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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, 2022

HIGHLIGHTS

- Group sales increased by 11.7% to HK\$1,877 million (2021: HK\$1,681 million). Due to protracted Covid-19 lockdowns in 2021, the sales recovery was especially notable in Southeast Asia and the Gulf Cooperation Council, where the comparable base was lower. The right products and effective local marketing campaigns helped them maximize sales after the lockdowns.
- Gross margin declined by 1.9 points to 55.1% (2021: 57.0%) as the lower margin, but profitable wholesales surged during the period by 44.9%.
- Operating expense decreased by 1.9% to 47.6% of sales (2021: 54.1%), indicating a gain in efficiency.
- Net profit attributable to the Company's shareholders was HK\$97 million (2021: HK\$60 million) on higher sales and reduced operating expense, partially offset by lower gross margin and less Covid-19-related government subsidies.
- Inventory turnover on cost decreased by eight days to 116 days, reflecting general sales recovery and restrained purchase, even though group inventory closed higher at HK\$541 million (2021: HK\$494 million).
- The cash and bank balances on June 30, 2022, net of bank loans, were HK\$910 million (2021: HK\$932 million). The modest decline resulted from a rise in inventory, which continues to deplete.
- Basic earnings per share were 6.1 HK cents (2021: 3.8 HK cents).
- The Board of Directors has declared an interim dividend of 8.5 HK cents per share (2021: 6.5 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, 2022 along with comparative figures and explanatory notes.

Consolidated Income Statement

<i>(In HK\$ million, except earnings per share)</i>	Note	(Unaudited)	
		Six months ended June 30	
		2022	2021
Sales	3	1,877	1,681
Cost of sales	5	(842)	(722)
Gross profit		1,035	959
Other income and other gains, net	4	23	47
Distribution expense	5	(786)	(823)
Administrative expense	5	(106)	(89)
Operating profit		166	94
Finance expense	6	(12)	(16)
Share of profit of a joint venture		25	27
Profit before income taxes		179	105
Income taxes	7	(51)	(28)
Profit after income taxes for the period		128	77
Attributable to:			
Shareholders of the Company		97	60
Non-controlling interests		31	17
		128	77
Earnings per share attributable to shareholders of the Company			
Basic <i>(HK cents)</i>	8	6.1	3.8
Diluted <i>(HK cents)</i>		6.1	3.8

Consolidated Statement of Comprehensive Income

<i>(In HK\$ million)</i>	(Unaudited)		
	Six months ended June 30		
		2022	2021
Profit after income taxes for the period		128	77
Other comprehensive income:			
<u>Items that may be reclassified to profit or loss:</u>			
Exchange adjustments on translation of overseas subsidiaries, joint venture and branches		(60)	(27)
<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)	1
Total comprehensive income for the period		67	51
Attributable to:			
Shareholders of the Company		42	39
Non-controlling interests		25	12
		67	51

Consolidated Balance Sheet		(Unaudited)	(Audited)
<i>(In HK\$ million)</i>	Note	June 30	December 31
		2022	2021
ASSETS			
Current assets			
Cash and bank balances		955	1,043
Trade and other receivables	10	372	411
Inventories		541	606
Rental prepayments		3	3
Income tax recoverable		4	19
Total current assets		1,875	2,082
Non-current assets			
Financial asset at fair value through other comprehensive income		3	4
Financial asset at fair value through profit or loss		28	28
Deposits and other receivable		76	117
Interest in a joint venture		468	513
Investment properties		20	22
Property, plant and equipment		124	119
Right-of-use assets		711	686
Goodwill		541	541
Deferred tax assets		78	96
Total non-current assets		2,049	2,126
Total assets		3,924	4,208
LIABILITIES AND EQUITY			
Current liabilities			
Bank loans		45	68
Trade and other payables	11	454	510
Lease liabilities		344	337
Put option liabilities		81	81
Income tax payables		122	126
Total current liabilities		1,046	1,122
Non-current liabilities			
Bank loans		–	100
Lease liabilities		299	300
Deferred tax liabilities		108	123
Total non-current liabilities		407	523
Total liabilities		1,453	1,645
Capital and reserves			
Share capital		79	79
Reserves		2,074	2,165
Proposed dividends	9	134	158
Equity attributable to shareholders of the Company		2,287	2,402
Non-controlling interests		184	161
Total equity		2,471	2,563
Total equity and liabilities		3,924	4,208
Net current assets		829	960
Total assets less current liabilities		2,878	3,086

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, 2022 have been prepared in accordance with the applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Readers should read the unaudited interim results in conjunction with the audited annual financial statements for the year ended December 31, 2021, 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, 2021, except for the adoption of amended standards during the period, as disclosed in Note 2(a).

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

The Board approved the unaudited interim results for issue on August 18, 2022.

2. Principal accounting policies

(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, 2022:

- | | |
|--|---|
| – Amendments to Annual Improvements Project | Annual Improvements to HKFRSs 2018-2020 |
| – Amendments to HKAS 16, HKAS 37 and HKFRS 3 | Narrow-scope amendments |

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.

3. Sales and operating segments

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

Geographically, the Retail and Distribution operating segment in Mainland China and the Gulf Cooperation Council (the “GCC”) comprise both direct-operated stores (“DOS”) 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 before finance expense, income taxes, impairment of right-of-use assets and property, plant and equipment, depreciation and amortization, share of profit of a joint venture and unallocated corporate items. Segment results are before finance expense, share of profit of joint ventures, income taxes and unallocated corporate items. This is the measurement basis reported to management and the senior decision-makers for the purpose of resources allocation and assessment of segment performance.

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

(In HK\$ million)	(Unaudited)						Total
	Six months ended June 30, 2022						
	Mainland China	Hong Kong and Macau	Taiwan	Southeast Asia and Australia	Gulf Cooperation Council	Wholesale to Overseas Franchisees	
Sales	333	132	218	696	327	171	1,877
Adjusted EBITDA	(14)	38	35	218	112	20	409
Depreciation and amortization							
– Right-of-use assets	(19)	(38)	(25)	(71)	(45)	-	(198)
– Property, plant and equipment and investment properties	(4)	(1)	(3)	(10)	(5)	-	(23)
Reversal of impairment							
– Right-of-use assets	-	-	-	1	-	-	1
Segment results	(37)	(1)	7	138	62	20	189
Corporate functions							(23)
Finance expense							(12)
Share of profit of a joint venture							25
Profit before income taxes							179

3. Sales and operating segments (continued)

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

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

<i>(In HK\$ million)</i>	(Unaudited)			
	Six months ended June 30			
	2022		2021	
	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Retail and Distribution				
<i>Giordano and Giordano Junior</i>	1,457	137	1,320	61
<i>Giordano Ladies</i>	113	10	119	10
<i>BSX</i>	4	(1)	14	(3)
Others	132	23	110	9
	1,706	169	1,563	77

3. Sales and operating segments (continued)

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\$303 million (2021: HK\$295 million), Mainland China HK\$333 million (2021: HK\$362 million) and external customers from other markets HK\$1,241 million (2021: HK\$1,024 million).

Inter-segment sales of HK\$462 million (2021: HK\$428 million) have been eliminated upon consolidation.

4. Other income and other gains, net

<i>(In HK\$ million)</i>	(Unaudited)	
	Six months ended June 30	
	2022	2021
Royalty income	14	15
Government grants	8	16
Interest income	4	6
Rental and sub-lease rental income	4	3
Net gain on disposal of property, plant and equipment	1	–
Written off of claims and compensation	(3)	–
Net exchange loss	(9)	(3)
Others	4	10
	23	47

5. Operating profit

Operating profit is after charging (crediting):

<i>(In HK\$ million)</i>	(Unaudited)	
	Six months ended June 30	
	2022	2021
Cost of sales		
Cost of inventories sold	828	726
Provision (Reversal of provision) for obsolete stock and stock written off	14	(4)
	842	722
Distribution expense		
Staff cost	289	293
Depreciation expenses		
– Right-of-use assets	190	229
– Property, plant and equipment	21	25
Rentals in respect of land and building		
– Minimum lease payments	35	32
– Contingent rent	78	69
Building management fee, government rent and rates and utilities	50	52
Advertising, promotion and incentives	44	45
Packaging and deliveries	26	24
Bank and credit card charges	13	11
Change in loss allowance for trade receivables	(2)	–
Impairment		
– Right-of-use assets	–	9
– Property, plant and equipment	–	1
Reversal of impairment		
– Right-of-use assets	(1)	(8)
Others	43	41
	786	823
Administrative expense		
Staff cost	72	63
Depreciation expenses		
– Right-of-use assets	8	8
– Property, plant and equipment and investment properties	2	2
Legal and professional fee	8	5
Auditor's remuneration	3	3
Computer and telecommunication	3	3
Travelling	1	1
Change in loss allowance for trade receivables	–	(5)
Others	9	9
	106	89

6. Finance expense

<i>(In HK\$ million)</i>	(Unaudited)	
	Six months ended June 30	
	2022	2021
Interest on lease liabilities	12	15
Interest on bank loans	–	1
	12	16

7. Income taxes

Hong Kong profits tax is calculated at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits for the period. Income taxes on profits assessable outside Hong Kong are calculated at the rates applicable in the respective jurisdictions.

<i>(In HK\$ million)</i>	(Unaudited)	
	Six months ended June 30	
	2022	2021
Current income taxes		
Hong Kong	1	2
Outside Hong Kong	24	16
Under (over) provision in prior periods	3	(4)
Withholding taxes	12	12
	40	26
Deferred income taxes		
Origination and reversal of temporary differences	11	2
	51	28

This charge excludes the share of joint venture's income taxes of HK\$7 million (2021: HK\$8 million) for the period. The share of profit of a joint venture in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

8. Earnings per share

The calculations of basic and diluted earnings per share are based on the profit after income taxes attributable to shareholders of the Company for the period of HK\$97 million (2021: HK\$60 million).

The basic earnings per share is based on the weighted average of 1,579,151,159 shares (2021: 1,577,781,756 shares) in issue during the six months ended June 30, 2022.

The diluted earnings per share is calculated by adjusting the weighted average of 1,579,151,159 shares (2021: 1,577,781,756 shares) in issue during the period by the weighted average of 9,312,540 shares (2021: 5,220,024 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

9. Dividends

<i>(In HK\$ million)</i>	(Unaudited)	
	Six months ended June 30	
	2022	2021
Interim dividend declared of 8.5 HK cents per share (2021: 6.5 HK cents per share)	134	103
2021 final dividend paid of 10.0 HK cents per share (2020: 6.9 HK cents per share)	158	109

The distribution for 2021 final dividend was based on the total number of issued shares of the Company on June 2, 2022.

At the Board meeting on August 18, 2022, the Board declared an interim dividend of 8.5 HK cents per share (2021: 6.5 HK cents per share). The interim dividend has not been recognized as a liability at the balance sheet date.

10. Trade and other receivables

<i>(In HK\$ million)</i>	(Unaudited)	(Audited)
	June 30	December 31
	2022	2021
Trade receivables	182	242
Less: Loss allowance	(42)	(45)
Trade receivables, net	140	197
Ageing analysis from the invoice date net of loss allowance is as follows:		
0 – 30 days	96	144
31 – 60 days	18	33
61 – 90 days	6	13
Over 90 days	20	7
	140	197
Other receivables, including deposits and prepayments	232	214
	372	411

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 approximate to their fair values.

11. Trade and other payables

<i>(In HK\$ million)</i>	(Unaudited) June 30 2022	(Audited) December 31 2021
Trade payables	117	165
The ageing analysis of trade payables from the invoice date is as follows:		
0 – 30 days	94	139
31 – 60 days	9	10
61 – 90 days	3	5
Over 90 days	11	11
	117	165
Other payables and accrued expense	337	345
	454	510

The carrying amounts of trade payables and other payables approximate to 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, 2022, and 2021, unless otherwise stated.

OVERVIEW

- Group sales increased by 11.7% to HK\$1,877 million (2021: HK\$1,681 million). Due to protracted Covid-19 lockdowns in 2021, the sales recovery was especially notable in Southeast Asia and the Gulf Cooperation Council, where the comparable base was lower. The right products and effective local marketing campaigns helped them maximize sales after the lockdowns.
- Gross margin declined by 1.9 points to 55.1% (2021: 57.0%) as the lower margin, but profitable wholesales surged during the period by 44.9%.
- Operating expense decreased by 1.9%, to 47.6% of sales (2021: 54.1%) indicating a gain in efficiency.
- Net profit attributable to the Company's shareholders was HK\$97 million (2021: HK\$60 million) on higher sales and reduced operating expense, partially offset by lower gross margin and less Covid-19-related government subsidies.
- Inventory turnover on cost decreased by eight days to 116 days, reflecting general sales recovery and restrained purchase, even though group inventory closed higher at HK\$541 million (2021: HK\$494 million).
- The cash and bank balances on June 30, 2022, net of bank loans, were HK\$910 million (2021: HK\$932 million). The modest decline resulted from a rise in inventory, which continues to deplete.
- Basic earnings per share were 6.1 HK cents (2021: 3.8 HK cents).
- The Board of Directors has declared an interim dividend of 8.5 HK cents per share (2021: 6.5 HK cents per share).

RESULTS OF OPERATIONS

Table 1: Group results of operations

<i>(In HK\$ million)</i>	Six months ended June 30				
	2022	% to sales	2021	% to sales	Change
Southeast Asia and Australia	696	37.1%	531	31.6%	31.1%
Mainland China	333	17.8%	362	21.5%	(8.0%)
Gulf Cooperation Council	327	17.4%	258	15.4%	26.7%
Taiwan	218	11.6%	235	14.0%	(7.2%)
Hong Kong and Macau	132	7.0%	177	10.5%	(25.4%)
Wholesales to overseas franchisees	171	9.1%	118	7.0%	44.9%
Group sales ¹	1,877	100.0%	1,681	100.0%	11.7%
Gross profit	1,035	55.1%	959	57.0%	7.9%
Other income and gains, net	23	1.2%	47	2.8%	(51.1%)
Operating expense	(893)	(47.6%)	(910)	(54.1%)	1.9%
Impairment loss on right-of-use assets and property, plant and equipment	–	–	(10)	(0.6%)	100.0%
Reversal of impairment loss on right-of-use assets and property, plant and equipment	1	0.1%	8	0.5%	(87.5%)
Operating profit	166	8.8%	94	5.6%	76.6%
Share of profit of a joint venture	25	1.3%	27	1.6%	(7.4%)
Finance expense	(12)	(0.6%)	(16)	(0.9%)	25.0%
Income taxes	(51)	(2.7%)	(28)	(1.7%)	(82.1%)
Profit after income tax attributable to non-controlling interests	(31)	(1.6%)	(17)	(1.0%)	(82.4%)
Profit after income tax attributable to shareholders	97	5.2%	60	3.6%	61.7%
Global brand sales ²	2,331		2,143		8.8%
Global brand gross profit ²	1,465		1,346		8.8%
Net cash and bank balances at period end	910		932		(2.4%)
Inventories at period end	541		494		9.5%
Inventory turnover on cost, days ³	116		124		(8)
Stores at period end	1,940		2,094		(154)

Sales and gross profit

Group revenues increased by 11.7 % to HK\$1,877 million (2021: HK\$1,681 million), or 12.6% on a “constant dollar basis”. Considering that Southeast Asia (“SEA”) and the Gulf Cooperation Council (“GCC”) were subject to stringent lockdowns during the 2021 comparable period, the favorable variance was more prominent in the second quarter (+18.2%). The ongoing momentum of the global sales recovery was disrupted by the recent Covid-19 pandemic outbreaks in Greater China. The detrimental effects to Greater China sales have only lately subsided.

All business channels registered sales recovery. Offline sales increased by 9.0%, despite a 5.6% reduction in the total number of stores, in which the sales per square foot increased by 9.1%. Online sales grew by 22.5%, now 11.0% of Group sales (2021: 10.1%.)

Wholesales rebounded by 18.3% as our overseas markets have been recovering from the stringent 2021 social movement controls. Furthermore, although in their infancy, the new franchised markets have been expanding to our expectations.

Table 2: Sales by channel

<i>(In HK\$ million)</i>	Six months ended June 30				
	2022	Contribution	2021	Contribution	Change
Offline sales	1,385	73.8%	1,271	75.6%	9.0%
Mainland China online sales	157	8.3%	125	7.5%	25.6%
Ex-Mainland China online sales	50	2.7%	44	2.6%	13.6%
Online sales	207	11.0%	169	10.1%	22.5%
Retail sales	1,592	84.8%	1,440	85.7%	10.6%
Wholesales to franchisees	285	15.2%	241	14.3%	18.3%
Group sales	1,877	100.0%	1,681	100.0%	11.7%

The Group's gross margin decreased by 1.9 points as the online channel sales and wholesales, having lower gross margins, but higher operating margins, grew quicker than offline sales. The brand's higher sales and average selling prices helped gross profit to increase by 7.9%. Table 3 is an analysis of the change in Group gross profit.

Table 3: Gross profit variance analysis

<i>(In HK\$ million)</i>	Six months ended June 30, 2021			Translational exchange			Six months ended June 30, 2022
	gross profit	Product costs	Selling prices	Volume	impact	Miscellaneous	gross profit
Southeast Asia and Australia	307	(37)	126	31	(9)	(2)	416
Gulf Cooperation Council	162	(3)	(4)	45	1	-	201
Mainland China	180	(7)	5	(18)	1	(7)	154
Taiwan	147	(3)	(2)	(7)	(3)	(1)	131
Hong Kong and Macau	122	(3)	18	(44)	-	-	93
Market mix	-	(13)	28	(15)	-	-	-
Retail and distribution	918	(66)	171	(8)	(10)	(10)	995
Wholesales to overseas franchisees/subsidiaries	41						40
Group	959						1,035

Other income and gains, net

Other income and gains, which include royalties and licensing fees, interest income, government grants, and rental income, fell by around 50% to HK\$23 million as a result of a decrease in government subsidies for Covid-19 and an increase in exchange loss brought on by the depreciation of regional currencies against the Hong Kong dollar.

Operating expense and operating profit

Despite the higher sales, operating expense declined by 1.9% with restrained spending and extensive use of electronic communication. Higher leveraging (47.6% of sales against 54.1% in 2021) helped drive an operating profit of HK\$166 million in the first half of 2022 (2021: HK\$94 million).

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

The Group reversed a HK\$1 million impairment provision (2021: a HK\$2 million impairment charge) for the right-of-use assets, property, plant, and equipment based on the standards of HKAS 36. The Group does not anticipate material impairment charges or reversals in the second half.

Finance expense

The HK\$12 million finance expense (2021: HK\$16 million) reflects lower imputed interests on lease liabilities.

Profit after income taxes attributable to shareholders

Profit after income taxes attributable to shareholders (“PATS”) increased to HK\$97 million for the period (2021: HK\$60 million), at a 5.2% net profit margin (2021: 3.6%). Table 4 below analyses the changes.

Table 4: Summary of changes in PATS

(In HK\$ million)

Reported PATS for the six months ended June 30, 2021	60
Southeast Asia	
(Sales rebound after the relaxation of movement controls)	99
Gulf Cooperation Council	
(Sales rebound after the relaxation of movement controls)	25
Hong Kong and Macau	
(Closure of loss-making stores and rental reductions)	11
Wholesales to overseas franchisees/subsidiaries	2
Taiwan (Sales drop due to the new wave of Covid-19)	(14)
Mainland China (Sales drop due to the new wave of Covid-19)	(26)
Income taxes, non-controlling interests, finance expense and headquarter expenses	(56)
PATS for the six months ended June 30, 2022,	
at constant exchange rates	101
Financial statements translation difference	(4)
Reported PATS for the six months ended June 30, 2022	97

ANALYSIS BY MARKET

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

Greater China

Table 5: Greater China loss before income taxes

<i>(In HK\$ million, translated at constant exchange rates)</i>	Six months ended June 30				
	2022	% to sales	2021	% to sales	Change
Total sales	686	100.0%	774	100.0%	(11.4%)
Gross profit	380	55.4%	449	58.0%	(15.4%)
Other income and gains, net	9	1.3%	15	2.0%	(40.0%)
Operating expense	(420)	(61.2%)	(469)	(60.6%)	10.4%
Impairment loss on right-of-use assets and property, plant and equipment	–	–	(3)	(0.4%)	100.0%
Reversal of impairment loss on right-of-use assets and property, plant and equipment	–	–	6	0.8%	(100.0%)
Operating loss	(31)	(4.5%)	(2)	(0.2%)	(1,450.0%)
Finance expense	(2)	(0.3%)	(3)	(0.4%)	33.3%
Loss before income taxes	(33)	(4.8%)	(5)	(0.6%)	(560.0%)
<i>Stores at period end</i>	869		988		(119)

Hong Kong and Macau

The Omicron variant seriously hurt the retail sales in Hong Kong in Q1. The sales started to improve from Q2 with the government consumption vouchers, but the impact was short-term.

Hong Kong and Macau closed ten stores; virtually all were loss-making. The operating loss in the 1H decreased significantly due to rental reductions, store closures, gross margin improvement, and operating expense reduction in Q2.

Mainland China and Taiwan

The strict movement control measures in Mainland China impacted our offline and wholesale businesses. The increase in online sales mitigated the overall drop; the contribution was 47% of total sales.

Taiwan also suffered a substantial sales drop in Q1 owing to the new outbreak of the Covid-19 pandemic, but it narrowed in Q2. Our strong brand image and successful marketing programs kept the drop to a minimum. We expect that sales will begin to recover in 2H.

Table 6: Greater China sales and store counts

<i>(In HK\$ million, translated at constant exchange rates)</i>	Six months ended June 30								
	Sales			Franchised stores at period end		Direct-operated stores at period end		Stores at period end	
	2022	2021	Change	2022	2021	2022	2021	2022	2021
Mainland China	332	362	(8.3%)	477	543	165	207	642	750
Taiwan	222	235	(5.5%)	–	–	183	184	183	184
Hong Kong and Macau	132	177	(25.4%)	–	–	44	54	44	54
Total	686	774	(11.4%)	477	543	392	445	869	988

Southeast Asia and Australia**Table 7: Southeast Asia and Australia profit before income taxes**

<i>(In HK\$ million, translated at constant exchange rates)</i>	Six months ended June 30				
	2022	% to sales	2021	% to sales	Change
Total sales	711	100.0%	531	100.0%	33.9%
Gross profit	425	59.8%	307	57.8%	38.4%
Other income and gains, net	4	0.5%	11	2.1%	(63.6%)
Operating expense	(289)	(40.6%)	(270)	(50.9%)	(7.0%)
Impairment loss on right-of-use assets and property, plant and equipment	–	–	(7)	(1.3%)	100.0%
Reversal of impairment loss on right-of-use assets and property, plant and equipment	1	0.1%	1	0.2%	Flat
Operating profit	141	19.8%	42	7.9%	235.7%
Finance expense	(7)	(1.0%)	(10)	(1.9%)	30.0%
Profit before income taxes	134	18.8%	32	6.0%	318.8%
<i>Stores at period end</i>	561		572		(11)

Due to the relaxation of social distancing in Q2, SEA saw a significant recovery. Despite rising product costs, well-timed inventory allocation enhanced sales, average selling prices, and gross margin. Malaysia and Indonesia performed better with practical marketing efforts during the Muslim holidays.

Table 8: Southeast Asia and Australia sales and store counts

<i>(In HK\$ million, translated at constant exchange rates)</i>	Six months ended June 30				
	Sales			Stores at period end	
	2022	2021	Change	2022	2021
Indonesia	328	256	28.1%	232	231
Thailand	117	90	30.0%	153	159
Malaysia	106	48	120.8%	87	88
Singapore	104	94	10.6%	32	36
Vietnam	43	31	38.7%	49	49
Australia	8	9	(11.1%)	6	7
Cambodia	5	3	66.7%	2	2
Total	711	531	33.9%	561	572

The Gulf Cooperation Council**Table 9: The Gulf Cooperation Council profit before income taxes**

<i>(In HK\$ million, translated at constant exchange rates)</i>	Six months ended June 30				
	2022	% to sales	2021	% to sales	Change
	Total sales	325	100.0%	258	100.0%
Gross profit	200	61.5%	162	62.8%	23.5%
Operating expense	(138)	(42.4%)	(127)	(49.2%)	(8.7%)
Reversal of impairment loss on right-of-use assets and property, plant and equipment	–	–	1	0.4%	(100.0%)
Operating profit	62	19.1%	36	14.0%	72.2%
Finance expense	(2)	(0.6%)	(2)	(0.8%)	Flat
Profit before income taxes	60	18.5%	34	13.2%	76.5%
Franchised stores	36		35		
Direct-operated stores	137		138		
<i>Stores at period end</i>	173		173		–

On the back of further easing of movement control measures and travel restrictions early this year, the sales rebound in the GCC persisted in the first half of 2022. Successful local marketing campaigns lifted its operating profit. The momentum is continuing.

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

Table 10: South Korea's share of net profit

<i>(In Korean Won million)</i>	Six months ended June 30				
	2022	% to sales	2021	% to sales	Change
Total sales	94,438	100.0%	89,300	100.0%	5.8%
Gross profit	52,229	55.3%	50,147	56.2%	4.2%
Net profit	8,134	8.6%	8,117	9.1%	0.2%
Share of net profit	3,948		3,940		0.2%
<i>Stores at period end</i>	144		159		(15)

Both offline and online channels reported modest growth in South Korea. Online sales were 34% of the total sales.

Wholesales to overseas franchisees

Table 11: Overseas franchised stores

By market	At June 30	
	2022	2021
Southeast Asia	171	185
South Korea	144	159
Other markets	22	17
Total stores	337	361

Wholesales jumped by 45% to HK\$171 million. The increase had begun in 2021 Q4. The developed franchise markets have started to open stores again social distancing eased. We continued to expand our footprints in emerging markets, in particular, Africa.

FINANCIAL POSITION

Liquidity and financial resources

On June 30, 2022, the cash and bank balance, net of bank loans, was HK\$910 million (June 30, 2021: HK\$932 million), and improved compared to December 31, 2021 (HK\$875 million).

The bank borrowings amounted to HK\$45 million (June 30, 2021: HK\$152 million). The Group's gearing ratio, defined as the ratio of total borrowing less cash and bank balances to equity attributable to the Company's shareholders, was unchanged at -0.4. The Group's current ratio was 1.8 (2021: 1.9) based on current assets of HK\$1,875 million and current liabilities of HK\$1,046 million.

Property, plant, and equipment

The Group invested HK\$30 million (2021: HK\$16 million) to upgrade stores. We anticipate a modest increase in 2H for continued store upgrades and computing capability.

Goodwill and put option liabilities

The liabilities for goodwill and put options resulted from the acquisition of the GCC operations in 2012 and 2015. The required tests confirmed that impairment was unnecessary.

Interest in the South Korea joint venture

The carrying value of the 48.5% South Korea joint venture, accounted for by the equity method, decreased by 8.8% to HK\$468 million to reflect our share of the net profit, dividend received and translation from Korean Won to Hong Kong dollar.

Inventories

Inventories were higher at HK\$541 million (June 30, 2021: HK\$494 million). Inventory turnover on cost reduced by eight days to 116 days. The Group continuously reallocates merchandise among its diverse geographical markets to achieve maximum seasonal efficiency.

To make sure there is no excessive “off-balance-sheet” inventory that could pose a problem in the future, the Group tracks of all inventories including that at suppliers and franchisees and reports it under “system inventories” below.

Table 12: System inventories

<i>(In HK\$ million)</i>	At		
	June 30 2022	December 31 2021	June 30 2021
Inventories owned by the Group	541	606	494
Inventories held by 48.5% of South Korea joint venture	222	214	230
Inventories held by franchisees in Mainland China	51	53	50
Finished goods at suppliers	21	11	14
Inventories not owned by the Group	294	278	294
Total system inventories	835	884	788

Trade receivables and payables

The trade receivable and trade payable turnover days were steady at 33 days (2021: 35 days) and 25 days (2021: 23 days), respectively.

OUTLOOK

In 2020 and 2021, the Covid-19 outbreak devastated the world economy. Due to its aggressive movement restriction measures, Greater China's economy is only now starting to revive, but there are still uncertainties ahead. The situation in Hong Kong is particularly worrisome as its operating costs only declined moderately amidst severely dampened consumer sentiment and the absence of tourists.

As such, the Group is redirecting resources to SEA and GCC, where economic activity has already returned to pre-Covid-19 levels and there is less uncertainty about their steady recoveries. We believe that the growth will continue in 2H.

Apart from the lingering Covid-19 pandemic, there is unprecedented uncertainty troubling the global economy. These risks include global inflation, interest rate hikes, energy cost escalation, and regional conflicts. Our geographical diversification plan will help to some extent to counter regional economic turmoil.

The already challenging supply chain becomes more complicated due to the recent fluctuations in the world's leading currencies and rising trade protectionism. We had implemented a "distributed sourcing" strategy, utilizing our network in the major textile and garment producing countries. The strategy is helping diversify the risks of over-reliance on any one supply base.

We strengthen our "pricing power" through store renovations, regionally focused marketing, and ongoing product innovation. Management will gradually increase selling prices with a robust and consistent brand image in the existing and new markets.

The Group anticipates a substantial increase in wholesales in the second half, supported by sustained sales recovery in developed franchise regions and ongoing expansion in emerging countries, including Africa.

Due to our broad geographical coverage, the impact on the Group from the recent currency fluctuations, specifically the USD and RMB, is moderate. On the supply side, most goods are still procured from factories in RMB-based Mainland China, notwithstanding a decline. However, sourcing outside of Mainland China is increasing. On the demand side, the Group also has a sizable presence in SEA, GCC, Greater China, and South Korea, through a 48.5% interest in a well-established joint venture. The Group is strengthening our efforts to nurture the newly developed franchise markets, which will grow steadily.

HUMAN RESOURCES

On June 30, 2022, the Group had approximately 6,100 employees (June 30, 2021: 5,900). The Group offers competitive remuneration packages and generous, goal-oriented bonuses 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. Currently, the average age of our key people is 48, compared with 47 a year ago.

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 8.5 HK cents per share (2021: 6.5 HK cents per share) for the six months ended June 30, 2022. The dividend is payable on Friday, September 30, 2022 to shareholders whose names appear on the register of members of the Company on Thursday, September 22, 2022.

Closure of Register of Members

For determining the entitlement to the interim dividend, the register of members of the Company will be closed on Thursday, September 22, 2022, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, September 21, 2022.

Corporate Governance Code

A corporate governance report has been published and included in the Company's 2021 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 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.

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 2021 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, 2022.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended June 30, 2022.

Voluntary Conditional Cash Offers

On June 7, 2022 (after trading hours), Halcyon Capital Limited, on behalf of Clear Prosper Global Limited (the “Offeror”), informed the Board that the Offeror intends to make voluntary conditional cash offers (i) to acquire all the offer shares, being all the shares of the Company (the “Shares”) in issue, other than those Shares already owned by the Offeror and its concert parties (the “Concert Parties”) (the “Offer Shares”) and (ii) to cancel all the outstanding share options (Other than those held by the Excluded Optionholders) of the Company (the “Option Offer”). The Company and the Offeror published a joint announcement (the “Joint Announcement”) on, and the offer period commenced with effect from, 23 June 2022.

Based on information available to the Company, and as stated in the Joint Announcement, the Offeror and its Concert Parties held in aggregate 388,180,000 Shares, representing approximately 24.57% of the issued share capital in the Company as at the date of the Joint Announcement.

Halcyon Securities Limited (“Halcyon Securities”) has made, for and on behalf of the Offeror, an offer to acquire all the Offer Shares at the share offer price and an offer to cancel all Share Options at the option offer price set below:

For each Offer Share	HK\$1.88 in cash
For each Share Option with exercise price being:	
(i) HK\$1.39	HK\$0.49 in cash
(ii) HK\$3.792	HK\$0.0001 in cash
HK\$4.050	
HK\$4.090	
HK\$4.180	
HK\$4.340	
HK\$5.000	

Condition of the Offers

The Offers are conditional on the number of Offer Shares in respect of which valid acceptances of the Share Offer have been received (and not, where permitted, withdrawn) by 4:00 p.m. on the closing date (or such other time or date as the Offeror may, subject to the Takeovers Code, decide), together with the Shares already owned, resulting in the Offeror and its Concert Parties holding in aggregate more than 50% of the voting rights of the Company.

For details of the Offers and the timetable of the Offers, please refer to the announcement and composite document issued by the Offeror and the Company, dated on June 23, 2022 and August 15, 2022 respectively.

Review of Interim Results

The unaudited condensed consolidated interim financial information of the Group for the six months ended June 30, 2022 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, 2022 with Management.

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

Hong Kong, August 18, 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 three independent non-executive Directors; namely, Dr Barry John BUTTIFANT, Professor WONG Yuk (alias, HUANG Xu) and Dr Alison Elizabeth LLOYD.

¹ *Group sales refer to consolidated sales, including retail sales from direct-operated stores and wholesales to overseas/non-consolidated franchisees.*

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

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