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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, 2023

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 1,800 points-of-sale or 1,816,000 sq. ft. of retail floor space. The Group's merchandise is also available through an extensive network of proprietary e-shops and third-party platforms.
- Group revenue increased by 3.8% based on constant dollars, but only 1.9% to HK\$3,873 million (2022: HK\$3,799 million) when translated to Hong Kong dollars. The first-half growth was 5% as the COVID-19 adversity only began to dissipate in the second quarter of 2022. The gradual sales recovery continued in the second half of 2022, thus dwarfing the 2023 second-half relative growth rate.
- Group gross margin improved by 1.9 percentage points. The retail gross margin was 60.6% (2022: 59.5%).
- Operating expense-to-revenue ratio was maintained at 47.2%, reflecting the Group's continued cost control after COVID-19.
- Net profit attributable to the Company's shareholders was HK\$345 million (2022: HK\$268 million), an increase of 28.7%.
- The Company's Board of Directors recommended a final dividend of 13.5 HK cents per share (2022: 15.0 HK cents per share) to reach a total dividend of 30.5 HK cents per share for the year (2022: 23.5 HK cents), representing an increase of 29.8%. The final dividend payable, if approved, will amount to approximately HK\$218 million.
- Inventory turnover on cost declined by 27 days to 108 days. Further reduction is possible as we continue to focus on pricing power instead of volume sales. Inventories at year-end were HK\$474 million (2022: HK\$612 million). The franchising model adopted for international expansion also economizes the Group's use of funds.
- The cash and bank balances, net of bank loans, were HK\$905 million on December 31, 2023 (2022: HK\$948 million). Capital expenditure during the year was HK\$87 million (2022: HK\$66 million).

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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, 2023, along with comparative figures and explanatory notes.

Consolidated Income Statement

<i>(In HK\$ million, except earnings per share)</i>	<i>Note</i>	2023	2022
Revenue	2	3,873	3,799
Cost of sales	4	(1,610)	(1,653)
Gross profit		2,263	2,146
Other income and other gains, net	3	68	72
Distribution expense	4	(1,630)	(1,594)
Administrative expense	4	(198)	(199)
Operating profit	4	503	425
Finance expense	5	(40)	(25)
Share of profit of a joint venture		45	36
Profit before income taxes		508	436
Income taxes	6	(119)	(107)
Profit after income taxes for the year		389	329
Attributable to:			
Shareholders of the Company		345	268
Non-controlling interests		44	61
		389	329
Earnings per share attributable to shareholders of the Company	7		
Basic (<i>HK cents</i>)		21.6	17.0
Diluted (<i>HK cents</i>)		21.4	16.9

Consolidated Statement of Comprehensive Income

<i>(In HK\$ million)</i>	2023	2022
Profit after income taxes for the year	389	329
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	(2)	(1)
Exchange adjustments on translation of overseas subsidiaries which are attributed to the non-controlling interests	–	(15)
<u>Items that may be reclassified to profit or loss:</u>		
Exchange adjustments on translation of overseas subsidiaries, a joint venture and branches	(10)	(63)
Total comprehensive income for the year	377	250
Attributable to:		
Shareholders of the Company	333	3204
Non-controlling interests	44	46
	377	250

Consolidated Balance Sheet

<i>(In HK\$ million)</i>	<i>Note</i>	As at December 31	
		2023	2022
ASSETS			
Current assets			
Cash and bank balances		935	960
Trade and other receivables	9	319	390
Inventories		474	612
Rental prepayments		3	4
Financial asset at fair value through profit or loss		–	6
Income tax recoverable		4	5
Total current assets		1,735	1,977
Non-current assets			
Financial asset at fair value through other comprehensive income		1	3
Financial asset at fair value through profit or loss		28	28
Deposits and other receivable	9	74	73
Interest in a joint venture		494	490
Investment properties		16	18
Property, plant and equipment		166	133
Right-of-use assets		762	690
Goodwill		541	541
Deferred tax assets		39	55
Total non-current assets		2,121	2,031
Total assets		3,856	4,008
LIABILITIES AND EQUITY			
Current liabilities			
Bank loans		30	12
Trade and other payables	10	552	555
Lease liabilities		329	326
Put option liabilities		81	81
Income tax payables		104	113
Total current liabilities		1,096	1,087
Non-current liabilities			
Lease liabilities		337	287
Deferred tax liabilities		111	112
Total non-current liabilities		448	399
Total liabilities		1,544	1,486
Capital and reserves			
Share capital		81	79
Reserves		1,890	2,001
Proposed dividends	8	218	237
Equity attributable to shareholders of the Company		2,189	2,317
Non-controlling interests		123	205
Total equity		2,312	2,522
Total equity and liabilities		3,856	4,008
Net current assets		639	890
Total assets less current liabilities		2,760	2,921

Notes to the Consolidated Financial Statements

1. Material accounting policies

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) 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 of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) 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.

(b) Impact of amended standards

The Group has applied the following amended standards issued by HKICPA, which were relevant and effective for the Group’s financial year beginning on or after January 1, 2023:

- | | |
|---|--|
| – Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| – Amendments to HKAS 8 | Definition of Accounting Estimates |
| – Amendments to HKAS 12 | Deferred tax related to assets and liabilities arising from a single transaction |
| – Amendments to HKAS 12 | International Tax Reform – Pillar Two Model Rules |

Adopting the above amendments to standards did not result in substantial changes to the Group’s accounting policies, financial results, or position.

(c) Amended standards issued, but not yet effective

The Group has not early applied the amended standards that have been issued but have not yet to become effective. The adoption of these is 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 Wholesales to Overseas Franchisees. Management manages the Retail and Distribution operating segments geographically and by brand.

Geographically, the Retail and Distribution operating segment in Mainland China and the Gulf Cooperation Council (the “GCC”) comprise direct-operated 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.

2. Sales and operating segments (continued)

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 a joint venture, 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)	2023						Total
	Mainland China	Hong Kong and Macau	Taiwan	Southeast Asia and Australia	Gulf Cooperation Council	Wholesale to Overseas Franchisees	
Sales	664	380	440	1,471	675	243	3,873
Adjusted EBITDA	32	144	94	462	245	24	1,001
Depreciation and amortization							
— Right-of-use assets	(25)	(75)	(44)	(165)	(103)	-	(412)
— Property, plant and equipment and investment properties	(6)	(3)	(6)	(26)	(12)	-	(53)
Segment results	1	66	44	271	130	24	536
Corporate functions							(33)
Finance expense							(40)
Share of profit of a joint venture							45
Profit before income taxes							508

2. Sales and operating segments (continued)

(In HK\$ million)	2022						Total
	Mainland China	Hong Kong and Macau	Taiwan	Southeast Asia and Australia	Gulf Cooperation Council	Wholesale to Overseas Franchisees	
Sales	668	286	466	1,444	635	300	3,799
Adjusted EBITDA	(16)	94	89	460	217	45	889
Depreciation and amortization							
— Right-of-use assets	(34)	(74)	(47)	(144)	(94)	—	(393)
— Property, plant and equipment and investment properties	(8)	(2)	(5)	(21)	(11)	—	(47)
Impairment							
— Right-of-use assets	(2)	—	—	(1)	—	—	(3)
Reversal of impairment							
— Right-of-use assets	—	—	—	2	—	—	2
Segment results	(60)	18	37	296	112	45	448
Corporate functions							(23)
Finance expense							(25)
Share of profit of a joint venture							36
Profit before income taxes							436

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

(In HK\$ million)	2023		2022	
	Sales	Operating profit(loss)	Sales	Operating profit
Retail and Distribution				
<i>Giordano and Giordano Junior</i>	3,011	407	2,926	306
<i>Giordano Ladies</i>	268	48	246	34
<i>BSX</i>	8	(1)	8	—
Others	343	58	319	63
	3,630	512	3,499	403

The Company has its domicile in Hong Kong. Sales to external customers recorded in Hong Kong and Macau (including retail and wholesale sales) were HK\$623 million (2022: HK\$586 million), Mainland China was HK\$664 million (2022: HK\$668 million), and external customers from other markets were HK\$2,586 million (2022: HK\$2,545 million).

Inter-segment sales of HK\$738 million (2022: HK\$939 million) have been eliminated upon consolidation.

2. Sales and operating segments (continued)

Income taxes charged related to Mainland China was HK\$1 million (2022: HK\$3 million), Hong Kong and Macau were HK\$13 million (2022: HK\$5 million), Taiwan was HK\$8 million (2022: HK\$7 million), Southeast Asia and Australia were HK\$63 million (2022: HK\$72 million) and the GCC was HK\$5 million (2022: HK\$7 million).

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

<i>(In HK\$ million)</i>	2023	2022
Southeast Asia and Australia	1,089	1,216
Gulf Cooperation Council	1,037	1,019
Hong Kong and Macau	570	559
Mainland China	365	399
Taiwan	233	233
Segment assets	3,294	3,426
Interest in a joint venture	494	490
Financial asset at fair value through other comprehensive income	1	3
Financial asset at fair value through profit or loss	28	34
Deferred tax assets	39	55
Total assets	3,856	4,008

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong and Macau were HK\$179 million (2022: HK\$194 million), Mainland China was HK\$49 million (2022: HK\$61 million), and other markets were HK\$1,826 million (2022: HK\$1,690 million).

3. Other income and other gains, net

<i>(In HK\$ million)</i>	2023	2022
Interest income	23	12
Royalty and licensing income	22	30
Rental and sub-lease rental	8	7
Dividend income	3	3
Government grants	2	12
Claims and compensation	2	(2)
Net loss on disposal of property, plant and equipment	(1)	–
Net exchange loss	(5)	(8)
Fair value (loss) gain on financial assets at fair value through profit or loss	(6)	6
Others	20	12
	68	72

4. Operating profit

Operating profit is after charging (crediting):

<i>(In HK\$ million)</i>	2023	2022
Cost of sales		
Cost of inventories sold	1,607	1,657
Net provision (reversal of provision) for obsolete stock and stock written off	3	(4)
	1,610	1,653
Distribution expense		
Staff cost	601	580
Depreciation expense		
— Right-of-use assets	396	377
— Property, plant and equipment	48	42
Rentals in respect of land and buildings		
— Minimum lease payments	39	62
— Contingent rent	192	172
Building management fee, government rent and rates and utilities	99	100
Advertising, promotion and incentives	89	91
Packaging and deliveries	53	53
Bank and credit card charges	27	26
Impairment		
— Right-of-use assets	—	3
Reversal of impairment		
— Right-of-use assets	—	(2)
Change in loss allowance for trade receivables	(4)	(2)
Others	90	92
	1,630	1,594
Administrative expense		
Staff cost	134	132
Depreciation expense		
— Right-of-use assets	16	16
— Property, plant and equipment	5	5
Legal and professional fee	8	14
Auditor's remuneration	7	6
Computer and telecommunication	6	5
Travelling	3	2
Business and other taxes	1	1
Rentals in respect of land and buildings		
— Minimum lease payments	—	1
Others	18	17
	198	199

5. Finance expense

<i>(In HK\$ million)</i>	2023	2022
Interest on lease liabilities	39	25
Interest on bank loans	1	–
	40	25

6. Income taxes

Hong Kong profits tax is calculated at the rate of 16.5% (2022: 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>	2023	2022
Current income taxes		
Hong Kong	2	2
Outside Hong Kong	70	62
Over provision in prior years	–	(5)
Withholding taxes	30	12
	102	71
Deferred income taxes		
Origination and reversal of temporary differences	17	36
	119	107

This charge excludes the share of the joint venture's income taxes of HK\$13 million (2022: HK\$12 million) for the year. The share of profit of a joint venture in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

7. 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 year of HK\$345 million (2022: HK\$268 million).

The basic earnings per share is based on the weighted average of 1,598,745,713 shares (2022: 1,579,840,419 shares) in issue during the year.

The diluted earnings per share is calculated by adjusting the weighted average of 1,598,745,713 shares (2022: 1,579,840,419 shares) in issue during the year by the weighted average of 13,646,324 shares (2022: 9,526,750 shares) deemed to be issued if all outstanding share options granted under the share option schemes of the Company had been exercised.

8. Dividends

Dividends attributable to the year:

<i>(In HK\$ million)</i>	2023	2022
Interim dividend declared and paid of 17.0 HK cents per share (2022: 8.5 HK cents per share)	274	134
Final dividend proposed after the balance sheet date of 13.5 HK cents per share (2022: 15.0 HK cents per share)	218	237
	492	371

On March 12, 2024, the Board has recommended a final dividend of 13.5 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 the proposed dividend was based on the shares of the Company in issue as of the reporting date.

9. Trade and other receivables

<i>(In HK\$ million)</i>	2023	2022
Trade receivables	234	229
Less: Loss allowance	(37)	(42)
Trade receivables, net	197	187
Other receivables, including deposits and prepayments	122	203
Trade and other receivables	319	390
Deposits and other receivables	74	73

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 their fair values.

9. Trade and other receivables (continued)

The ageing analysis from the invoice date net of loss allowance is as follows:

<i>(In HK\$ million)</i>	2023	2022
0 – 30 days	153	145
31 – 60 days	33	26
61 – 90 days	3	6
Over 90 days	8	10
	197	187

10. Trade and other payables

<i>(In HK\$ million)</i>	2023	2022
Trade payables	199	193
Other payables and accrued expense	353	362
	552	555

The ageing analysis of trade payables from the invoice date is as follows:

<i>(In HK\$ million)</i>	2023	2022
0 – 30 days	185	161
31 – 60 days	4	12
61 – 90 days	4	8
Over 90 days	6	12
	199	193

The carrying amounts of trade and other payables approximate their fair values.

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

Unless otherwise stated, the following commentaries refer to the year-on-year (“YOY”) comparison for the years ended December 31, 2023, and 2022.

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 1,800 points-of-sale or 1,816,000 sq. ft. of retail floor space. The Group’s merchandise is also available through an extensive network of proprietary e-shops and third-party platforms.
- Group revenue increased by 3.8% based on constant dollars, but only 1.9% to HK\$3,873 million (2022: HK\$3,799 million) when translated to Hong Kong dollars. The first-half growth was 5% as the COVID-19 adversity only began to dissipate in the second quarter of 2022. The gradual sales recovery continued in the second half of 2022, thus dwarfing the 2023 second-half relative growth rate.
- Group gross margin improved by 1.9 percentage points. The retail gross margin was 60.6% (2022: 59.5%).
- Operating expense-to-revenue ratio was maintained at 47.2%, reflecting the Group’s continued cost control after COVID-19.
- Net profit attributable to the Company’s shareholders was HK\$345 million (2022: HK\$268 million), an increase of 28.7%.
- The Company’s Board of Directors recommended a final dividend of 13.5 HK cents per share (2022: 15.0 HK cents per share) to reach a total dividend of 30.5 HK cents per share for the year (2022: 23.5 HK cents), representing an increase of 29.8%. The final dividend payable, if approved, will amount to approximately HK\$218 million.
- Inventory turnover on cost declined by 27 days to 108 days. Further reduction is possible as we continue to focus on pricing power instead of volume sales. Inventories at year-end were HK\$474 million (2022: HK\$612 million). The franchising model adopted for international expansion also economizes the Group’s use of funds.
- The cash and bank balances, net of bank loans, were HK\$905 million on December 31, 2023 (2022: HK\$948 million). Capital expenditure during the year was HK\$87 million (2022: HK\$66 million).

RESULTS OF OPERATIONS

Table 1: Group results of operations

<i>(In HK\$ million)</i>	2023	% to revenue	2022	% to revenue	Change
Group revenue ¹	3,873	100.0%	3,799	100.0%	1.9%
Gross profit	2,263	58.4%	2,146	56.5%	5.5%
Other income and other gains, net	68	1.8%	72	1.9%	(5.6%)
Operating expense	(1,828)	(47.2%)	(1,793)	(47.2%)	2.0%
Operating profit	503	13.0%	425	11.2%	18.4%
Share of profit of a joint venture	45	1.2%	36	0.9%	25.0%
Finance expense	(40)	(1.0%)	(25)	(0.6%)	60.0%
Income taxes	(119)	(3.1%)	(107)	(2.8%)	11.2%
Profit after income tax attributable to non-controlling interests	(44)	(1.2%)	(61)	(1.6%)	(27.9%)
Profit after income tax attributable to shareholders	345	8.9%	268	7.1%	28.7%
Group same-store sales ²	2,819		2,638		6.9%
Global brand sales ³	4,746		4,620		2.7%
Global brand gross profit ³	2,964		2,878		3.0%
Cash and bank balances, net of bank loans at year-end	905		948		(4.5%)
Inventories at year-end	474		612		(22.5%)
Inventory turnover on cost, days ⁴	108		135		(27)
Stores at year-end	1,822		1,874		(52)

Revenue and gross profit

Group revenue grew by 1.9% to HK\$3,873 million (2022: HK\$3,799 million), or 3.8% at constant dollars. Comparable retail store sales recorded a 6.9% growth as the Group has been cautious in opening new directly-operated stores while closing non-performing ones. In a turbulent 2023, it was prudent to tread responsibly. The Group opted for price increases supported by accurate marketing campaigns, coupled with reduced sourcing costs with distributed sourcing to improve margins. About 35% of the Group's merchandise was from factories outside Mainland China.

All retail channels reported positive sales growth. Offline sales increased by 4.7% despite a 2.6% reduction in the number of stores, while sales per square foot rose by 3.5%. Online sales improved by 7.1%, driven by continued growth in Mainland China.

Wholesales declined by 17.7%, as large shipments were made in late 2022 to support international franchisees' post-COVID-19 sales. While the established franchised markets continued their recovery, newly-opened franchised and licensed markets have started meaningful contributions to the Group's revenue.

Table 2: Revenue analysis

<i>(In HK\$ million)</i>	2023	Contribution	2022	Contribution	Change
Greater China	1,727	44.6%	1,720	45.3%	0.4%
Southeast Asia and Australia	1,471	38.0%	1,444	38.0%	1.9%
Gulf Cooperation Council	675	17.4%	635	16.7%	6.3%
Group revenue by market	3,873	100.0%	3,799	100.0%	1.9%
Offline	2,980	77.0%	2,846	74.9%	4.7%
Online	470	12.1%	439	11.6%	7.1%
Retail	3,450	89.1%	3,285	86.5%	5.0%
Licensing and overseas franchisees	283	7.3%	335	8.8%	(15.5%)
Mainland China franchisees	140	3.6%	179	4.7%	(21.8%)
Licensing and wholesale to franchisees	423	10.9%	514	13.5%	(17.7%)
Group revenue by channel	3,873	100.0%	3,799	100.0%	1.9%

Due to continued brand upgrades, the Group's gross margin improved by 1.9 percentage points to 58.4%, and the retail gross margin was 60.6% (2022: 59.5%). Our gross profit rose by 5.5%, mainly driven by the increased selling prices of our new merchandise and fewer discounts on evergreen products.

Table 3: Gross profit analysis

<i>(In HK\$ million)</i>	2022 gross profit	Product costs	Selling prices	Volume	Miscellaneous	Currency translation difference	2023 gross profit
Southeast Asia and Australia	863	(4)	39	2	(6)	(11)	883
Gulf Cooperation Council	398	27	(55)	59	–	–	429
Mainland China	314	7	4	12	(1)	(16)	320
Hong Kong and Macau	204	(5)	71	16	(1)	–	285
Taiwan	284	(4)	43	(30)	(3)	(13)	277
Market mix	–	9	(16)	7	–	–	–
Retail and distribution	2,063	30	86	66	(11)	(40)	2,194
Wholesale to overseas franchisees/subsidiaries	83						69
Group	2,146						2,263

Other income and other gains, net

Other income and other gains include government assistance, exchange differences, royalties, licensing fees, interest, and rental income.

Operating expense and operating profit

Operating expense-to-revenue ratio was virtually unchanged at 47.2%. The Group recorded an operating profit of HK\$503 million (2022: HK\$425 million), a growth of 18.4% YOY.

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

There was no material impairment provision or reversal for the right-of-use assets, property, plant and equipment, based on Hong Kong Accounting Standard 36.

Finance expense

The finance expense was HK\$40 million (2022: HK\$25 million), reflecting higher imputed interest on lease liabilities.

Profit after income taxes attributable to shareholders

Profit after income taxes attributable to shareholders of the Company (“**PATS**”) was HK\$345 million (2022: HK\$268 million), at a net margin of 8.9% (2022: 7.1%).

Table 4: Changes in PATS

(In HK\$ million)

2022 PATS	268
Mainland China	62
Hong Kong and Macau	49
Gulf Cooperation Council	18
South Korea	10
Taiwan	9
Southeast Asia and Australia	(20)
Wholesale to overseas franchisees/subsidiaries	(38)
Headquarter expenses, finance expense, income taxes and non-controlling interests	(7)
Changes in PATS	83
2023 PATS, at constant exchange rates	351
Currency translation difference	(6)
2023 PATS	345

MARKET ANALYSIS

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 profit (loss) before income taxes

<i>(In HK\$ million, translated at constant exchange rates)</i>	2023	% to revenue	2022	% to revenue	Change
Revenue	1,537	100.0%	1,420	100.0%	8.2%
Gross profit	911	59.3%	802	56.5%	13.6%
Other income and other gains, net	15	1.0%	16	1.1%	(6.3%)
Operating expense	(813)	(52.9%)	(823)	(58.0%)	(1.2%)
Operating profit (loss)	113	7.4%	(5)	(0.4%)	N/A
Finance expense	(6)	(0.4%)	(4)	(0.3%)	50.0%
Profit (loss) before income taxes	107	7.0%	(9)	(0.7%)	N/A

Hong Kong and Macau

The growth momentum in Hong Kong and Macau continued, attributable to the increased gross margin supported by frequent advertising and effective staff incentive schemes. Its revenue benefited from the mild increase in tourist arrivals, but suffered from the so-called “northbound spending”. Evening footfall has been dropping conspicuously.

Mainland China

Despite the volatile economy, our business swung from a substantial loss to a modest profit for the whole year, driven by increased online sales and reduced operating costs through the closure of loss-making direct-operated stores. The number of franchised stores started to grow in the second half of the year after the lingering COVID-19 pandemic.

Taiwan

Taiwan’s profit improved, but the quarterly performances fluctuated. Selling price increases helped mitigate the revenue drop.

Table 6: Greater China revenue and store count

<i>(In HK\$ million, translated at constant exchange rates)</i>	Revenue			Stores at year-end					
				Franchised		Direct operated		Total	
	2023	2022	Change	2023	2022	2023	2022	2023	2022
Mainland China	697	668	4.3%	343	394	143	158	486	552
Taiwan	460	466	(1.3%)	–	–	168	182	168	182
Hong Kong and Macau	380	286	32.9%	–	–	41	42	41	42
Total	1,537	1,420	8.2%	343	394	352	382	695	776

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

<i>(In HK\$ million, translated at constant exchange rates)</i>	2023	% to revenue	2022	% to revenue	Change
Revenue	1,487	100.0%	1,444	100.0%	3.0%
Gross profit	894	60.1%	863	59.8%	3.6%
Other income and other gains, net	19	1.3%	11	0.8%	72.7%
Operating expense	(637)	(42.8%)	(578)	(40.0%)	10.2%
Operating profit	276	18.6%	296	20.6%	(6.8%)
Finance expense	(21)	(1.4%)	(16)	(1.1%)	31.3%
Profit before income taxes	255	17.2%	280	19.5%	(8.9%)

The growth momentum in Indonesia and Thailand was sustained. The sales in other markets were stagnant partly due to the high base in the previous year. Nevertheless, we expect the performance, as a whole, to be stable, boosted by solid brand images and tourism.

Table 8: Southeast Asia and Australia revenue and store count

<i>(In HK\$ million, translated at constant exchange rates)</i>	Revenue			Stores at year-end	
	2023	2022	Change	2023	2022
Indonesia	755	696	8.5%	238	233
Thailand	270	234	15.4%	156	156
Singapore	190	207	(8.2%)	30	29
Malaysia	170	189	(10.1%)	88	86
Vietnam	76	90	(15.6%)	44	54
Australia	21	20	5.0%	6	6
Cambodia	5	8	(37.5%)	3	3
Total	1,487	1,444	3.0%	565	567

The Gulf Cooperation Council

Table 9: The Gulf Cooperation Council profit before income taxes and store count

<i>(In HK\$ million, translated at constant exchange rates)</i>	2023	% to revenue	2022	% to revenue	Change
Revenue	676	100.0%	635	100.0%	6.5%
Gross profit	429	63.5%	398	62.7%	7.8%
Other income and gains, net	5	0.7%	–	–	N/A
Operating expense	(304)	(45.0%)	(286)	(45.0%)	6.3%
Operating profit	130	19.2%	112	17.6%	16.1%
Finance expense	(13)	(1.9%)	(5)	(0.8%)	160.0%
Profit before income taxes	117	17.3%	107	16.9%	9.3%
Franchised stores	40		38		2
Direct-operated stores	138		134		4
Stores at year-end	178		172		6

The sales in the GCC improved in 2023 with significant operating profit. Brand image enhancement drove the growth attributable to the influential local marketing campaigns. The economic outlook in the region is bright. Established over 30 years ago, our presence there attracts potential franchisees from neighbouring markets.

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

Table 10: South Korea's share of net profit and store count

<i>(In Korean Won million)</i>	2023	% to revenue	2022	% to revenue	Change
Revenue	169,703	100.0%	190,438	100.0%	(10.9%)
Gross profit	88,873	52.4%	102,039	53.6%	(12.9%)
Net profit	15,709	9.3%	12,292	6.5%	27.8%
Share of net profit	7,619		5,962		27.8%
Stores at year-end	120		143		(23)

South Korea's sales performance was disappointing due to the weakened spending power caused by interest rate hikes, export reductions, and inflation. That said, stringent cost control helped stabilize the profit.

Overseas (outside Greater China) franchisees

Table 11: Overseas franchised store count

	2023	2022
Southeast Asia	190	175
South Korea*	120	143
South Asia	69	40
Africa	24	19
Other markets	21	20
Total	424	397

* The Group owns a 48.5% equity interest in the South Korean joint venture, also the Group's franchisee.

The well-developed franchised markets, such as the Philippines, remained strong. Footprint expansion has accelerated in the newly developed South Asian and African markets.

As part of the Group's crucial expansion strategy, it added 27 overseas franchised stores in the year, mainly in emerging markets.

FINANCIAL POSITION

Liquidity and financial resources

On December 31, 2023, the cash and bank balances, net of bank loans, were HK\$905 million (2022: \$948 million).

The bank borrowings amounted to HK\$30 million (2022: HK\$12 million). The Group's gearing ratio, defined as the total bank borrowings over total equity, was 1.3% (2022: 0.5%). The Group's current ratio was 1.6 (2022: 1.8) based on current assets of HK\$1,735 million (2022: HK\$1,977 million) and current liabilities of HK\$1,096 million (2022: HK\$1,087 million).

Property, plant, and equipment

Capital expenditure was HK\$87 million (2022: HK\$66 million), mainly for store upgrades. Management will continue to devote resources to our shop ambiance to strengthen our brand image.

Goodwill and put option liabilities

The goodwill and put option liability arose from acquiring our GCC operations in 2012 and 2015. We have conducted annual impairment tests and concluded that no impairment on goodwill was necessary for the 2023 financial year.

Interest in a joint venture

The carrying value of the 48.5% interest in the South Korea joint venture, accounted for by the equity method, increased by 1.0% to HK\$494 million.

Inventories

Group inventories were HK\$474 million (2022: HK\$612 million). Inventory turnover on cost decreased by 27 days to 108 days (2022: 135 days), attributed to stringent purchase control.

To prevent excessive “off-balance sheet” inventories, the Group tracks the inventories at suppliers and franchisees. Our system inventories were also reduced.

Table 12: System inventories

<i>(In HK\$ million)</i>	At December 31	
	2023	2022
Inventories owned by the Group	474	612
Inventories held by 48.5% South Korea joint venture	182	202
Inventories held by franchisees in Mainland China	38	53
Finished goods at suppliers	15	26
Inventories not owned by the Group	235	281
Total system inventories	709	893

Trade receivables and payables

The turnover days for trade receivables were 52 days (2022: 47 days). The turnover days for trade payables were steady at 45 days (2022: 43 days).

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 dividend payouts. In line with the Dividend Policy, the Company has been paying a substantial portion of its earnings as an ordinary dividend, which may vary depending on cash on hand, future investment requirements, and working capital considerations.

Considering the economic outlook, the Group’s financial position, future expansion plans, and other factors, the Board of Directors recommended a final dividend of 13.5 HK cents per share (2022: 15.0 HK cents per share). With the interim dividend of 17.0 HK cents per share (2022: 8.5 HK cents per share) paid on Friday, September 15, 2023, the full-year dividend will amount to 30.5 HK cents per share (2022: 23.5 HK cents per share), or an increase of 29.8%. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company, the final dividend will be payable on Friday, June 14, 2024 to shareholders whose names appear on the register of members of the Company on Monday, June 3, 2024.

OUTLOOK

In 2023, though the adverse impact of the COVID-19 pandemic dissipated after the relaxation of most movement control measures, the business environment was still volatile because of intensifying geopolitical conflicts, interest rate hikes and high inflation. The Group has remained agile and resilient in addressing the challenges and achieved a net profit of HK\$345 million (2022: HK\$268 million).

A challenging 2024 calls for prudence and caution. Our geographically-diversified strategy, cost control and lean balance sheet discipline will be essential to mitigate these business risks. In this situation, “cash is king” is even more relevant. A favourable business environment will return, and our patience will pay off by grasping the opportunities and leveraging our solid balance sheet.

The Company will continue to execute our strategy to gradually enhance its brand equity through pricing, product innovation, store upgrades and marketing investment.

The Group will expand in developing economies through franchising and licensing. For instance, in 2023, we made encouraging progress in India, where we hit 50 points-of-sale at the year’s end. We expect the expansion momentum will continue. To this end, the Group will sharpen its skills in selecting the right markets and building mutually-beneficial relationships with all franchisees, thus ensuring that this expansion strategy is sustainable.

On e-commerce, the Group continues partnering with local and robust third-party platforms. For Mainland China and our Korean joint venture, online sales profits are satisfactory, and their contributions are now about 55% and 40% of their total sales, respectively. Most of our other markets’ online sales are also experiencing growth and sustainable profits.

OTHER INFORMATION

Human Resources

As of December 31, 2023, the Group had approximately 6,500 employees (December 31, 2022: 6,200). 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, 2023, the average age of the Group's management team was 49 (2022: 48).

Annual General Meeting

The annual general meeting of the Company is scheduled to be held on Friday, May 17, 2024 (the “**2024 AGM**”). A notice convening the 2024 AGM, which constitutes part of the circular to shareholders, will be sent to the shareholders together with the 2023 annual report of the Company. The notice of the 2024 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 2024 AGM, the register of members of the Company will be closed from Monday, May 13, 2024 to Friday, May 17, 2024 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the 2024 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Friday, May 10, 2024.

Final Dividend

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, May 30, 2024 to Monday, June 3, 2024 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, May 29, 2024.

Corporate Governance Code

During the year ended December 31, 2023, the Company has complied with all applicable code provisions under the Corporate Governance Code as set out in Appendix C1 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 C3 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, 2023.

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, 2023.

Review of Annual Results

The Group's audited consolidated financial statements for the year ended December 31, 2023, 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, 2023, as set out in the preliminary announcement have been agreed upon 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 12, 2024

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, Mr TSANG On Yip, Patrick and Mr LEE Chi Hin, Jacob; and three independent non-executive directors; namely, Dr Barry John BUTTIFANT, Professor WONG Yuk (alias, HUANG Xu) and Dr Alison Elizabeth LLOYD.

¹ "Group revenue" comprises consolidated revenue from direct-operated stores' retail sales, licensing and wholesale to franchisees.

² "Group same-store sales" means retail revenue save for revenue derived from the retail sales of newly-opened and terminated stores and stores temporarily closed for more than 10% of operating days of comparable periods for renovation or other purposes. These are at constant exchange rates.

³ "Global brand sales/gross profit" comprises all Giordano retail sales/gross profit from direct-operated stores, franchised stores and stores operated by a joint venture. These are at constant exchange rates.

⁴ "Inventory turnover on cost" is calculated by dividing inventories at year-end by the cost of sales multiplied by the number of days in the year.