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GIORDANO
GIORDANO INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 709)

ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2021

Overview

- *The Group is an international apparel retailer with owned, franchised, and licensed brands. We offer high-quality, value-for-money, and easy-to-wear apparel and accessories through a network of approximately 2,056 points of sales, or 1,964,000 sq. ft. of retail floor space.*
- *Group sales rose by 8.3% to HK\$3,380 million (2020: HK\$3,122 million), with gross profit advancing by 11.2% due to a 1.5 percentage point rise in gross margin and Group-wide sales increases. The Group's online sales surged by 25.5%, contributing 12.1% (2020: 10.5%) to total sales.*
- *Operating expenses contracted by 8.8%, representing 52.7% (2020: 62.6%) of total sales. We expect further operating expense leveraging in 2022, as the Group further broadens the use of information and communication technologies throughout its operations.*
- *Net profit for the year was HK\$190 million (2020: net loss of HK\$112 million, inclusive of a net charge of HK\$70 million impairment provision for the right-of-use assets and property, plant, and equipment). Basic earnings per share were 12.0 HK cents (2020: Basic losses per share of 7.1 HK cents). Net profit for the second half of the year was HK\$130 million as compared with HK\$60 million reported for the first half, reflecting relaxed social distancing, fewer discounts, and the result of effective operating expense controls.*
- *The Company's Board of Directors recommended a final dividend of 10.0 HK cents per share (2020: 6.9 HK cents per share) to reach a total dividend of 16.5 HK cents per share for the year (2020: 10.0 HK cents). The final dividend payable, if approved, will amount to approximately HK\$158 million.*
- *The Group's inventories, mostly evergreen or in-season styles, increased by HK\$172 million to HK\$606 million, primarily due to early merchandise receipts as a precautionary tactic against global supply chain disruptions, an early Lunar New Year, and a warmer than usual fourth quarter in 2021. The inventory turnover days were higher by 38 days to 153 days (2020: 115 days).*
- *The cash and bank balances, net of bank loans, were HK\$875 million on December 31, 2021 (December 31, 2020: HK\$1,104 million). The abovementioned, temporary surplus inventories will convert to cash during the first half of 2022.*

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The board of directors (the “Board”) of Giordano International Limited (the “Company”) presents the following audited annual results of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2021 along with comparative figures and explanatory notes.

Consolidated Income Statement

<i>(In HK\$ million, except earnings (loss) per share)</i>	<i>Note</i>	2021	2020
Sales	2	3,380	3,122
Cost of sales	4	(1,450)	(1,386)
Gross profit		1,930	1,736
Other income and other gains, net	3	118	183
Distribution expense	4	(1,604)	(1,800)
Administrative expense	4	(181)	(224)
Operating profit (loss)	4	263	(105)
Finance expense	5	(29)	(41)
Share of profit of joint ventures		41	39
Profit (loss) before income taxes		275	(107)
Income taxes	6	(52)	(1)
Profit (loss) after income taxes for the year		223	(108)
Attributable to:			
Shareholders of the Company		190	(112)
Non-controlling interests		33	4
		223	(108)
Earnings (loss) per share attributable to shareholders of the Company	7		
Basic (<i>HK cents</i>)		12.0	(7.1)
Diluted (<i>HK cents</i>)		12.0	(7.1)

Consolidated Statement of Comprehensive Income

<i>(In HK\$ million)</i>	2021	2020
Profit (loss) after income taxes for the year	223	(108)
Other comprehensive income:		
<u>Items that will not be reclassified to profit or loss:</u>		
Fair value change on financial asset at fair value through other comprehensive income	1	(2)
<u>Items that may be reclassified to profit or loss:</u>		
Exchange adjustments on translation of overseas subsidiaries, joint ventures and branches	(31)	26
Total comprehensive income (loss) for the year	193	(84)
Attributable to:		
Shareholders of the Company	161	(83)
Non-controlling interests	32	(1)
	193	(84)

Consolidated Balance Sheet

<i>(In HK\$ million)</i>	<i>Note</i>	As at 31 December	
		2021	2020
ASSETS			
Current assets			
Cash and bank balances		1,043	1,256
Trade and other receivables	9	411	395
Inventories		606	434
Rental prepayments		3	2
Income tax recoverable		19	7
Total current assets		2,082	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 a joint venture		513	549
Investment properties		22	23
Property, plant and equipment		119	130
Right-of-use assets		686	822
Goodwill		541	541
Deferred tax assets		96	96
Total non-current assets		2,126	2,289
Total assets		4,208	4,383
LIABILITIES AND EQUITY			
Current liabilities			
Bank loans		68	52
Trade and other payables	10	510	518
Lease liabilities		337	427
Put option liabilities		81	81
Income tax payables		126	100
Total current liabilities		1,122	1,178
Non-current liabilities			
Bank loans		100	100
Lease liabilities		300	340
Deferred tax liabilities		123	134
Total non-current liabilities		523	574
Total liabilities		1,645	1,752
Capital and reserves			
Share capital		79	79
Reserves		2,165	2,282
Proposed dividends	8	158	109
Equity attributable to shareholders of the Company		2,402	2,470
Non-controlling interests		161	161
Total equity		2,563	2,631
Total equity and liabilities		4,208	4,383
Net current assets		960	916
Total assets less current liabilities		3,086	3,205

Notes to the Consolidated Financial Statements

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

(a) Impact of new and amended standards

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

- Amendments to Hong Kong Accounting Standard 39, HKFRS 4, HKFRS 7, 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 or position.

(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 results or position of the Group.

2. 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 (the "GCC") comprise both direct-operated stores and franchised stores. Hong Kong and Macau, Taiwan, Southeast Asia and Australia do not have material local franchised stores. Group stores span most of Southeast Asia and the GCC.

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.

2. Sales and operating segments (continued)

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

<i>(In HK\$ million)</i>	2021						Total
	Mainland China	Hong Kong and Macau	Taiwan	Southeast Asia and Australia	Gulf Cooperation Council	Wholesale to Overseas Franchisees	
Sales	766	355	496	1,044	525	194	3,380
Adjusted EBITDA	32	88	106	320	174	38	758
Depreciation and amortization							
— Right-of-use assets	(42)	(102)	(54)	(158)	(86)	-	(442)
— Property, plant and equipment and investment properties	(10)	(3)	(5)	(23)	(11)	-	(52)
Impairment							
— Right-of-use assets	(4)	(1)	-	(8)	-	-	(13)
— Property, plant and equipment	-	-	-	(1)	-	-	(1)
Reversal of impairment							
— Right-of-use assets	3	4	-	3	1	-	11
Segment results	(21)	(14)	47	133	78	38	261
Corporate functions							2
Finance expense							(29)
Share of profit of a joint venture							41
Profit before income taxes							275

2. Sales and operating segments (continued)

(In HK\$ million)	2020						Total
	Mainland China	Hong Kong and Macau	Taiwan	Southeast Asia and Australia	Gulf Cooperation Council	Wholesale to Overseas Franchisees	
Sales	701	362	534	954	387	184	3,122
Adjusted EBITDA	(2)	80	127	259	107	9	580
Depreciation and amortization							
— Right-of-use assets	(57)	(142)	(60)	(196)	(87)	—	(542)
— Property, plant and equipment and investment properties	(11)	(5)	(9)	(29)	(13)	—	(67)
Impairment							
— Right-of-use assets	(6)	(51)	—	(18)	(4)	—	(79)
— Property, plant and equipment	(1)	(5)	—	(2)	—	—	(8)
Reversal of impairment							
— Right-of-use assets	4	4	—	6	—	—	14
— Property, plant and equipment	2	—	—	1	—	—	3
Segment results	(71)	(119)	58	21	3	9	(99)
Corporate functions							(6)
Finance expense							(41)
Share of profit of joint ventures							39
Loss before income taxes							(107)

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

(In HK\$ million)	2021		2020	
	Sales	Operating profit	Sales	Operating (loss) profit
Retail and Distribution				
<i>Giordano and Giordano Junior</i>	2,681	166	2,482	(108)
<i>Giordano Ladies</i>	251	30	235	4
<i>BSX</i>	24	—	45	(4)
Others	230	27	176	—
	3,186	223	2,938	(108)

The Company has its domicile in Hong Kong. Sales to external customers recorded in Hong Kong and Macau (including retail and wholesale sales) are HK\$549 million (2020: HK\$546 million), Mainland China HK\$766 million (2020: HK\$701 million) and external customers from other markets HK\$2,065 million (2020: HK\$1,875 million).

Inter-segment sales of HK\$911 million (2020: HK\$690 million) have been eliminated upon consolidation.

2. Sales and operating segments (continued)

Income taxes charged relating to Mainland China was HK\$4 million (2020: Income tax credit of HK\$6 million), Hong Kong and Macau HK\$8 million (2020: Income tax credit of HK\$20 million), Taiwan was HK\$5 million (2020: HK\$9 million), Southeast Asia and Australia HK\$22 million (2020: HK\$10 million) and the GCC HK\$3 million (2020: Income tax credit of HK\$2 million).

Analysis of the Group's assets by geographic regions is as follows.

<i>(In HK\$ million)</i>	Segment assets	
	2021	2020
Segment assets		
Southeast Asia and Australia	1,041	1,102
Gulf Cooperation Council	923	918
Hong Kong and Macau	739	822
Mainland China	573	625
Taiwan	291	240
	<hr/>	<hr/>
	3,567	3,707
Interest in a joint venture	513	549
Financial asset at fair value through other comprehensive income	4	3
Financial asset at fair value through profit or loss	28	28
Deferred tax assets	96	96
Total assets	<hr/> 4,208 <hr/>	<hr/> 4,383 <hr/>

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong and Macau was HK\$209 million (2020: HK\$244 million); Mainland China, HK\$101 million (2020: HK\$108 million); and other markets, HK\$1,688 million (2020: HK\$1,810 million).

3. Other income and other gains, net

<i>(In HK\$ million)</i>	2021	2020
Government grants	38	102
Royalty income	29	30
Claims and compensation	16	-
Interest income	12	12
Rental and sub-lease rental income	7	8
Dividend income	3	3
Fair value gain on financial asset at fair value through profit or loss	-	1
Net loss on disposal of property, plant and equipment	(1)	(1)
Net exchange (loss) gain	(6)	11
Others	20	17
	<hr/>	<hr/>
	118	183

4. Operating profit (loss)

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

<i>(In HK\$ million)</i>	2021	2020
Cost of sales		
Cost of inventories sold	1,451	1,377
(Reversal of provision) provision for obsolete stock and stock written off	(1)	9
	1,450	1,386
Distribution expense		
Staff cost	579	574
Depreciation expenses		
— Right-of-use assets	426	525
— Property, plant and equipment	47	61
Rentals in respect of land and building		
— Minimum lease payments	63	66
— Contingent rent	147	147
Building management fee, government rent and rates and utilities	103	106
Advertising, promotion and incentives	93	81
Packaging and deliveries	50	45
Bank and credit card charges	23	20
Impairment		
— Right-of-use assets	13	79
— Property, plant and equipment	1	8
Reversal of impairment		
— Right-of-use assets	(11)	(14)
— Property, plant and equipment	—	(3)
Change in loss allowance for trade receivables	(9)	23
Others	79	82
	1,604	1,800
Administrative expense		
Staff cost	128	118
Depreciation expenses		
— Right-of-use assets	16	17
— Property, plant and equipment and investment properties	5	6
Legal and professional fee	9	25
Auditor's remuneration	6	6
Computer and telecommunication	6	6
Travelling	2	2
Business and other taxes	1	1
Rentals in respect of land and building		
— Minimum lease payments	—	1
Change in loss allowance for trade receivables	(6)	10
Others	14	32
	181	224

5. Finance expense

<i>(In HK\$ million)</i>	2021	2020
Interest on lease liabilities	27	39
Interest on bank loans	2	2
	29	41

6. Income taxes

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

<i>(In HK\$ million)</i>	2021	2020
Current income taxes		
Hong Kong	5	5
Outside Hong Kong	32	16
Over provision in prior years	(3)	(3)
Withholding taxes	20	21
	54	39
Deferred income taxes		
Origination and reversal of temporary differences	(2)	(38)
	52	1

This charge excludes the share of joint ventures' income taxes of HK\$13 million (2020: HK\$12 million) for the year. The share of profit of joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

7. 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 year of HK\$190 million (2020: loss of HK\$112 million).

The basic earnings (loss) per share is based on the weighted average of 1,578,188,266 shares (2020: 1,578,073,660 shares) in issue during the year.

The diluted earnings per share is calculated by adjusting the weighted average of 1,578,188,266 shares in issue during the year ended December 31, 2021 by the weighted average of 6,738,446 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 year ended December 31, 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.

8. Dividends

Dividends attributable to the year:

<i>(In HK\$ million)</i>	2021	2020
Interim dividend declared and paid of 6.5 HK cents per share (2020: 3.1 HK cents per share)	103	49
Final dividend proposed after the balance sheet date of 10.0 HK cents per share (2020: 6.9 HK cents per share)	158	109
	261	158

On March 10, 2022, the Board has recommended a final dividend of 10.0 HK cents per share and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed dividend has not been recognized as a liability at the balance sheet date. The amount of proposed dividend was based on the shares of the Company in issue as at the reporting date.

9. Trade and other receivables

<i>(In HK\$ million)</i>	2021	2020
Trade receivables	242	228
Less: Loss allowance	(45)	(60)
Trade receivables, net	197	168
Ageing analysis from the invoice date net of loss allowance is as follows:		
0 – 30 days	144	162
31 – 60 days	33	6
61 – 90 days	13	–
Over 90 days	7	–
	197	168
Other receivables, including deposits and prepayments	214	227
	411	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.

10. Trade and other payables

<i>(In HK\$ million)</i>	2021	2020
Trade payables	165	166
The ageing analysis of trade payables is as follows:		
0 - 30 days	139	91
31 - 60 days	10	47
61 - 90 days	5	15
Over 90 days	11	13
	165	166
Other payables and accrued expense	345	352
	510	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 (“YOY”) comparison for the years ended December 31, 2021, and 2020, unless otherwise stated.

OVERVIEW

- The Group is an international apparel retailer with owned, franchised, and licensed brands. We offer high-quality, value-for-money, and easy-to-wear apparel and accessories through a network of approximately 2,056 points of sales, or 1,964,000 sq. ft. of retail floor space.
- Group sales rose by 8.3% to HK\$3,380 million (2020: HK\$3,122 million), with gross profit advancing by 11.2% due to a 1.5 percentage point rise in gross margin and Group-wide sales increases. The Group’s online sales surged by 25.5%, contributing 12.1% (2020: 10.5%) to total sales.
- Operating expenses contracted by 8.8%, representing 52.7% (2020: 62.6%) of total sales. We expect further operating expense leveraging in 2022, as the Group further broadens the use of information and communication technologies throughout its operations.
- Net profit for the year was HK\$190 million (2020: net loss of HK\$112 million, inclusive of a net charge of HK\$70 million impairment provision for the right-of-use assets and property, plant, and equipment). Basic earnings per share were 12.0 HK cents (2020: Basic losses per share of 7.1 HK cents). Net profit for the second half of the year was HK\$130 million as compared with HK\$60 million reported for the first half, reflecting relaxed social distancing, fewer discounts, and the result of effective operating expense controls.
- The Company’s Board of Directors recommended a final dividend of 10.0 HK cents per share (2020: 6.9 HK cents per share) to reach a total dividend of 16.5 HK cents per share for the year (2020: 10.0 HK cents). The final dividend payable, if approved, will amount to approximately HK\$158 million.
- The Group’s inventories, mostly evergreen or in-season styles, increased by HK\$172 million to HK\$606 million, primarily due to early merchandise receipts as a precautionary tactic against global supply chain disruptions, an early Lunar New Year, and a warmer than usual fourth quarter in 2021. The inventory turnover days were higher by 38 days to 153 days (2020: 115 days).
- The cash and bank balances, net of bank loans, were HK\$875 million on December 31, 2021 (December 31, 2020: HK\$1,104 million). The abovementioned, temporary surplus inventories will convert to cash during the first half of 2022.

RESULTS OF OPERATIONS

Table 1: Group results of operations

<i>(In HK\$ million)</i>	2021	% to sales	2020	% to sales	Change
Southeast Asia and Australia	1,044	30.9%	954	30.6%	9.4%
Mainland China	766	22.7%	701	22.4%	9.3%
Gulf Cooperation Council	525	15.5%	387	12.4%	35.7%
Taiwan	496	14.7%	534	17.1%	(7.1%)
Hong Kong and Macau	355	10.5%	362	11.6%	(1.9%)
Wholesale to overseas franchisees	194	5.7%	184	5.9%	5.4%
Group sales ¹	3,380	100.0%	3,122	100.0%	8.3%
Gross profit	1,930	57.1%	1,736	55.6%	11.2%
Other income and other gains, net	118	3.5%	183	5.9%	(35.5%)
Operating expense	(1,782)	(52.7%)	(1,954)	(62.6%)	8.8%
Impairment loss on right-of-use assets and property, plant and equipment	(14)	(0.4%)	(87)	(2.8%)	83.9%
Reversal of impairment loss on right-of-use assets and property, plant and equipment	11	0.3%	17	0.5%	(35.3%)
Operating profit (loss)	263	7.8%	(105)	(3.4%)	350.5%
Share of profit of joint ventures	41	1.2%	39	1.2%	5.1%
Finance expense	(29)	(0.9%)	(41)	(1.3%)	29.3%
Income taxes	(52)	(1.5%)	(1)	(0.0%)	(5,100.0%)
Profit after income tax attributable to non-controlling interests	(33)	(1.0%)	(4)	(0.1%)	(725.0%)
Profit (loss) after income tax attributable to shareholders	190	5.6%	(112)	(3.6%)	269.6%
Global brand sales ²	4,482		4,276		4.8%
Global brand gross profit ²	2,781		2,616		6.3%
Net cash and bank balances at year-end	875		1,104		(20.7%)
Inventories at year-end	606		434		39.6%
Inventory turnover on cost, days ³	153		115		38
Stores at year-end	2,056		2,185		(129)

Table 2: Sales by channel

<i>(In HK\$ million)</i>	2021	Contribution	2020	Contribution	Change
Offline sales	2,526	74.7%	2,389	76.5%	5.7%
Mainland China online sales	303	9.0%	250	8.0%	21.2%
Ex-Mainland China online sales	106	3.1%	76	2.5%	39.5%
Online sales	409	12.1%	326	10.5%	25.5%
Retail sales	2,935	86.8%	2,715	87.0%	8.1%
Wholesale to franchisees	445	13.2%	407	13.0%	9.3%
Group sales	3,380	100.0%	3,122	100.0%	8.3%

Group sales increased by 8.3% YOY, despite a 5.9% reduction in the total number of stores. The sudden re-emergence of Covid-19 cases in May hampered our Taiwan and Southeast Asia sales until Q3. Sales growth rebounded in Q4 after the alleviation of the restrictive movement control measures.

All business channels recorded sales improvements. Following the prior year's trend, the growth of the online channel outperformed that of offline. Online sales were up by 25.5% YOY and contributed 12.1% to total sales (2020:10.5%).

Table 3: Gross profit variance analysis

<i>(In HK\$ million)</i>	2020 gross profit	Product costs	Selling price	Volume	Translational exchange impact	Miscellaneous	2021 gross profit
Southeast Asia and Australia	532	(18)	63	7	8	7	599
Mainland China	323	18	3	5	25	4	378
Gulf Cooperation Council	244	(1)	4	83	1	(2)	329
Taiwan	330	(6)	18	(52)	17	(1)	306
Hong Kong and Macau	247	(8)	23	(21)	–	(1)	240
Market mix	–	(2)	1	2	–	(1)	–
Retail and distribution	1,676	(17)	112	24	51	6	1,852
Wholesale to overseas franchisees/subsidiaries	60						78
Group	1,736						1,930

Gross margin grew by 1.5 percentage points. The growth momentum abated in 2H, primarily due to a higher contribution of the wholesale business, the gross margin of which is generally lower than other channels. Overall, the rise in gross margin was attributable to improved average selling prices with fewer discount. As a result, the overall gross profit grew by 11.2% YOY.

Other income and other gains, net

Other income and other gains, representing revenues from royalty, licensing, interest, government grants, and rental and sub-lease rental income, decreased by HK\$65 million to HK\$118 million. The drop was due to the reduction in government financial relief for the Covid-19 pandemic. Of this HK\$118 million, HK\$38 million was Covid-19 related government financial relief (2020: HK\$102 million).

Operating expense and operating profit (loss)

Operating expense was down by 8.8% YOY, representing 52.7% of sales (2020: 62.6%). The cost rationalization continued, despite sales increase, mainly through rental reduction and closure of non-performing stores. The Group recorded an operating profit of HK\$263 million (2020: operating loss of HK\$105 million). In 2H, the operating profit was HK\$169 million, significantly higher than the first half of the year (1H2021: HK\$94 million).

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

Based on the Hong Kong Accounting Standard 36 requirements, the Group made a minor net impairment provision of HK\$3 million (2020: HK\$70 million) for the right-of-use (“ROU”) assets and property, plant, and equipment. The Group had exited most non-productive ROU assets or had already made provision for the remainder of the non-productive ROU assets, substantially reducing the required impairment provisions. The Group will only renew its ROU assets conservatively, especially in Hong Kong, where the operating environment has worsened in recent months.

The impairment provision, a non-cash charge to income, will reduce the net carrying amount of the ROU assets and property, plant and equipment, and the depreciation expense over their remaining lease terms.

Finance expense

The finance expense of HK\$29 million (2020: HK\$41 million) comprises imputed interest on lease liabilities of HK\$27 million (2020: HK\$39 million) and bank interest expense.

Profit (loss) after income taxes attributable to shareholders of the Company

Profit after income taxes attributable to shareholders of the Company (“PATS”) was HK\$190 million, in stark contrast to the loss after income taxes attributable to shareholders (“LATS”) of HK\$112 million of 2020. The net margin was 5.6% versus the net loss margin of -3.6% in the prior year. Table 4 below explains the swing from net loss to net profit.

Table 4: Summary of changes in PATS (LATS)

(In HK\$ million)

Reported 2020 LATS	(112)
Southeast Asia and Australia (→ Sales rebound after the alleviation of movement controls)	110
Hong Kong and Macau (→ Closure of loss-making stores and rental reductions)	105
Gulf Cooperation Council (→ Sales rebound after the alleviation of movement controls)	74
Mainland China (→ Closure of loss-making stores and increase in wholesale to franchisees)	51
Wholesale to overseas franchisees/subsidiaries (→ Increase in wholesale to the Philippines)	43
South Korea	1
Taiwan (→ Sales drop in Q3 due the new wave of Covid-19)	(13)
Income taxes, non-controlling interests, finance expense and headquarter expenses	(73)
2021 PATS	186
Currency translation difference	4
Reported 2021 PATS	190

ANALYSIS BY MARKET

The following market-specific comments are in local currencies or, if in HK dollars (“HK\$”), 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)

	2021	% to sales	2020	% to sales	Change
Total sales	1,539	100.0%	1,597	100.0%	(3.6%)
Gross profit	882	57.3%	900	56.4%	(2.0%)
Other income and other gains, net	21	1.4%	69	4.3%	(69.6%)
Operating expense	(894)	(58.1%)	(1,048)	(65.7%)	14.7%
Impairment loss on right-of-use assets and property, plant, and equipment	(5)	(0.3%)	(63)	(3.9%)	92.1%
Reversal of impairment loss on right-of-use assets and property, plant and equipment	7	0.4%	10	0.6%	(30.0%)
Operating profit (loss)	11	0.7%	(132)	(8.3%)	108.3%
Finance expense	(6)	(0.4%)	(12)	(0.7%)	50.0%
Profit (loss) before income tax	5	0.3%	(144)	(9.0%)	103.5%
Stores at year-end	975	–	1,030	–	(55)

Hong Kong and Macau

Comparable stores' sales grew by 8.7%, which mitigated the drop in total sales owing to the YOY store reduction from 62 to 51. Hong Kong and Macau recorded an operating loss, albeit significantly less than the previous year. The improved performance was primarily due to the closure of loss-making shops and some rental reductions. Overall, rental expenses in Hong Kong and Macau remain too high for the current challenging operating environment.

Online business out-grew offline, with online sales up 29% YOY, primarily through the growth of third-party platform sales.

Mainland China & Taiwan

Mainland China recorded mild sales growth despite a reduction in store numbers. The growth momentum had been steady in the first three quarters until the new wave of the pandemic in Mainland China during Q4. Mainland China's online sales grew by 12.8%, contributing around 40% to total sales (2020: 36%).

Taiwan reported a YOY double-digit sales drop. Strict movement controls commenced in mid-May and continued until Q4. Generally, the Covid-19 pandemic continues to hinder our sales by advancing conservative buying sentiment.

Table 6: Greater China sales and store counts

<i>(In HK\$ million, translated at constant exchange rates)</i>	Sales			Franchised stores at year-end		Direct-operated stores at year-end		Stores at year-end	
	2021	2020	Change	2021	2020	2021	2020	2021	2020
Mainland China	715	701	2.0%	550	559	189	225	739	784
Taiwan	469	534	(12.2%)	–	–	185	184	185	184
Hong Kong and Macau	355	362	(1.9%)	–	–	51	62	51	62
Total	1,539	1,597	(3.6%)	550	559	425	471	975	1,030

Southeast Asia and Australia

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

<i>(In HK\$ million, translated at constant exchange rates)</i>	2021	% to sales	2020	% to sales	Change
Total sales	1,030	100.0%	954	100.0%	8.0%
Gross profit	591	57.4%	532	55.8%	11.1%
Other income and other gains, net	37	3.6%	51	5.3%	(27.5%)
Operating expense	(491)	(47.7%)	(549)	(57.5%)	10.6%
Impairment loss on right-of-use assets and property, plant and equipment	(9)	(0.9%)	(20)	(2.1%)	55.0%
Reversal of impairment loss on right-of-use assets and property, plant and equipment	3	0.3%	7	0.7%	(57.1%)
Operating profit	131	12.7%	21	2.2%	523.8%
Finance expense	(17)	(1.6%)	(21)	(2.2%)	19.0%
Profit before income tax	114	11.1%	–	–	N/A
Stores at year-end	570		599		(29)

Most Southeast Asia regions and Australia experienced various lockdown measures in the middle of the year, particularly in Q3. Nevertheless, we recorded a high single-digit sales growth YOY, driven by solid performances in Q2 and Q4. Indonesia was our largest market in Southeast Asia, and its performance was remarkable. Most of our key markets in this region recorded operating profits for the year.

Table 8: Southeast Asia and Australia sales and store counts

<i>(In HK\$ million, translated at constant exchange rates)</i>	Sales			Stores at year-end	
	2021	2020	Change	2021	2020
Indonesia	506	380	33.2%	231	239
Thailand	185	219	(15.5%)	156	168
Singapore	170	164	3.7%	36	40
Malaysia	99	99	Flat	87	90
Vietnam	48	65	(26.2%)	51	53
Australia	14	19	(26.3%)	7	7
Cambodia	8	8	Flat	2	2
Total	1,030	954	8.0%	570	599

The Gulf Cooperation Council

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

<i>(In HK\$ million, translated at constant exchange rates)</i>	2021	% to sales	2020	% to sales	Change
Total sales	524	100.0%	387	100.0%	35.4%
Gross profit	328	62.6%	244	63.0%	34.4%
Other income and other gains, net	7	1.3%	1	0.3%	600.0%
Operating expense	(259)	(49.4%)	(238)	(61.5%)	(8.8%)
Impairment loss on right-of-use assets and property, plant, and equipment	–	–	(4)	(1.0%)	100.0%
Reversal of impairment loss on right-of-use assets and property, plant and equipment	1	0.2%	–	–	N/A
Operating profit	77	14.7%	3	0.8%	2,466.7%
Finance expense	(4)	(0.8%)	(7)	(1.8%)	42.9%
Profit (loss) before income tax	73	13.9%	(4)	(1.0%)	1,925.0%
Franchised stores	35		34		
Direct-operated stores	139		139		
Stores at year-end	174		173		1

The GCC's sales rebounded after Ramadan and registered a substantial operating profit. The rapid sales recovery was attributable to the localized merchandise and marketing programs, which stimulated consumer buying desire. Management will continue to expand our footprint in the area with the onset of the alleviation of social distancing control measures.

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

Table 10: South Korea share of net profit

<i>(In Korean Won million)</i>	2021	% to sales	2020	% to sales	Change
Total sales	182,040	100.0%	175,134	100.0%	3.9%
Gross profit	98,839	54.3%	96,782	55.3%	2.1%
Net profit	12,534	6.9%	12,146	6.9%	3.2%
Share of net profit	6,079		5,891		3.2%
Stores at year-end	150		172		(22)

Despite the intermittent pandemic waves, South Korea reported a 3.2% increase in net profit. Both online and offline businesses performed stably with mild sales growth YOY. Online performance remained solid, contributing 35% to total sales. Overall, our South Korea business is robust despite intermittent disruption from the Covid-19 pandemic.

Table 11: Overseas franchised stores

By market	2021	2020
Southeast Asia	167	192
South Korea	150	172
Other markets	20	19
Total stores	337	383

Wholesales to overseas franchisees increased by 5.4% to HK\$194 million (2020: HK\$184 million). The impact from Covid-19 gradually subsided in 2H, and the sales of our franchisees steadily recovered. The franchise businesses in our newest markets continued to expand. Despite the total number of stores in all our franchise markets temporarily dropping by 46, growth returned during the Q4.

FINANCIAL POSITION

Liquidity and financial resources

On December 31, 2021, the cash and bank balance, net of bank loans, was HK\$875 million (2020: HK\$1,104 million), caused by a higher inventory level. The current inventory will deplete according to plan in the first half of 2022 to return cash to the Group.

The bank borrowings amounted to HK\$168 million (2020: HK\$152 million). Anticipating a more robust cash flow in 2022, the Group will repay some bank loans to reduce interest expenses. 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 December 31, 2021, the Group's current ratio was 1.9 based on current assets of HK\$2,082 million and current liabilities of HK\$1,122 million (2020: 1.8).

Property, plant, and equipment

Capital expenditure was HK\$42 million (2020: HK\$30 million), mainly for store upgrades. The external business environment is still volatile, and we will continue to be prudent in our store investment.

Goodwill and put option liabilities

The goodwill and put option liability arose from the acquisition of our GCC operations in 2012 and 2015. We carried out annual impairment tests and concluded that no impairment on goodwill was necessary for the 2021 financial year.

Interest in a joint venture

Interest in a joint venture represents a 48.5% interest in the South Korea joint venture. The YOY balance decreased by 6.6% to HK\$513 million, mainly due to the currency translation adjustment during the financial year. The share of profit and dividend received were stable YOY.

Inventories

Group inventories were HK\$606 million, up by HK\$172 million as compared with 2020. Inventory turnover on cost increased by 38 days to 153 days (2020:115 days).

The surge in inventory level was due to early merchandise receipts as a tactical precaution against supply chain disruptions. Most of the merchandise is evergreen and in-season styles.

Although inventory at suppliers and franchisees is not our legal liabilities, the Group responsibly tracks their levels to ensure that they are not excessive off-balance-sheet inventories. Our system inventories remained healthy, as shown in Table 12.

Table 12: System inventories

<i>(In HK\$ million)</i>	At December 31	
	2021	2020
Inventories owned by the Group	606	434
Inventories held by 48.5% South Korea joint venture	214	232
Inventories held by franchisees in Mainland China	53	50
Finished goods at suppliers	11	6
Inventories not owned by the Group	278	288
Total system inventories	884	722

Trade receivables and payables

The YOY turnover days for trade receivables were up by 7 days. The increase reflected the early shipments of Chinese New Year goods to our franchisees that did not concern the Group's bad debt risks. The turnover days for trade payables were down by 3 days due to a faster payment schedule to our vendors to relieve their financial stress from the Covid-19 pandemic.

Dividends

The Company adopted a dividend policy on November 8, 2018 (the “Dividend Policy”). The Dividend Policy aims to return surplus cash to its shareholders through the payment of dividends and share repurchases. In line with the 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.

Having considered the economic outlook, the Group’s financial position, its future expansion plans and other factors, the Board has thus recommended a final dividend of 10.0 HK cents per share (2020: 6.9 HK cents per share) for the year ended December 31, 2021. Together with the interim dividend of HK6.5 cents per share (2020: 3.1 HK cents per share) paid on September 17, 2021, the total 2021 dividend would amount to 16.5 HK cents per share (2020: 10.0 HK cents per share). Subject to the approval of our shareholders at the forthcoming annual general meeting of the Company, the final dividend will be payable on Friday, June 17, 2022, to shareholders whose names appear on the register of members of the Company on Thursday, June 2, 2022.

OUTLOOK

The business environment in 2022 will remain volatile, especially in Greater China. At the time of writing, the Omicron variant outbreak severely hurt sales in Hong Kong, and we do not expect the situation to improve for the most part of the year. The Group will temporarily downsize the Hong Kong operations until there are clear and positive signs of economic recovery.

The global supply chain disruption presents another challenge. The Group has taken measures to address the difficulties, quickly moving to regional sourcing. We are well poised to resolve the problem leveraging our regional management and connections.

The Group will continue its franchise expansion in developing countries, mainly in Africa.

On e-commerce, the Group is successfully partnering with locally robust third-party platforms. For Mainland China and South Korea where our e-commerce has been long-established, online sales contribution has increased to nearly 40% of total sales with decent profitability. Newly developed online businesses elsewhere in the Group’s markets are growing at a steady pace.

The Group’s international presence is a natural hedging against regional ebbs. Our business in the GCC and Southeast Asia is robust and growing.

Our efforts towards upgrading the Giordano brands are continuing with encouraging results, evidenced by higher selling prices and gross margins. The Group is determined to move away from the budget brand perception.

OTHER INFORMATION

Human Resources

As of December 31, 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 December 31, 2021, the average age of the Group's management team was 47 (2020: 46).

Annual General Meeting

The annual general meeting of the Company is scheduled to be held on Friday, May 20, 2022 (the "2022 AGM"). A notice convening the 2022 AGM, which constitutes part of the circular to shareholders, will be sent to the shareholders together with the 2021 annual report of the Company. The notice of the 2022 AGM and the proxy form will also be available on the websites of the Company and Hong Kong Exchange and Clearing Limited.

Closure of Register of Members

Annual General Meeting

For determining the entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Monday, May 16, 2022 to Friday, May 20, 2022 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the 2022 AGM, 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 Friday, May 13, 2022.

Final Dividend

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, May 31, 2022 to Thursday, June 2, 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final 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, May 30, 2022.

Corporate Governance Code

During the year ended December 31, 2021, the Company has complied with all applicable code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for the following deviations:

Code provision B.2.2

Code provision B.2.2 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.

Code provision C.2.1

Code provision C.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.

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 of the Company, all directors of the Company 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 year ended December 31, 2021.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of any listed securities of the Company during the year ended December 31, 2021.

Review of Financial Information

The Group's audited consolidated financial statements for the year ended December 31, 2021 including the accounting principles and practices adopted have been reviewed by the Audit Committee in conjunction with the Company's external auditor.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2021 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

Hong Kong, March 10, 2022

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 year-end by the cost of sales and multiplied by the number of days in the year.