deliveries	**21**	28
Bank and credit card charges	**10**	17
Others	**41**	61
	916	1,164
Administrative expense		
Staff cost	**51**	81
Depreciation expenses		
– Right-of-use assets	**9**	9
– Property, plant and equipment and investment properties	**3**	4
Legal and professional fee	**9**	7
Auditor's remuneration	**3**	3
Computer and telecommunication	**3**	3
Operating lease rentals in respect of land and building		
– Minimum lease payments	**1**	2
Travelling	**1**	2
Others	**12**	12
	92	123

6. Finance expense

(In HK$ million)	Six months ended June 30 **2020**	2019
Interest on lease liabilities	**21**	26
Interest on bank loans	**1**	3
	22	29

7. Income taxes

HKSAR profits tax is calculated at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the period. Income taxes on profits assessable outside HKSAR are calculated at the rates applicable in the respective jurisdictions.

(In HK$ million)	Six months ended June 30 **2020**	2019
Current income taxes		
HKSAR	**4**	10
Outside HKSAR	**3**	36
Over-provision in prior periods	**(2)**	–
Withholding taxes	**16**	22
	21	68
Deferred income taxes		
Origination and reversal of temporary differences	**(23)**	(10)
	(2)	58

This charge excludes the share of joint ventures' income taxes of HK$6 million (2019: HK$7 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. (Loss)/earnings per share

The calculations of basic and diluted (loss)/earnings per share are based on the loss after income taxes attributable to shareholders of the Company for the period of HK$175 million (2019: profit of HK$161 million).

The basic (loss)/earnings per share is based on the weighted average of 1,578,482,936 shares (2019:1,578,500,518 shares) in issue during the six months ended June 30, 2020.

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.

During the six months ended June 30, 2019, the diluted earnings per share is calculated by adjusting the weighted average of 1,578,500,518 shares in issue during the period by the weighted average of 305,358 shares deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

9. Dividends

(In HK$ million)	**Six months ended June 30** **2020**	2019
Interim dividend declared of 3.1 HK cents per share (2019: 10.2 HK cents per share)	**49**	161
2019 final dividend paid of 4.4 HK cents per share (2018: 16.5 HK cents per share)	**69**	260

The distribution for 2019 final dividend was based on the total number of issued shares of the Company on June 4, 2020.

At the Board meeting on August 11, 2020, the Board declared an interim dividend of 3.1 HK cents per share (2019: 10.2 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)	**June 30** **2020**	December 31 2019
Trade receivables	**174**	239
Less: Loss allowance	**(30)**	(27)
Trade receivables, net	**144**	212
Ageing analysis from the invoice date net of loss allowance is as follows:		
0 - 30 days	**100**	165
31 - 60 days	**13**	31
61 - 90 days	**9**	13
Over 90 days	**22**	3
	144	212
Other receivables, including deposits and prepayments	**187**	141
	331	353

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)	**June 30 2020**	December 31 2019
Trade payables	**144**	139
The ageing analysis of trade payables is as follows:		
0 - 30 days	**81**	111
31 - 60 days	**28**	15
61 - 90 days	**14**	1
Over 90 days	**21**	12
	144	139
Other payables and accrued expense	**315**	553
	459	692

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 ("YOY") comparison of the Group for the six months ended June 30, 2020 and 2019, unless otherwise stated.

OVERVIEW

The Group is an international apparel retailer with a portfolio of owned and licensed brands. We offer high-quality, value-for-money and easy-to-wear apparel through a network of 2,187 stores (or 2,114,000 sq. ft. of retail floor space) as of June 30, 2020.

Due to the COVID-19 pandemic, Group sales declined by 44.4% to HK$1,413 million (2019: HK$2,542 million) at a gross margin of 54.6% (2019: 59.3%). The Group's online sales have grown to HK$139 million, or 9.8% (2019: 5.2%) of Group sales.

As a result of the drastic drop in Group sales and provision for asset impairment, the Group recorded a net loss of HK$175 million (2019: HK$161 million net profit), of which HK$102 million was attributable to the HKSAR alone. Excluding the non-cash provision for impairment of HK$71 million under the HKAS 36 that applied to retail store assets, the Group's net loss was HK$104 million for the six months ended June 30, 2020.

Movement controls imposed abruptly in certain markets created a backlog of merchandise originally prepared for festive sales. The Group's inventory turnover on cost was substantially higher at 138 days (June 30, 2019: 92 days). The merchandise levels will gradually reduce without the need for drastic clearance discounts, as the majority of the merchandise comprises basic and essential items.

Cash and bank balances, net of bank loans, were HK$989 million on June 30, 2020 (December 31, 2019: HK$994 million). The Group's overall financial situation and working capital are robust, even with an uncertain medium-term outlook. The Board has declared an interim dividend of 3.1 HK cents per share (2019: 10.2 HK cents per share).

RESULTS OF OPERATIONS

Table 1: Group results of operations

(In HK$ million)	Six months ended June 30				
	2020	**% to sales**	2019	% to sales	**Change**
The rest of Asia Pacific	**404**	**28.6%**	807	31.8%	**(49.9%)**
Mainland China	**299**	**21.2%**	529	20.8%	**(43.5%)**
Taiwan	**243**	**17.2%**	301	11.8%	**(19.3%)**
HKSAR and Macau	**201**	**14.2%**	421	16.6%	**(52.3%)**
The Middle East	**158**	**11.2%**	344	13.5%	**(54.1%)**
Wholesales to overseas franchisees	**108**	**7.6%**	140	5.5%	**(22.9%)**
Group sales[1]	**1,413**	**100.0%**	2,542	100.0%	**(44.4%)**
Gross profit	**772**	**54.6%**	1,508	59.3%	**(48.8%)**
Operating expense	**(937)**	**(66.3%)**	(1,287)	(50.6%)	**(27.2%)**
Impairment loss on right-of-use assets and property, plant and equipment	**(71)**	**(5.0%)**	–	0.0%	**N/A**
Operating (loss)/profit	**(182)**	**(12.9%)**	259	10.2%	**(170.3%)**
Finance expense	**(22)**	**(1.6%)**	(29)	(1.1%)	**(24.1%)**
(Loss attributable to shareholders ("LATS"))/ profit attributable to shareholders ("PATS")	**(175)**	**(12.4%)**	161	6.3%	**(208.7%)**
Global brand sales[2]	**1,907**		3,083		**(38.1%)**
Global brand gross profit[2]	**1,121**		1,894		**(40.8%)**
Net cash and bank balances at period end	**989**		1,026		**(3.6%)**
Inventories at period end	**486**		526		**(7.6%)**
Inventory turnover on cost ("ITOC") (days)[3]	**138**		92		**46**
Stores at period end	**2,187**		2,424		**(237)**

Sales and gross profit

Group sales decreased by 44.4%, or by 43.3% if translated at constant exchange rates. The unsatisfactory performance was attributable to the outbreak of COVID-19 since January 2020. The pandemic is severely affecting the global economy. This global health emergency has led to a rapid drop in foot-traffic, mainly due to various government containment decrees and social distancing measures.

The Group's online platforms generated HK$139 million in revenue (see Table 2), raising its contribution to 9.8% of the Group's sales (2019: 5.2%), of which non-Mainland China platforms contributed HK$31 million, representing YOY growth of 93.8%. Management will continue to focus on third-party online platforms for future growth.

Wholesales to franchisees receded by 35.4%, due to lower brand sales and as a result of the Group's prudent credit control.

Table 2: Sales by channels

(In HK$ million)	Six months ended June 30				Change
	2020	**Contribution**	2019	Contribution	
Physical stores	**1,075**	**76.1%**	2,102	82.7%	**(48.9%)**
Online business	**139**	**9.8%**	132	5.2%	**5.3%**
Retail sales	**1,214**	**85.9%**	2,234	87.9%	**(45.7%)**
Wholesales to franchisees	**199**	**14.1%**	308	12.1%	**(35.4%)**
Group sales	**1,413**	**100.0%**	2,542	100.0%	**(44.4%)**

By focusing on wholesales and online channels for growth, the gross margins of which are lower, the Group's gross margin ebbed. Therefore, the YOY decline in gross profit was greater than that in sales. Table 3 provides an analysis of change in Group gross profit.

Table 3: Gross profit variance analysis by region

(In HK$ million)	Six months ended June 30, 2019 gross profit	Product costs	Selling price	Volume	Translational exchange impact	Miscellaneous	Six months ended June 30, 2020 gross profit
The rest of Asia Pacific	485	4	(37)	(212)	(9)	(4)	**227**
Taiwan	185	–	–	(39)	3	–	**149**
HKSAR and Macau	288	2	(15)	(141)	–	1	**135**
Mainland China	268	(10)	(23)	(98)	(7)	(1)	**129**
The Middle East	223	3	(4)	(117)	(1)	(1)	**103**
Market mix	–	(6)	(1)	7	1	(1)	**–**
Retail and distribution	**1,449**	**(7)**	**(80)**	**(600)**	**(13)**	**(6)**	**743**
Wholesales to overseas franchisees/subsidiaries	59						**29**
Group	**1,508**						**772**

Other income and other gains, net

Other income and other gains, which comprise royalty and licensing revenue, interest income, government subsidies and rental and sub-lease rental income, increased by HK$16 million to HK$54 million, of which HK$23 million represents financial relief from governments for the COVID-19 pandemic. Management continues to expand our licensing business, both in terms of product categories and geographical reach.

Operating expense and operating (loss)/profit

Operating expense to sales ratio increased significantly on a substantial Group sales decrease and despite a 27.2% decline in operating expense. As a result, the Group recorded an operating loss of HK$182 million for the period, of which HK$105 million was attributable to the HKSAR alone. The Group will further reduce its fixed overheads to improve leverage, mainly focusing on rental reduction and improvements in technology-based operations to achieve efficiency savings.

Table 4: Sales and operating (loss)/profit contribution by region

	Contribution by region	
Six months ended June 30, 2020	**Sales**	**Operating (loss)/profit**
The rest of Asia Pacific	28.6%	(16.8%)
Mainland China	21.2%	(29.2%)
Taiwan	17.2%	9.3%
HKSAR and Macau	14.2%	(59.3%)
The Middle East	11.2%	(11.8%)
Wholesales to overseas franchisees	7.6%	7.2%
Wholesales to overseas subsidiaries	–	6.3%
Headquarter expense, net of other income and gains	–	(5.7%)
	100.0%	(100.0%)

Impairment of right-of-use assets and property, plant and equipment

Given the COVID-19 pandemic's potential adverse impact on the performance of the Group's retail stores and based on HKAS 36 requirements, the Group has made a HK$71 million provision (2019: nil) on the impairment of right-of-use assets and property, plant and equipment. HKSAR's share of the provision was HK$50 million. The impairment provision will reduce the net carrying amount of the right-of-use assets and property, plant and equipment, reducing the depreciation charge over the remaining lease terms.

Finance expense

Finance expense was HK$22 million (2019: HK$29 million), which comprised of bank interest expense and interest on lease liabilities.

Loss after income taxes attributable to shareholders of the Company

Net loss for the six months ended June 30, 2020 was HK$175 million, compared to a profit of HK$161 million recorded in the same period last year. Income taxes are calculated at rates applicable in the respective jurisdictions, on the estimated assessable profits derived for the period. An income tax credit amounting to HK$2 million was recorded (2019: tax expenses of HK$58 million), derived mainly from the net deferred tax credits arising from the temporary differences between tax base and accounting-based values of certain assets and liabilities. Table 5 below provides details for the changes by region.

Table 5: Analysis of change by region in (LATS)/PATS

(In HK$ million)	
Reported 2019 PATS for the six months ended June 30, 2019	**161**
South Korea	**(4)**
Taiwan	**(8)**
Wholesales to overseas franchisees/subsidiaries	**(24)**
Mainland China	**(59)**
The Middle East	**(90)**
HKSAR and Macau	**(132)**
The rest of Asia Pacific	**(146)**
Income taxes, non-controlling interests, finance expense and headquarter expense	**123**
LATS for the six months ended June 30, 2020 without currency translation difference	**(179)**
Currency translation difference	**4**
Reported LATS for the six months ended June 30, 2020	**(175)**

ANALYSIS BY MARKET

The following market-specific comments are in local currencies or, if in HK$, are at constant exchange rates to remove distortions from the translation of financial statements. These figures have not removed the impact on imported product costs contracted at non-local currencies.

Greater China

Table 6: Greater China region

	Six months ended June 30				
(In HK$ million, translated at constant exchange rates)	**2020**	**% to sales**	2019	% to sales	**Change**
Total sales	**754**	**100.0%**	1,251	100.0%	**(39.7%)**
Gross profit	**417**	**55.3%**	741	59.2%	**(43.7%)**
Operating expense	**(540)**	**(71.6%)**	(700)	(56.0%)	**(22.9%)**
Impairment loss on right-of-use assets and property, plant and equipment	**(50)**	**(6.6%)**	–	–	**N/A**
Operating (loss)/profit	**(147)**	**(19.5%)**	52	4.2%	**(382.7%)**
Finance expense	**(7)**	**(0.9%)**	(9)	(0.7%)	**(22.2%)**
(Loss)/profit before income tax	**(154)**	**(20.4%)**	43	3.4%	**(458.1%)**
Stores at period end	**1,013**		1,196		**(183)**

The COVID-19 outbreak, coupled with the prolonged Sino-US dispute, have severely dampened consumer sentiment in the region.

HKSAR and Macau

The business deterioration in the HKSAR was the worst in the Greater China region. It suffered from the COVID-19 outbreak and the protracted decline in tourist arrivals.

With a pessimistic outlook for HKSAR and Macau, we have diligently and aggressively pleaded for rental concessions and re-negotiated more flexible lease terms. We have concentrated on our online sales, despite the lower gross margin.

Mainland China & Taiwan

For Mainland China, the online sales and franchise business remained our focus of development. Online sales were steady during the period, trending positively in the second quarter. Although there was a YOY decline in franchised stores in Mainland China, the Group is optimistic about its long-term growth prospect.

The drop in Taiwan's sales and profit were the lowest of all regions, partly due to lessened competition, and the absence of large-scale movement controls. Our management team there has been capitalizing on the opportunity to upgrade the Giordano brand.

Table 7: Greater China region – by market

	Six months ended June 30								
(In HK$ million, translated at constant exchange rates)	Sales			Franchise stores at period end		DOS at period end		Stores at period end	
	2020	2019	**Change**	**2020**	2019	**2020**	2019	**2020**	2019
Mainland China	**315**	529	**(40.5%)**	**528**	636	**230**	281	**758**	917
HKSAR and Macau	**201**	421	**(52.3%)**	**–**	–	**66**	75	**66**	75
Taiwan	**238**	301	**(20.9%)**	**–**	–	**189**	204	**189**	204
Total	**754**	1,251	**(39.7%)**	**528**	636	**485**	560	**1,013**	1,196

The rest of Asia Pacific

Table 8: The rest of the Asia Pacific region

(In HK$ million, translated at constant exchange rates)	Six months ended June 30				
	2020	**% to sales**	2019	% to sales	**Change**
Total sales	**419**	**100.0%**	807	100.0%	**(48.1%)**
Gross profit	**236**	**56.3%**	485	60.1%	**(51.3%)**
Operating expense	**(257)**	**(61.3%)**	(376)	(46.6%)	**(31.6%)**
Impairment loss on right-of-use assets and property, plant and equipment	**(16)**	**(3.8%)**	–	–	**N/A**
Operating (loss)/profit	**(32)**	**(7.6%)**	114	14.1%	**(128.1%)**
Finance expense	**(10)**	**(2.4%)**	(12)	(1.5%)	**(16.7%)**
(Loss)/profit before income tax	**(42)**	**(10.0%)**	102	12.6%	**(141.2%)**
Stores at period end	**586**		613		**(27)**

In the rest of Asia Pacific, traffic from both tourists and local customers plunged with the imposition of travel restrictions and country-wide shutdowns. Heightened hygiene concerns eroded consumer and spending sentiment. As such, the focus was to develop various local third-party online platforms. Sales in Indonesia and Malaysia experienced a substantial decline, mainly due to the missed sales opportunities during the Ramadan period.

Table 9: The rest of the Asia Pacific region – by market

(In HK$ million, translated at constant exchange rates)	Six months ended June 30				
	Sales			Stores at period end	
	2020	2019	**Change**	**2020**	2019
Indonesia	**168**	312	**(46.2%)**	**232**	253
Thailand	**90**	189	**(52.4%)**	**171**	170
Singapore	**68**	137	**(50.4%)**	**40**	43
Malaysia	**51**	94	**(45.7%)**	**93**	96
Vietnam	**28**	46	**(39.1%)**	**41**	39
Australia	**10**	23	**(56.5%)**	**7**	10
Cambodia	**4**	6	**(33.3%)**	**2**	2
Total	**419**	807	**(48.1%)**	**586**	613

The Middle East

Table 10: The Middle East

(In HK$ million, translated at constant exchange rates)	**2020**	**% to sales**	2019	% to sales	**Change**
	Six months ended June 30				
Total sales	**160**	**100.0%**	344	100.0%	**(53.5%)**
Gross profit	**104**	**65.0%**	223	64.8%	**(53.4%)**
Operating expense	**(122)**	**(76.3%)**	(155)	(45.1%)	**(21.3%)**
Impairment loss on right-of-use assets and property, plant and equipment	**(4)**	**(2.5%)**	–	–	**N/A**
Operating (loss)/profit	**(22)**	**(13.8%)**	68	19.8%	**(132.4%)**
Finance expense	**(4)**	**(2.5%)**	(5)	(1.5%)	**(20.0%)**
(Loss)/profit before income tax	**(26)**	**(16.3%)**	63	18.3%	**(141.3%)**
Franchised stores	**35**		42		
DOS	**145**		146		
Stores at period end	**180**		188		**(8)**

The Middle East business nosedived when authorities suddenly ordered the closure of all retail outlets as the number of confirmed COVID-19 cases spiked during the traditional festive sales season. The shutdown reversed the first quarter growth trend.

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

Table 11: South Korea

(In Korean Won million)	**2020**	**% to sales**	2019	% to sales	**Change**
	Six months ended June 30				
Total sales	**85,304**	**100.0%**	95,993	100.0%	**(11.1%)**
Gross profit	**48,088**	**56.4%**	57,060	59.4%	**(15.7%)**
Net profit	**6,300**	**7.4%**	7,379	7.7%	**(14.6%)**
Share of profit	**3,058**		3,582		**(14.6%)**
Stores at period end	**177**		179		**(2)**

South Korea reported a minor reduction in sales and gross profit, mainly driven by a sharp increase in online business. After the initial COVID-19 outbreak, business activities have gradually been returning to normal.

Wholesales to overseas franchisees

Table 12: Store numbers of overseas franchisees

	At June 30	
By market	**2020**	2019
Southeast Asia	**215**	228
South Korea	**177**	179
Other markets	**16**	20
Total stores	**408**	427

Wholesales to overseas franchisees declined by 22.9% to HK$108 million (2019: HK$140 million). The COVID-19 pandemic also adversely affected sales in our franchise markets. The Group maintained prudent credit control, which indirectly impeded wholesale sales. That said, Management has resolved to maintain the financial health of our franchisees in preparation for a business rebound and a long-term growth prospect. In the first half of the year, we commenced both offline and online channels in Kenya and Russia and will accelerate the pace of overseas franchising in the second half of the year.

FINANCIAL POSITION

Liquidity and financial resources

On June 30, 2020, the cash and bank balances, net of bank loans were HK$989 million (December 31, 2019: HK$994 million), almost flat as compared to year-end.

The bank borrowings amounted to HK$167 million (June 30, 2019: HK$298 million). The Group's gearing ratio, defined as the ratio of total borrowings less cash and bank balances to equity attributable to shareholders of the Company, was -0.4 (2019: -0.4). On June 30, 2020, the Group's current ratio was 1.7 based on current assets of HK$1,977 million and current liabilities of HK$1,151 million (2019: 1.5).

Property, plant and equipment

During the first half of 2020, capital expenditure was only HK$12 million (2019: HK$37 million), mainly due to the postponement of store upgrades in light of COVID-19 pandemic-related movement controls.

Goodwill and put option liabilities

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

The Group has entered into agreements with the non-controlling shareholders of Giordano Fashions L.L.C. ("Giordano UAE"), Giordano Fashions Co. W.L.L. ("Giordano KW") and GIO Fashions W.L.L. ("Giordano QA") to acquire the remaining interest in these companies. The associated put option liabilities of HK$62 million which were previously recognized have, accordingly, lapsed for the year ended December 31, 2019.

Interests in joint ventures

The balance primarily represents a 48.5% interest in the South Korea joint venture. The decrease of HK$58 million during the period reflected our share of profit, offset by dividends received, and currency translation differences.

Inventories

Due to the sudden movement controls imposed in various territories, Group inventory at June 30, 2020 reduced by only 7.6% to HK$486 million (June 30, 2019: HK$526 million). ITOC was substantially higher at 138 days (June 30, 2019: 92 days). The Group believes the merchandise levels will gradually reduce without the need for drastic clearance discounts, as the majority of the merchandise comprise basic and essential items.

Inventories at suppliers and franchisees are not our legal liabilities. Nonetheless, the Group responsibly tracks their levels to ensure that they are not excessive and reports them regularly. Our finished goods at suppliers were significantly lower than last year as we did not want to increase the financial burdens of our suppliers otherwise caused by our postponing deliveries.

Table 13: System inventories

	At		
(In HK$ million)	**June 30 2020**	Dec 31 2019	June 30 2019
Inventories held by the Group	**486**	548	526
Inventories held by 48.5% South Korea joint venture	**214**	196	218
Inventories held by franchisees in Mainland China	**47**	73	82
Finished goods at suppliers (not yet shipped)	**20**	12	42
Total system inventories	**767**	829	868

Trade receivables and payables

The Group prudently manages its trade receivables, especially during this uncertain time. Trade receivables turnover days for the period were 48 days, which were up by 6 days only as compared to the same period last year. Trade payables turnover days increased by 21 days to 41 days during the period under arrangements with our suppliers, and are in line with industry practice.

OUTLOOK

In view of the COVID-19 pandemic and the uncertainty arising from the Sino-US relationship, we anticipate a challenging operating environment in the second half of the year. Cash management is of the essence for long term sustainability through stringent cost control and sound working capital discipline. Although senior executives had taken voluntary pay cuts to show solidarity with our stakeholders, we have no intention of imposing lay-offs or on or reducing the salaries of the general staff in the near future.

Recognizing the continued challenges, the Group will boldly close under-performing stores while deploying more resources to our online and franchise businesses. The Group is rapidly digitizing its way of doing business and preparing itself for a rebound.

We see opportunities in Taiwan, where the economy has been improving and where there is lessened competition within the market. Thailand and South Korea are also showing signs of sustained recovery. The Group is, however, pessimistic about the HKSAR, where store rentals have been higher than all other markets. In the medium term and joining our industry peers, the Group will downsize its HKSAR operations unless there are substantial rental reductions.

Our initiative to develop local online businesses within our existing markets has so far proven successful. This strategy will continue with deepened localization. Furthermore, Management has also expedited digitization of the Company's way of doing business, both externally and internally. It will also facilitate the Group's effort to localize supply chains further, especially in anticipation of logistics disruptions caused by a protracted COVID-19 pandemic.

We pursue operational excellence by a combination of cost and expense control and innovation. At the same time, we will develop new franchise markets, upgrade our stores and expand our online business.

HUMAN RESOURCES

As at June 30, 2020, the Group had approximately 6,600 employees (December 31, 2019: 7,900). The Group offers competitive remuneration packages and generous, goal-oriented bonuses targeted to different levels of staff. We offer senior managers performance-based bonus schemes and share options to reward and retain a high caliber leadership team. We also invest heavily in training in sales and customer service, management, planning and leadership development to retain a skilled and motivated workforce.

OTHER INFORMATION

Interim Dividend

It is the Company's intention 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 3.1 HK cents per share (2019: 10.2 HK cents per share) for the six months ended June 30, 2020. The dividend is payable on Friday, September 18, 2020 to shareholders whose names appear on the register of members of the Company on Thursday, September 10, 2020.

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 8, 2020 to Thursday, September 10, 2020 (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 7, 2020.

Corporate Governance Code

A corporate governance report has been published and included in the Company's 2019 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 2019 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, 2020.

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

During the six months ended June 30, 2020, a total of 870,000 ordinary shares were repurchased by the Company on the Stock Exchange. As at the date of this announcement, all the repurchased shares were cancelled by the Company. The Directors believe that the repurchases were made to reflect the Company's confidence in its long-term business prospects and would ultimately benefit the Company and create value for the shareholders of the Company. Details of the repurchases of shares of the Company were as follows:

Month of repurchase	Number of shares repurchased	Highest price per share	Lowest price per share	Aggregate purchase price (before expenses)
		HK$	*HK$*	*HK$*
June 2020	870,000	1.15	1.13	995,100

Save as disclosed above, there was no purchase, sale or redemption by the Company or any of its subsidiaries, of any listed securities of the Company during the six months ended June 30, 2020.

Review of Interim Results

The unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2020 have been reviewed by PricewaterhouseCoopers, the external auditor of the Group, 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, 2020 with Management.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The Group's business performance during the period was affected by the outbreak of COVID-19 in early 2020. The Group has been closely monitoring the development and the impact of COVID-19 since then and taken appropriate responses in a timely manner so as to mitigate the impact on the Group's business.

Subsequent to June 30, 2020 and up to now, the Group's sales have gradually started to recover as the situation in these areas gradually improves.

Up to the date on which this set of consolidated interim financial statements were authorized for issue, the Group is still in the process of assessing the impact of the COVID-19 outbreak on the Group's performance for the second half of 2020 and is currently unable to estimate the quantitative impacts to the Group.

On July 17, 2020, GI.PT Singapore Pte. Ltd ("GI.PT"), an indirect non-wholly owned subsidiary of the Company incorporated in Singapore, entered into a sale and purchase agreement ("Acquisition Agreement") with P.T. Eses Entrindo ("PTEE"), pursuant to which GI.PT has conditionally agreed to acquire, and PTEE has conditionally agreed to sell, 375 shares ("Sale Shares"), representing 15% of the total issued share capital of PT Giordano Indonesia, an indirect non-wholly owned subsidiary of the Company incorporated in Indonesia, at a consideration of SG$4 million.

Pursuant to the Acquisition Agreement, GI.PT also granted PTEE an one-time exercise buy-back option to repurchase all (but not part) of the Sale Shares from GI.PT for an agreed repurchased price of SG$4.6 million, representing a 15% buy-back premium, and such option will only be exercisable until June 14, 2021 or such other date as PTEE and GI.PT may agree in writing.

For details of the above acquisition, please refer to the announcement of the Company dated July 17, 2020.

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

Hong Kong, August 11, 2020

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 DOS and wholesales to all overseas/non-consolidated franchisees.*

[2] *Global brand sales/gross profit are at 2020 exchange rates, and are greater than Group sales/gross profit to include the total of Giordano retail sales/gross profit, in DOS, franchised stores, and stores operated by a joint venture.*

[3] *ITOC refers to inventories held at period end divided by cost of sales and multiplied by number of days in the period.*