ANNUAL REPORT 2021 年報

裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited

Incorporated in Bermuda with limited liability
於百慕達註冊成立之有限公司

Stock Code 股份代號：551

MISSION

We are creating a smart technology-based footwear manufacturing operation that provides best-in-class innovative solutions to international brand customers. We are also committed to becoming a fully integrated sporting goods retailer in the Greater China region, in order to provide an end-to-end platform to our brand customers while enhancing our strategic relationships with them. We will continually strive to create value for all of our stakeholders while acting as a responsible global corporate citizen.

VISION

To provide end-to-end solutions that delivers to the sports industry the highest possible value while supporting a healthy lifestyle around the world.

CONTENTS

Corporate Overview

Financial and Operating Highlights for the year ended December 31, 2021

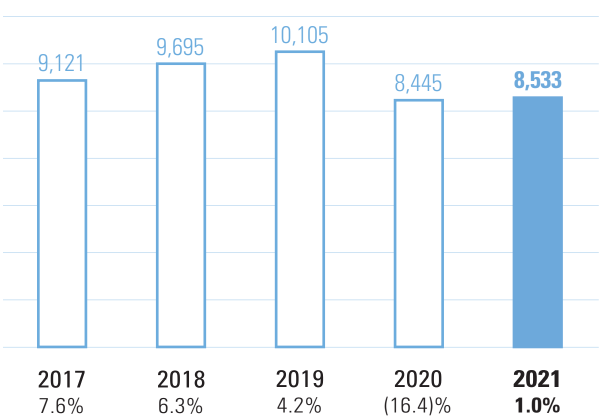
(US$ million, except where otherwise stated)	2021	2020	% Change
Total Shoe Volume (million pairs)	**238.3**	244.4	(2.5)
Revenue	**8,533.3**	8,444.9	1.0
Profit/(Loss) attributable to Owners of the Company	**115.1**	(90.8)	N/A
Recurring Profit/(Loss) attributable to Owners of the Company	**63.0**	(68.4)	N/A
Free Cash Flow	**177.1**	578.9	(69.4)
Capital Expenditure	**286.0**	255.3	12.0
EBITDA	**727.4**	527.5	37.9
Basic Earnings/(Loss) Per Share (US cents)	**7.15**	(5.64)	N/A
Dividend Per Share			
Interim	**N/A**	N/A	N/A
Final	**HK$0.20**	N/A	N/A
Full Year	**HK$0.20**	N/A	N/A
Total Equity	**4,604.5**	4,374.1	5.3
Return on Equity (%)	**2.8**	(2.3)	N/A
Gearing Ratio* (%)	**37.3**	42.7	(12.6)
Net Debt to Equity Ratio* (%)	**19.1**	22.2	(14.0)
Outstanding Shares (# of shares)	**1,612,183,986**	1,612,183,986	–

*Debt excludes lease liabilities

Key Shareholder Value Indices

Revenue

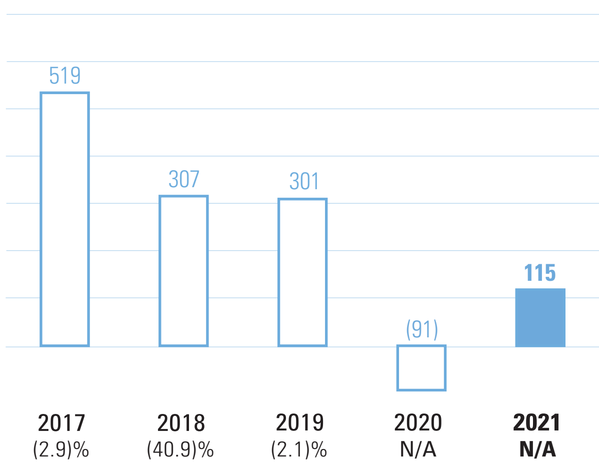
US$ million



% change

Profit/(Loss) Attributable to Owners of the Company

US$ million

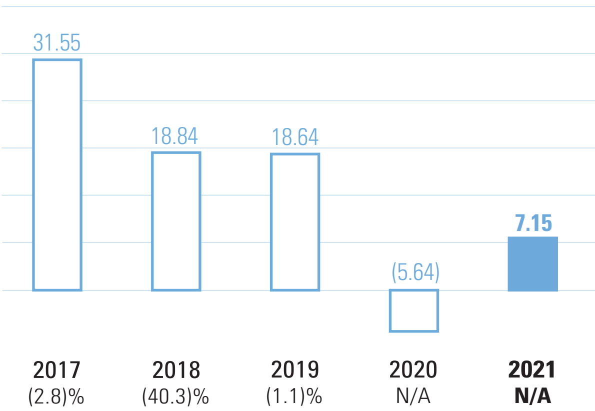


% change

Corporate Overview

Earnings/(Loss) Per Share

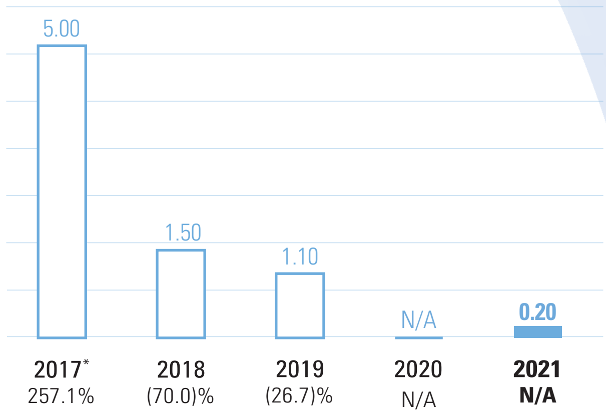
US cents



% change

Dividend Per Share

HK$

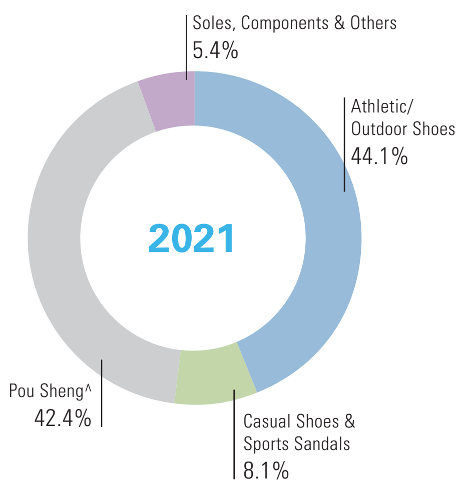


% change

* Including ordinary dividend of HK$1.5 per share and special dividend of HK$3.5 per share

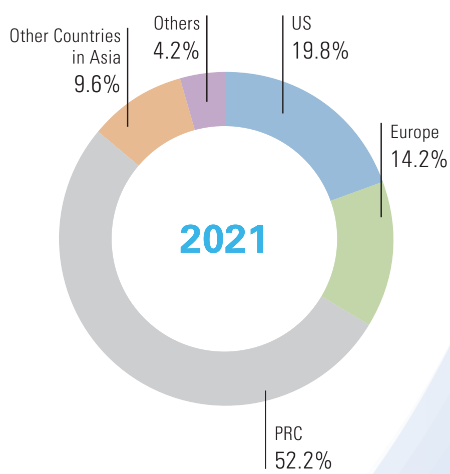
Revenue by Category and Geography for the year ended December 31, 2021

Revenue by Category



^ Sales of the Group's retail subsidiary in China, including shoes, apparel, commissions from concessionaire sales and others

Revenue by Geography



Corporate Information

Executive Directors

Lu Chin Chu *(Chairman)*
Tsai Pei Chun, Patty [5] *(Managing Director)*
Chan Lu Min
Lin Cheng-Tien
Hu Chia-Ho
Liu George Hong-Chih
Yu Huan-Chang

Independent Non-Executive Directors

Wong Hak Kun [1, 2, 3, 4]
Ho Lai Hong [1, 3, 5, 6]
Yen Mun-Gie *(also known as Teresa Yen) (resigned on November 12, 2021)*
Lin Shei-Yuan *(appointed on November 12, 2021)* [1, 3, 5]
Chen Chia-Shen [1, 3]

Notes:

1. *Member of audit committee*
2. *Chairman of audit committee*
3. *Member of remuneration committee*
4. *Chairman of remuneration committee*
5. *Member of nomination committee*
6. *Chairman of nomination committee*

Company Secretary

Chau Chi Ming, Dickens

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

22nd Floor, C-Bons International Center
108 Wai Yip Street
Kwun Tong, Kowloon, Hong Kong

Auditor

Deloitte Touche Tohmatsu

Principal Share Registrar and Transfer Office

MUFG Fund Services (Bermuda) Limited
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

- Bank of Communications
- Bank of Singapore
- Bank SinoPac
- BNP Paribas
- Cathay Bank
- CTBC Bank
- Citibank, N.A.
- Credit Agricole Corporate & Investment Bank
- DBS Bank Ltd.
- J.P. Morgan
- Mizuho Bank Ltd.
- MUFG Bank Ltd.
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- Taishin International Bank
- UBS AG
- United Overseas Bank Ltd.

Solicitors

Reed Smith Richards Butler LLP

Website

www.yueyuen.com

STOCK CODE: 00551


China
Taiwan
Bangladesh
Myanmar
Vietnam
Cambodia
Indonesia

Chairman's Statement

LOOKING FOR SUSTAINABLE GROWTH

Dear Shareholders,

I am pleased to present the annual results of Yue Yuen Industrial (Holdings) Limited (the "Company" and together with its subsidiaries, the "Group") for the financial year ended December 31, 2021, to the shareholders of the Company (the "Shareholders").

Chairman's Statement

Growing yet Volatile Market

2021 was a year of volatility, accompanied by a strong but uneven rebound of the global economy amid increasing headwinds caused by new viral variants of the 2019 novel coronavirus ("COVID-19") pandemic (the "Pandemic").

The global sporting goods industry experienced a broad demand recovery, growing by 14% in 2021 according to the World Federation of the Sporting Goods Industry ("WFSGI") and McKinsey, despite the tough macroeconomic environment and other disruptions. It is also expected to see a medium-term positive outlook, growing 8-10% a year up to 2025. China – the home market of Pou Sheng International (Holdings) Limited ("Pou Sheng"), our sportswear retail subsidiary, is expected to see faster growth in this segment, expanding at a CAGR of 13.7% from 2021-2025. According to the National Bureau of Statistics of China, the national sales of garments, footwear, hats and knitwear grew by 12.7% in 2021, outperforming overall retail growth in mainland China as overall consumption recovered to above pre-Pandemic levels.

Despite benefiting strongly from these rebounds in the first half of the year, several headwinds later emerged that hampered our progress. On the manufacturing side of the business, the resurgence of COVID-19 in Southern Vietnam resulted in a temporary production halt at our manufacturing facilities located in the region, which triggered disrupted material supply, as well as shipping congestion and delays. This was also reflected in the decelerated growth of Vietnamese footwear exports to 4.9% for the 2021 full year, as compared to the strong 27.7% year-over-year jump seen in the first half of the year, according to Vietnam's Ministry of Industry and Trade. On the retail side, market dynamics that emerged in late March disrupted Pou Sheng's recovery from the Pandemic, coupled with a shortage of product supply that was later exacerbated by declining consumer sentiment towards the end of the year as the mainland China region experienced sporadic outbreaks of COVID-19 once again.

Resilient Business Performance Driven by Agility

Riding through the turbulence of the Pandemic, the Group managed to reverse the negative growth and loss recorded in 2020. In the financial year ended December 31, 2021, our overall consolidated revenue rose 1.0% to US$8.5 billion, compared to US$8.4 billion in 2020. Volumes were down slightly compared to the previous year with athletic/outdoor footwear remaining the largest contributor, accounting for 84.5% of overall footwear manufacturing revenue (44.1% of our consolidated revenue), and casual shoes and sports sandals accounting for 15.5% of our footwear manufacturing revenue (8.1% of our consolidated revenue). Returning to profitability, Yue Yuen recorded a profit attributable to owners of the Company of US$115.1 million, compared to a loss attributable to owners of the Company of US$90.8 million in 2020.

To combat the numerous headwinds faced this year, especially the disruption to our manufacturing operations in Vietnam in the latter half of 2021, the Group maintained the highest level of flexibility and progressively ramped up its production to higher levels in a safe and orderly manner, while making the health, safety and welfare of our employees its top priority. And to meet the ever-changing operating needs of the manufacturing business, we committed to investing in the future, resuming our capital expenditure program to strategically diversify our manufacturing base into cost and labor supply competitive regions, especially in Indonesia where we plan to further expand our production capacity. This will improve our cost-efficiency while we drive high value growth with our brand partners.

Digital Transformation Remains Our Core Strategy

We continue to strengthen our competitiveness by investing in innovation, digitalization, process re-engineering and automation as part of our ongoing Manufacturing Excellence and smart factory strategy. We position ourselves as an indispensable strategic supplier and partner to global sporting brands, providing superior quality, best-in-class production innovation, development, services and

Chairman's Statement

flexibility that further deepens the relationship with our long-term customers, who are demanding greater versatility, fast turnaround times, on-time delivery and end-to-end capability. This success is inseparable with a more committed roll-out of the third wave of our SAP ERP system, as well as increasingly important Robotic Process Automation (RPA).

The deepening of relationships with our brand partner was also a key focus for positioning Pou Sheng for the future. In 2021, it launched a pilot Omni-Hub program with brand partners to efficiently share products across each other's online platforms to optimize its inventory mix and sales efficiency. Together with other inventory integration initiatives, this helped ease inventory pressure amid volatile market conditions. Strengthening its membership programs is the next step as customer engagement becomes ever more important. Pou Sheng recently entered into a strategic partnership with Nike to provide seamless consumer experiences, allowing customers to access the same products, offers, and exclusive experiences at Nike stores in China operated by Pou Sheng or directly by the brand itself.

Pou Sheng continued to accelerate the growth of its omni-channels as digital takes the center stage, particularly its private traffic channels led by its 'Pan-WeChat Ecosphere', through which it can make more in-season full-price sales, in ways that connect fully with and are integrated with its brick-and-mortar network. Omni-channels accounted for 21% of Pou Sheng's total sales in 2021 and, as of the end of the year, it had 4,631 directly operated stores and 3,786 stores operated by sub-distributors across the Greater China region. Pou Sheng also opened its second 'Next Store' – its new large-scale store format specifically designed to support the growth of its omni-channel capabilities and a testbed for experimenting with different sports services and concepts – in Shenyang in 2021.

Expanding ESG Commitments

In chaotic times like this, we uphold the highest level of respect for the environment and the people who contribute to our business. Throughout the year, the Group further strengthened its commitment to sustainability, ethical conduct, and corporate values. Together with our parent company, Pou Chen Group ("Pou Chen"), we are committed to actively participating in various initiatives developed by the Fair Labor Association ("FLA"), such as the 2021 Classy Award-winning 'fair compensation tools,' which are applied to measure living wage progress, scientifically implementing social commitments to improve worker wages and their quality of life. As an accredited member, we continue to follow guidelines and codes of conduct covering areas including environmental protection, labor protection and rights, and occupational health and work safety, among others. The Group is also following its brand customers' commitment, formulating systematic approaches to achieve a more proactive greenhouse gas emissions target, with a goal of reducing our emissions by 46.2% by 2030, as compared with the base year of 2019.

2022: Strong Regrowth Potential while Seeding for the Future

Looking ahead to 2022, as some of the above headwinds ease, we remain cautiously optimistic about the recovery momentum of our manufacturing and retail businesses, within the confines of the ongoing Pandemic and as new trends and uncertainties emerge, particularly as we shift production allocation to labor-abundant locations. But the prospects for the medium to long-term are bright, with global demand for sportswear remaining robust amid Pandemic-changed lifestyles, increased health awareness and the growing 'athleisure' trend. By continuing to implement strategies for manufacturing excellence and digitally transforming our retail business, we are confident about securing long-term sustainable growth and profitability for our shareholders.

On behalf of the board of directors of the Company (the "Board"), I would like to take this opportunity to thank our customers, suppliers, business associates, and shareholders for their invaluable and enduring support. I would also like to thank my dedicated colleagues who continue to deliver above and beyond.

Lu Chin Chu
Chairman

Hong Kong
March 15, 2022

Management Discussion and Analysis

BUILD VALUE FOR OUR STAKEHOLDERS

Business Review

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region through its listed subsidiary Pou Sheng.

In 2021, the Group faced a volatile operating environment. In the first half of 2021, it benefited from a rebound in the global sportswear market as it emerged from the depths of the COVID-19 Pandemic. However, in the third quarter of 2021, a resurgence of COVID-19 in Southern Vietnam compelled local authorities to adopt more rigorous prevention measures, including lockdowns in Ho Chi Minh City and its surrounding industrial provinces. This together with the other headwinds stemming from the Pandemic significantly impacted the Group's manufacturing operations from mid-July, 2021. Encouragingly, in the final few months of 2021, the Group was able to gradually re-open and ramp up capacity utilization at its factories in Southern Vietnam, thanks to a rapid on-site vaccination roll-out. Yet, the disruption inevitably place a shadow on the growth recovery and profitability of the Group's manufacturing business during the year under review.

Management Discussion and Analysis

Business Review (continued)

Pou Sheng also faced a challenging and bumpy recovery in 2021. Revenue and margins bounced back strongly in the first quarter of 2021 as consumption recovered to pre-Pandemic levels. However, market dynamics that emerged from late March weighed on Pou Sheng's sales momentum throughout much of the rest of the year 2021, a trend that was further compounded by weakening consumer sentiment and shortage of product supply caused by the sporadic resurgence of COVID-19 in mainland China and South-East Asia countries in the latter half of the year 2021. To combat these headwinds, Pou Sheng continued its digital transformation, scaling up its omni-channels, deepening consumer engagement and improving its operational efficiency. Pou Sheng also strengthened its cooperation with brand partners by pioneering innovative strategies that support membership growth, increase in-season sales volumes and maximize experience and value for customers. For more details of financials and strategies of the Group's retail business, please refer to the annual report of Pou Sheng.

Despite the dynamic operating environment detailed above, the Group remains committed to sustainability, ethical conduct, and corporate values. When making important business decisions, the Group considers the interests of all stakeholders, including employees and the surrounding community. The Group monitors and manages its business using comprehensive guidelines for employee relations, workplace safety, and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity.

Yue Yuen's parent company – Pou Chen has been accredited by the FLA as a result of the Group's efforts in the above areas of labor rights and sustainability. In addition, as a responsible leader in the footwear industry, Yue Yuen continues to be a member of the WFSGI and supports the principles of the WFSGI Code of Conduct. In 2021, the Group made further progress in combating climate change, following its brand customers' commitments to the Science Based Targets initiative (SBTi), formulating systematic approaches to achieve a more proactive greenhouse gas emissions reduction target, with a goal of reducing our emissions by 46.2% by 2030, as compared with the base year of 2019.

As a people-oriented business, the Group is dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. It also places all employees' health, safety, and welfare at top priority in a time of multifaceted disruption. For more details on the Group's sustainable development strategy and reporting of its practices on environmental, social, and governance, please refer to the 2021 Environmental, Social and Governance Report of the Company.

Results of Operations

In the year ended December 31, 2021, the Group recorded revenue of US$8,533.3 million, representing an increase of 1.0%, compared with the previous year, with the solid recovery seen in the first half of 2021 largely offset by the disruption to its manufacturing operations in Vietnam and weak retail sales in the second half of the year. Having withstood the turbulent climate throughout the year under review, the Group managed a decent turnaround, recording a profit attributable to owners of the Company of US$115.1 million, compared to a loss attributable to owners of the Company of US$90.8 million for the previous year. Basic earnings per share for the year was 7.15 US cents, compared to a basic loss per share of 5.64 US cents for the previous year.

Management Discussion and Analysis

Results of Operations (continued)

Total Revenue by Category

In the year ended December 31, 2021, revenue attributed to footwear manufacturing activity (including athletic/outdoor shoes, casual shoes, and sports sandals) increased by 1.8% to US$4,450.5 million, compared with the previous year. The volume of shoes shipped during the year was 238.3 million pairs, representing a decline of 2.5% over last year, with most of the earlier solid recovery in demand neutralized by the negative impact of COVID-19 lockdowns in Southern Vietnam. The resurgence of the Pandemic led to production halts in Vietnam, material supply disruption, as well as shipping congestion and delays in some of the Group's production countries in the latter half of 2021. The Group's average selling price increased by 4.4% to US$18.68 per pair in 2021, as compared with the previous year, led largely by its continued efforts to refine its product mix with a focus on more high-value orders.

The Group's athletic/outdoor shoes category accounted for 84.5% of footwear manufacturing revenue in 2021. Casual shoes and sports sandals accounted for 15.5% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic/outdoor shoes represented the Group's principal category, accounting for 44.1% of total revenue, followed by casual shoes and sports sandals, which accounted for 8.1% of total revenue.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components, and others) was US$4,914.0 million in 2021, representing an increase of 3.8% as compared to the previous year.

In the year ended December 31, 2021, the revenue attributed to Pou Sheng fell by 2.4% to US$3,619.3 million, compared to US$3,709.2 million in the previous year. In RMB terms (Pou Sheng's reporting currency), revenue decreased by 8.8% to RMB23,350.2 million, compared to RMB25,611.1 million in the previous year, which was mainly attributed to market dynamics, sporadic Pandemic outbreaks and disrupted product supply in China one after another, and weakened consumer sentiment in recent quarters. As of December 31, 2021, Pou Sheng had 4,631 directly operated retail outlets and 3,786 stores operated by sub-distributors across the Greater China region, representing a net closure of 658 stores as compared with the previous year. The net closure is in line with Pou Sheng's channel optimization strategy that focuses on refining store networks to enhance efficiency, and therefore the contribution of quality larger-format stores to directly operated stores rose to 16.2%.

Total Revenue by Category

	For the year ended December 31,				
	2021		2020		*change*
	US$ million	***%***	*US$ million*	*%*	*%*
Athletic/Outdoor Shoes*	**3,762.2**	**44.1**	3,666.6	43.4	2.6
Casual Shoes & Sports Sandals*	**688.3**	**8.1**	706.3	8.4	(2.5)
Soles, Components & Others	**463.5**	**5.4**	362.8	4.3	27.8
Pou Sheng**	**3,619.3**	**42.4**	3,709.2	43.9	(2.4)
Total Revenue	**8,533.3**	**100.0**	8,444.9	100.0	1.0

* *The comparative figures were regrouped in accordance with the Group's new category classification*

** *Sales of the Group's retail subsidiary in China, including shoes, apparel, commissions from concessionaire sales and others*

Management Discussion and Analysis

Results of Operations (continued)

Total Revenue by Category (continued)

Manufacturing orders from international brands are received by business units that manage each customer and normally take about ten to twelve weeks to fill. Reducing lead times in response to the fast fashion trend remains at the core of many customers' long-term success, with an increasing number of orders requesting a shorter lead-time of between 30-45 days. Nevertheless, some customers' short-term priority is on capacity and product availability, as well as on-time delivery.

Sales from the Group's retail business across the Greater China region are recorded on a daily basis, or at periodic intervals if from sub-distributors.

Production Review

In 2021, the Group's manufacturing business shipped a total of 238.3 million pairs of shoes, a decrease of 2.5% compared to the 244.4 million pairs shipped in the previous year. The average selling price per pair was US$18.68, an increase of 4.4% as compared to US$17.89 for the previous year, led by resilient demand in high-value orders.

In terms of production allocation, Vietnam, Indonesia and China continued to be the Group's main production locations by shoe volume in 2021, representing 35%, 48%, and 12% of total shoe shipments, respectively. The shipment contribution from Vietnam was temporarily impacted due to production disruption led by COVID-19, which reaffirmed the Group's focus on further optimization of country of origin.

Cost Review

With respect to the cost of goods sold for the Group's manufacturing business in 2021, total main material costs were US$1,824.4 million (2020: US$1,731.7 million). The direct labor costs and production overheads were US$2,327.8 million (2020: US$2,306.5 million). The total cost of goods sold by the Group's manufacturing business was US$4,152.2 million in 2021 (2020: US$4,038.2 million). For the Group's retail business, Pou Sheng, cost of sales were US$2,332.9 million in 2021 (2020: US$2,575.7 million).

In the year ended December 31, 2021, the Group's gross profit increased by 11.9% to US$2,048.2 million. The overall gross profit margin increased by 2.3 percentage points to 24.0%.

The gross profit of the manufacturing business increased by 9.2% to US$761.8 million, whilst the gross profit margin expanded by 0.8 percentage points to 15.5%, as compared to the previous year, alongside positive operating leverage particularly in the first half of 2021. Yet margin recovery was weighed down by production halts at the Group's factories located in Southern Vietnam, together with material supply bottlenecks in the second half of the year that affected much of the footwear manufacturing industry there. As the Group's manufacturing operations in Vietnam progressively recovered in the last quarter of 2021, it continued to streamline its operations on top of an improving order fill rate and more balanced capacity utilization, to restore operational efficiency. As such, a decent sequential improvement of gross profit margin was seen in the Group's manufacturing business during the fourth quarter of 2021, as compared with the third quarter of 2021.

Management Discussion and Analysis

Results of Operations (continued)

Cost of Goods Sold Analysis – Manufacturing Business

	For the year ended December 31,				
	2021		2020		change
	US$ million	***%***	*US$ million*	*%*	*%*
Main Material Costs	**1,824.4**	**43.9**	1,731.7	42.9	5.4
Direct Labor Costs & Production Overheads	**2,327.8**	**56.1**	2,306.5	57.1	0.9
Total Cost of Goods Sold	**4,152.2**	**100.0**	4,038.2	100.0	2.8

The gross profit margin for Pou Sheng increased by 4.9 percentage points to 35.5% as compared to the previous year, which was mainly attributed to disciplined discount controls and enhanced sales mix.

The Group's total selling and distribution expenses for 2021 amounted to US$1,189.5 million (2020: US$1,079.2 million), equivalent to approximately 13.9% (2020: 12.8%) of revenue.

Administrative expenses for 2021 amounted to US$611.9 million (2020: US$546.7 million), equivalent to approximately 7.2% (2020: 6.5%) of revenue.

Net other expenses for 2021 decreased significantly by 60.5% to US$85.3 million (2020: US$215.9 million), equivalent to approximately 1.0% (2020: 2.6%) of revenue. The sharp decrease was mostly due to a high base in 2020, the majority of which were one-off charges of approximately US$107 million arising from factory adjustments on the manufacturing side.

Recurring Profit/Loss Attributable to Owners of the Company

For the year ended December 31, 2021, the Group recognized a non-recurring profit attributable to owners of the Company of US$52.1 million, which included a combined gain of US$33.6 million due to fair value changes on financial instruments at fair value through profit or loss ("FVTPL") and investment properties, and a combined one-off gain of US$32.0 million on the disposal of a joint venture and associates, which was partly offset by an impairment loss of US$14.0 million on interest in an associate. In 2020, the Group recognized a non-recurring loss attributable to owners of the Company of US$22.4 million, which included a loss of US$30.4 million due to fair value changes on financial instruments at FVTPL and an impairment loss of US$14.0 million on the interest in an associate, which was offset by a one-off gain of US$15.7 million on the partial disposal of an interest in a joint venture.

Excluding all items of non-recurring in nature, the recurring profit attributable to owners of the Company for the year ended December 31, 2021 was US$63.0 million, compared to a recurring loss attributable to owners of the Company of US$68.4 million for the previous year.

Results of Operations (continued)

Product Development

In 2021, the Group spent US$185.4 million (2020: US$187.1 million) on product development, including investments in sampling and digital prototyping, technological and process engineering, as well as production efficiency enhancements. For each of the major branded customers that has an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to this product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead-time and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and sustainable materials into the design, development, and manufacture of its products.

Liquidity, Financial Resources, Capital Structure and Others

Cash Flow

The Group recorded net cash generated from operating activities (net of tax) of US$463.1 million in 2021 (2020: US$834.2 million). Free cash flow amounted to US$177.1 million (2020: US$578.9 million). During the year under review, net cash used in investing and financing activities amounted to US$96.8 million (2020: US$298.2 million) and US$431.3 million (2020: US$640.4 million) respectively. Overall net decrease in cash and cash equivalents amounted to US$65.0 million (2020: US$104.4 million).

Financial Position and Liquidity

The Group's financial position remained solid. As at December 31, 2021, the Group had cash and cash equivalents of US$838.0 million (December 31, 2020: US$897.0 million) and total bank borrowings of US$1,717.1 million (December 31, 2020: US$1,867.9 million). The Group's gearing ratio (total bank borrowings to total equity) was 37.3% (December 31, 2020: 42.7%). As at December 31, 2021, the Group had net borrowing of US$879.1 million (December 31, 2020: US$971.0 million). As at December 31, 2021, the Group had current assets of US$4,519.4 million (December 31, 2020: US$4,235.9 million) and current liabilities of US$2,468.5 million (December 31, 2020: US$2,337.9 million). The current ratio was 1.8 as at December 31, 2021 (December 31, 2020: 1.8).

Funding and Capital Structure

The Group principally meets its current and future working capital, capital expenditure and other investment requirements through a combination funding sources, including cash flows from operations and bank borrowings. With regard to the choice of debt versus equity financing, which would thus affect its capital structure, the Group will consider the impact on its weighted average cost of capital and its leverage ratio, etc., with an aim of lowering the weighted average cost of capital while maintaining its gearing ratio at a comfortable level. The Group used debt financing mostly by means of bank loans. In terms of the maturity profile of loans, most of the bank loans for the Group's manufacturing business were long-term committed facilities that partly meet the funding needs of its capital expenditures and long-term investments. Short-term revolving loans facilities were also utilized regularly for daily working capital purposes, especially for the Group's retail business. At present, the Group maintains an abundant level of bank facilities to meet its working capital needs. For long term bank loans, in view of the substantial amount due in 2022, the Group found it appropriate and prudent to early refinance the US$870 million club loan originally due in July 2022 with new term loans which were completed in the fourth quarter of 2021. As of December 31, 2021, around 61.8% of the Group's total bank borrowings had a remaining tenor of over one year.

Liquidity, Financial Resources, Capital Structure and Others (continued)

Funding and Capital Structure (continued)

Almost all of the bank borrowings of the Group relating to its manufacturing business are in USD. The Group's cash holdings in relation to its manufacturing business are held in USD and also in the local currencies (e.g. VND, IDR, RMB) of the various countries where its production facilities are located for daily operation purposes. For the Group's retail business, Pou Sheng's bank borrowings and cash balances are held mostly in RMB, which is its functional currency.

The vast majority of the Group's bank borrowings were on a floating rate basis. A portion of the Group's floating interest rate risk exposure was hedged by interest rate swaps.

Capital Expenditure

In 2021, the Group's overall capital expenditure reached US$286.0 million (2020: US$255.3 million). The capital expenditure for the Group's manufacturing business was US$215.9 million (2020: US$170.6 million), as it proceeded with its capital expenditure program targeting strategic expansion and optimization of its manufacturing capacity prudently after delaying some projects in 2020.

As for investments in its retail business Pou Sheng, capital expenditure declined to US$70.1 million in 2021 (2020: US$84.7 million), in line with its channel optimization strategy. Pou Sheng continued to invest in the selective opening and upgrade of experience-driven retail stores that provide a better shopping experience, as well as investing in the further optimization of both of its online and physical networks to capture growth opportunities in the Greater China region.

Apart from investments for operation purposes, which may be made in the Group's ordinary and usual course of business, the Group presently does not have any plans for making material investments or acquiring capital assets.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the detail of which can be seen in Note 42 to the consolidated financial statements.

Liquidity, Financial Resources, Capital Structure and Others (continued)

Foreign Exchange Exposure

All revenues from the manufacturing business are denominated in US dollars. The majority of material and component costs are paid in US dollars, while expenses incurred locally are paid for in the local currency i.e. wages, utilities, and local regulatory fees. A certain portion of IDR exposure is partly hedged with forward contracts.

For the Group's retail business in the Greater China region, the majority of its revenues are denominated in RMB. Correspondingly, almost all expenses are also denominated in RMB. For the retail business outside mainland China, both revenues and expenses are denominated in local currencies.

Significant Investments and Material Acquisitions/Disposals

On December 31, 2021, an indirect wholly owned subsidiary of Pou Sheng entered into an equity transfer agreement with a joint venture partner to acquire its 45% equity interest of Kunshan Baowei Information Technology Co., Ltd., a joint venture jointly controlled by the Group and the joint venture partner, the details of the transactions can be seen in Notes 4(a)(iii) and 39 to the consolidated financial statements.

Share of Results of Associates and Joint Ventures

In 2021, the share of results of associates and joint ventures recorded a combined profit of US$11.8 million, compared to a combined profit of US$48.8 million in the previous year.

Dividends

In light of the improving operating environment notwithstanding ongoing volatility, the Board has resolved to declare a final dividend of HK$0.20 per share (2020: Nil) for shareholders whose names appear on the register of members of the Company on Monday, June 6, 2022. The final dividend shall be paid on Thursday, June 23, 2022.

The Group's commitment to upholding a relatively steady dividend level over the long-term remains intact.

Management Discussion and Analysis

Employees

As at December 31, 2021, the Group had approximately 317,200 employees employed across all regions in which it operates, an increase of 6.3% as compared to approximately 298,500 employees employed as at December 31, 2020. The Group adopts a remuneration system based on an employee's performance throughout the year and prevailing salary levels in the market.

The Group believes that employees are important assets and applies a holistic approach to the recruitment, employment, training, and retention of employees.

The Group employs a competitive remuneration scheme and provides comprehensive employee benefits, in line with the relevant laws and regulations applicable to each of its operating locations. It sets aside a certain percentage of profits, according to the annual performance of the Group, as year-end bonuses to reward employees' contributions and work enthusiasm, allowing them to share in its operating results. It also provides insurance plans that are tailor-made to each operating location to reduce the medical expense burden of employees, as well as pension fund contributions in compliance with the laws and regulations of the local jurisdictions in which the Group operates.

The Group regularly provides internal and external training courses at all levels, including new employees training, professional training, management training, environmental safety training, and corporate core values training, to enable the Group's employees and management to enhance their skills and achieve expertise, as well as to boost their morale.

The social compliance program of the Group's parent, Pou Chen Group has been accredited by the FLA, a non-profit organization dedicated to protecting workers' rights around the world, making the Group the first and only FLA-accredited footwear supplier globally. The accreditation recognized the Group's commitment to responsible recruitment aimed at implementing workplace standards globally; implementing a comprehensive system to evaluate and incentivize manufacturing facilities and material suppliers to improve working conditions; investing in a social compliance program, training, and remediation; improving its transparency in remediating labor violations at its production sites and establish multiple grievance channels; and on top of all the programs above, actively participate in FLA's initiatives such as fair compensation project.

Management Discussion and Analysis

Prospects

The Group is cautiously optimistic about its continued recovery momentum, with global demand remaining strong and with the Group seeing a good and more visible order pipeline. The Group's productivity in Southern Vietnam has increased with production having progressively resumed since October 2021, in compliance with local government regulations and safety criteria. This allows it to ramp up production to normal levels ahead of planned capacity expansion later in 2022. The Group will continue to actively manage its supply chain and dynamically allocate its manufacturing capacity to balance demand, its order pipeline, and labor supply.

With an eye on its medium-term recovery, the Group will continue to maintain the highest level of flexibility to sustain its efficiency and productivity, leverage its core strengths, adaptability, and competitive edges to overcome short-term disruptions, if any, and safeguard its sustainable growth and profitability in 2022. It will also continue to exploit its strategy of prioritizing value growth, rather than pure volume growth, leveraging the 'athleisure' and premiumization trend and seek more high-value orders with better product mix. The Group will continue to ramp up and diversify its manufacturing capacity in Southeast Asia, particularly in Indonesia where labor supply and infrastructure is supportive for faster growth.

That said, potential risks on the manufacturing side of the Group's business remain, particularly those posed by the COVID-19 situation in Southeast Asia and mainland China, as well as from labor supply in certain Southeast Asia countries. The Group remains highly focused on actively monitoring macroeconomic and other potential headwinds in order to facilitate rapid response plans to mitigate the impact accordingly.

Over the longer term, the Group is continuing to explore ways to digitalize its processes to achieve operational excellence within its manufacturing business, having recently rolled out the third wave of SAP ERP implementation as an integral part of its digital transformation strategy. It will proactively adapt its production capacity and capability to cater to the fast-moving market environment and ongoing trends, including increased demand from brand customers for greater versatility, flexibility, more efficient turnaround times, on-time delivery, and end-to-end capability. This includes enabling digital prototyping, automation, more flexible set-ups and frequent line change-overs through process re-engineering, and the further integration of other digitalization tools such as increasingly important Robotic Process Automation (RPA), to optimize its ongoing smart manufacturing strategy.

Prospects (continued)

The Group remains optimistic about the long-term growth prospects of its retail business with Pou Sheng continuing to progress its digital transformation in ways that strengthen and further diversify its omni-channels and increasingly digitally-enabled physical stores. It will also continue to enhance its business intelligence system and invest in its digital tools such as smart product allocation, dashboard and E-POS systems to better support its operations. Pou Sheng is also actively expanding its cooperation with its brand partners, many of whom are also long-term and strategic customers of the Group's manufacturing business, in ways that support inventory integration, membership growth, increase in-season sales volumes and maximize value for consumers, all of which is designed to translate into a seamless shopping experience. In this way, the Group will continue to benefit from cross-business synergies while providing differentiated value-added and one-stop services to its customers and strategic partners.

Going forward, the Group remains confident that the above strategies will enable it to continue providing its brand partners with the best possible end-to-end solutions, anchoring its quality growth while safeguarding its solid long-term profitability and ability to deliver sustainable returns to shareholders.

Biographical Details of Directors and Senior Management

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AND TALENTS
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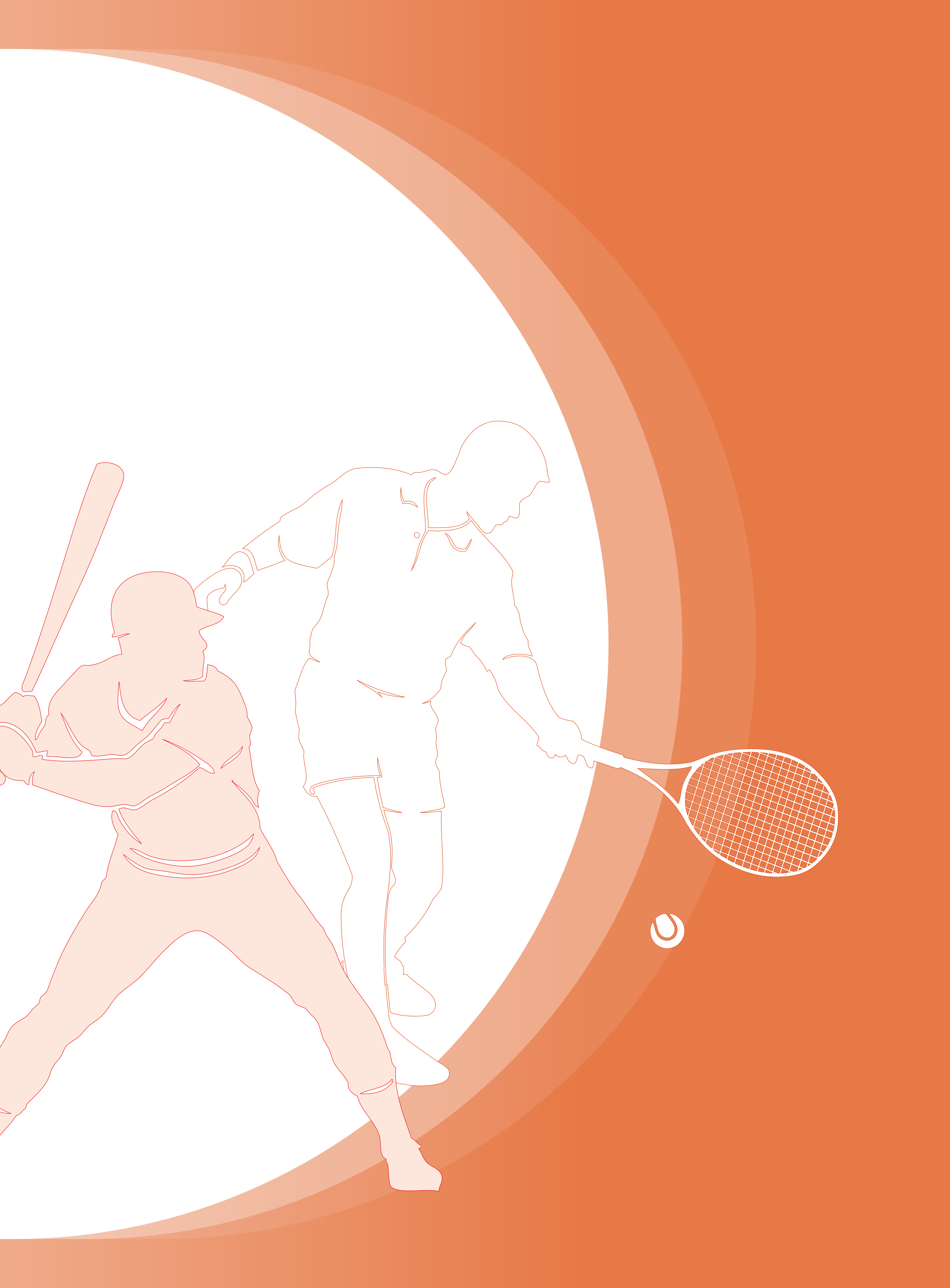
Executive Directors

Mr. Lu Chin Chu, aged 68, has been an executive director and the chairman of the Company since March 26, 2014. Mr. Lu was an executive director of the Company from February 15, 1996 to March 4, 2011. He is in charge of the management of the real estate of the Group. He is a director of certain subsidiaries of the Company. He joined Pou Chen Corporation ("PCC"), being listed on the Taiwan Stock Exchange ("TSE"), in 1977, is the president of the real estate department of PCC. Mr. Lu is also the president and a director of PCC and he is involved primarily in board level and strategic issues. He is also a director of Wealthplus Holdings Limited ("Wealthplus") and Win Fortune Investments Limited ("Win Fortune"), both are wholly-owned subsidiaries of PCC. PCC, through Wealthplus and Win Fortune, has interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Lu has over 44 years of experience in the manufacturing of footwear and footwear materials, and holds a Master Degree in Business Administration from National Chung Hsing University in Taiwan. Mr. Lu was a non-executive director of Prosperous Industrial (Holdings) Limited ("Prosperous") from March 29, 2018 to March 31, 2020 and a non-executive director of Luen Thai Holdings Limited from September 17, 2007 to February 15, 2017, both companies being listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is a director of San Fang Chemical Industry Co., Ltd. ("San Fang") and was also a director of Evermore Chemical Industry Co., Ltd. from June 19, 2006 to January 16, 2018, both companies being listed on the TSE. Mr. Lu is involved in board level activities and is not engaged in the day-to-day management of San Fang.



Biographical Details of Directors and Senior Management

Ms. Tsai Pei Chun, Patty, aged 42, has served as an executive director of the Company since January 18, 2005 with a focus on the Group's strategic planning and enterprise developments. She has been the managing director of the Company since June 28, 2013. She graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science Degree in Economics with a concentration in Finance and a College Minor in Psychology. She joined PCC in 2002. Ms. Tsai currently also serves as a non-executive director of Pou Sheng, a non-wholly owned subsidiary of the Company, whose shares are listed on the main board of the Stock Exchange. She is also a director of PCC and Wealthplus. Both PCC and Wealthplus are companies having interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO. She previously served as a board director of Mega Financial Holding Company Limited, a company listed on the TSE.

Mr. Chan Lu Min, aged 67, was appointed as an executive director of the Company on March 7, 2001. He is a director of certain subsidiaries of the Company. Mr. Chan joined PCC in 2001. He is a director and the chairman of PCC and the president of administration management department and in charge of finance and accounting. He has 41 years of finance and accounting experience in Taiwan. Mr. Chan is a graduate of Chung Hsing University in Taiwan. Mr. Chan is also a director of Wealthplus and Win Fortune. PCC, through Wealthplus and Win Fortune, has interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO.

Mr. Lin Cheng-Tien, aged 62, graduated from South Fields College, United Kingdom majoring in shoe manufacturing. Mr. Lin was appointed as an executive director of the Company on March 20, 2015. He is also a director of certain subsidiaries of the Company. He joined PCC in 1990 and is a senior executive vice president of PCC responsible for the production, sales and marketing of certain footwear brand customers. He was the head of a business unit of PCC. Mr. Lin has more than 31 years of experience in the footwear sector. Prior to joining the Group, Mr. Lin had worked with a renowned footwear manufacturing company in Taiwan responsible for the business and development of different brands.

Mr. Hu Chia-Ho, aged 53, graduated from the University of Wisconsin, Madison, the United States of America with a Master's degree of Science. Mr. Hu was appointed as an executive director of the Company on March 20, 2015. He is also a director of certain subsidiaries of the Company. He joined PCC in 1997. He is a vice president of PCC and was the head of the Human Resources Department of PCC and became the head of CEO office of PCC on April 1, 2020. He has extensive experience in human resources management and business development. Prior to joining PCC, Mr. Hu had worked with Citibank Taiwan and was responsible for corporate financing and the related businesses. Mr. Hu has been an executive director of Eagle Nice (International) Holdings Limited ("Eagle Nice"), a company listed on the main board of the Stock Exchange, since December 1, 2020.

Biographical Details of Directors and Senior Management

Mr. Liu George Hong-Chih, aged 49, holds a Master of Business Administration Degree in Finance and Entrepreneurial Management from The Wharton School of University of Pennsylvania and Bachelor of Arts Degree in Economics and International Studies from Yale University. Mr. Liu joined the Company on April 29, 2013 and was appointed as an executive director of the Company on June 28, 2013. He is also a director of certain subsidiaries of the Company. He is a vice president of PCC responsible for the business development and production management of certain major brands. Mr. Liu worked as a management consultant with Bain & Company in the U.S. and Beijing, China, after graduating from university. Mr. Liu was with Morgan Stanley from 2000 to 2010 with primary responsibility in deal origination and execution and client coverage in Greater China. Mr. Liu last held the position of executive director with Morgan Stanley. In June 2010, Mr. Liu joined China International Capital Corporation as managing director and head of Hong Kong Investment Banking Department. Mr. Liu was also a non-executive director of Symphony Holdings Limited, a company listed on the main board of the Stock Exchange, from August 20, 2014 to June 1, 2015.

Mr. Yu Huan-Chang, aged 57, holds an Executive Master Degree of Business Administration from China Europe International Business School (CEIBS) in Shanghai and a Master Degree of Business Administration from Fu Jen Catholic University. Mr. Yu was appointed as an executive director of the Company on April 27, 2020 and the Chief Financial Officer of the Company. He is also a director of certain subsidiaries of the Company. He is also the Head of Strategy and Investment Department of PCC. Before joining the Group, Mr. Yu was the chief financial officer of Castle Snack International (HK) Limited from 2015 to 2019. He also served as the head of the finance department of beverage division and the head of the investment management department of Tingyi (Cayman Islands) Holding Corp., a company listed on the main board of the Stock Exchange, from 2010 to 2015. From 2012 to 2013, he concurrently served as the chief financial officer and vice president of Pepsi (China) Investment Co., Ltd. From 2004 to 2010, he served as the chief financial officer, head of general administrative division and head of the global administrative center of ATEN International Co., Ltd., a company listed on the TSE.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Wong Hak Kun, aged 65, graduated from The University of Hong Kong with a Bachelor Degree in Social Sciences. He is a member of Hong Kong Institute of Certified Public Accountants. He is also a member of Association of Chartered Certified Accountants, Chartered Institute of Management Accountants as well as The Hong Kong Chartered Governance Institute. Mr. Wong was appointed as an independent non-executive director of the Company on June 1, 2018. Mr. Wong has over 36 years of audit, assurance and management experiences with Deloitte China, of which he was a partner since 1992. Mr. Wong also served as a member of Deloitte China's Governance Board from years 2000 to 2008. Prior to his retirement from Deloitte China in May 2017, he was the Managing Partner of Deloitte China's Audit and Assurance practice. Mr. Wong is an independent non-executive director of Lung Kee (Bermuda) Holdings Limited, a company listed on the main board of the Stock Exchange, Guangzhou Automobile Group Co., Ltd., a company listed on main board of the Stock Exchange and the Shanghai Stock Exchange, and Haier Smart Home Co., Ltd., a company listed on main board of the Stock Exchange, the Shanghai Stock Exchange and the Frankfurt Stock Exchange. He has been an independent non-executive director of Hangzhou SF Intra-city Industrial Co., Ltd, a company listed on the Stock Exchange on December 14, 2021, since November 30, 2021. Mr. Wong was an independence non-executive director of Zhejiang Cangnan Instrument Group Company Limited, a company delisted on the main board of the Stock Exchange, from June 21, 2018 to July 24, 2021.

Mr. Ho Lai Hong, aged 64, holds a Master of Business Administration Degree from The Hong Kong Polytechnic University. He is a fellow member of The Hong Kong Chartered Governance Institute and a fellow member of the Hong Kong Securities and Investment Institute. He is also a fellow and council member of the Hong Kong Institute of Directors. Mr. Ho was appointed as an independent non-executive director of the Company on May 24, 2019. Mr. Ho has over 30 years of corporate banking, corporate finance and management experiences with Mizuho Bank Ltd. Prior to his retirement from Mizuho Bank Ltd. in March 2018, he was the General Manager/Alternate Chief Executive of Mizuho Bank Ltd. Hong Kong Branch. Mr. Ho is currently an independent non-executive director of Leo Paper Group (Hong Kong) Ltd and used to be an independent non-executive director of Foshan Water and Environmental Protection Co., Ltd.

Mr. Lin Shei-Yuan, aged 59, obtained a Master of Business Administration degree from Boston University in 1992. Mr. Lin was appointed as an independent non-executive director of the Company on November 12, 2021. Mr. Lin is a seasoned banker with 30 years of working experiences in the banking industry in Taiwan. He was the head of corporate and institutional banking of Australia and New Zealand Banking Group, Taiwan from September 2012 to February 2018, and before that, he was the general manager of international corporate banking of Standard Chartered Bank, Taiwan from December 2008 to August 2012. Mr. Lin served Citibank, Taiwan for more than 11 years since August 1997, with his rank up to the managing director of corporate banking and senior credit officer. During his tenure at the banks, Mr. Lin was mainly responsible for managing the corporate finance operations and building up sustainable platforms for those banks to serve clients for their financings needs in Taiwan and globally. He accomplished a number of milestone financing programs and mergers and acquisitions transactions in Greater China and Southeast Asia.

Biographical Details of Directors and Senior Management

Mr. Chen Chia-Shen, aged 67, holds a Doctor of Philosophy Degree in psychology from National Taiwan University. Mr. Chen was appointed as an independent non-executive director of the Company on January 10, 2020. Mr. Chen has worked at National Taiwan University for over 30 years and had acted as the head of the Department and Graduate Institute of Business Administration. He retired as the professor of the Department and Graduate Institute of Business Administration in July 2019 and currently acts as an adjunct professor. He was also a visiting scholar at Wharton School of the University of Pennsylvania, the United States. Mr. Chen has been an independent director of Chia Hsin Cement Corporation, a company listed on the TSE, since 2013. He was also an independent director of CPC Corporation, Taiwan, a public company in Taiwan, for three sessions. He is an external senior consultant at the Industrial Technology Research Institute of Taiwan and the founding chairman and a director of the Taiwan Employee Assistance Professionals Association. He was also the president of the Republic of China Affiliate of the International Council for Small Business and the vice-chairman of the Association of Asian Small and Medium-sized Enterprises.

Senior Management

Mr. Chang Chia Li, aged 64, joined the Group in 2007 and is a director of certain subsidiaries of the Company. He joined PCC in 1997 and is a vice president of the PCC. He is in charge of the management of global supply chain, and the business development and production management of certain major brand. He is a college graduate and has 24 years of experience in the footwear business.

Mr. Hsiao Tsai Yuan (retired on February 1, 2022), aged 63, joined the Group in 2000 and is a director of certain subsidiaries of the Company. He joined PCC in 1981 and is a vice president of the PCC. He is in charge of the business development and production of certain major brands.

Mr. Shih Chih-Hung, aged 56, joined the Group in 2007, is a director of certain subsidiaries of the Company. He joined PCC in 1991 and is a vice president of the PCC. He is responsible for daily accounting and financial management. He graduated from Chung-Yuan University. Mr. Shih has been an executive director of Eagle Nice since April 1, 2020.

Mr. Song Wan Fan, Johnny, aged 64, joined the Group in 2015 and is a director of certain subsidiaries of the Company. He joined PCC in 1995 and is a vice president of the PCC. He is mainly responsible for the promulgation and implementation of administrative policies of the Group in China, Indonesia, Vietnam, Bangladesh, Cambodia and Myanmar. Before joining the Group, he had worked at renowned footwear companies in Taiwan and was responsible for product quality control and administration of factory affairs. He has over 26 years' experience in development and factory management.

Biographical Details of Directors and Senior Management

Mr. Chau Chi Ming, Dickens, aged 58, is a senior director of Finance & Treasury Department of the Group, and is responsible for daily financial management and treasury functions and has also been appointed as Head of Investment Management Division under the Strategy and Investment Department of PCC since January 1, 2021. He is responsible for the Group's post-investment management in relation to various joint ventures and associated companies. He is also a director of certain subsidiaries of the Company. He was the company secretary of the Company (the "Company Secretary") from January 12, 2014 to March 23, 2016 and has been reappointed as the Company Secretary since July 31, 2019. Mr. Chau had worked in the corporate banking field with an international bank before joining the Group in 1993. He graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree, majoring in Finance. He is a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the UK. Mr. Chau has been a non-executive director of Prosperous since March 31, 2020.

Ms. Chua Chun Po, aged 42, is a director of Accounting, responsible for accounting and financial reporting of the Group. She is also a director of certain subsidiaries of the Company. She holds a bachelor degree in business administration, majoring in accountancy and has over 20 years of experience in accounting and auditing. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in 2014, she worked in a reputable international accounting firm, a professional accounting body and a Hong Kong listed company.

Ms. Yau Suet Fong, Christina, aged 61, joined the Group in 1993 and is a director of Accounting & Special Projects of the Group responsible for the financial and management accounting of several major subsidiaries of the Group, tax review and special projects. She holds a Bachelor of Business (Accounting) Degree from Charles Sturt University, Australia and has more than 30 years of accounting experience.

Ms. Wang Chi, Olivia, aged 41, is the Investor Relations Director of the Group. Ms. Wang possesses more than 11 years of professional experience in formulating capital market and investor relations strategies prior to joining the Group in 2017. She was previously in charge of investor relations and strategy at L'Occitane International S.A. and Stella International Holdings Limited, etc. Ms. Wang holds a Master's Degree in Corporate Finance from The Hong Kong Polytechnic University, School of Accounting and Finance, a Master's of Science Degree in Public Policy & Management from Carnegie Mellon University, Heinz College, as well as a Bachelor of Political Science Degree from National Taiwan University.

Directors' Report

The directors of the Company (the "Directors") have the pleasure to present their annual report and the audited consolidated financial statements for the year ended December 31, 2021.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are manufacturing and sales of footwear products, as well as retail and distribution of sportswear and footwear products. Retail operation also includes provision of large scale commercial spaces to retailers and distributors.

Results and Appropriations

The results of the Group for the year ended December 31, 2021 are set out in the consolidated income statement on page 84 of the annual report.

During the year, the Board has resolved not to declare an interim dividend payment for the six months ended June 30, 2021. The Directors recommend the payment of a final dividend of HK$0.20 per share to the Shareholders whose names appear on the register of members of the Company on June 6, 2022, amounting to approximately HK$322,076,000.

Subsidiaries, Associates and Joint Ventures

Details of the principal subsidiaries, associates and joint ventures of the Group as at December 31, 2021 are set out in Notes 47, 20 and 21 to the consolidated financial statements respectively.

Share Capital

Details of the share capital of the Company are set out in Note 33 to the consolidated financial statements.

Investment Properties

Details of the movements in the investment properties of the Group during the year are set out in Note 14 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 15 to the consolidated financial statements.

Donations

During the year ended December 31, 2021, the Group made charitable and other donations totalling approximately US$5.2 million.

Directors' Report

Distributable Reserves of the Company

As at December 31, 2021, the Company's reserves available for distribution to the Shareholders were US$1,922,886,000, which comprises contributed surplus of US$38,126,000 and retained profits of US$1,884,760,000 of the Company.

Under the Companies Act 1981 of Bermuda (as amended) (the "Companies Act of Bermuda"), the contributed surplus account of the Company is available for distribution to the Shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Directors and Directors' Service Contracts

The Directors during the year and up to the date of this report were as follows:

Executive directors:
Lu Chin Chu *(Chairman)*
Tsai Pei Chun, Patty *(Managing Director)*
Chan Lu Min
Lin Cheng-Tien
Hu Chia-Ho
Liu George Hong-Chih
Yu Huan-Chang

Independent non-executive directors:
Wong Hak Kun
Ho Lai Hong
Yen Mun-Gie *(also known as Teresa Yen)* (resigned on November 12, 2021)
Chen Chia-Shen
Lin Shei-Yuan (appointed on November 12, 2021)

Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty, Mr. Liu George Hong-Chih, and Mr. Ho Lai Hong will retire by rotation at the forthcoming annual general meeting of the Company to be held on May 27, 2022 ("2022 AGM") in accordance with Bye-law 87 of the bye-laws of the Company (the "Bye-laws") and, being eligible, will offer themselves for re-election.

Mr. Lin Shei-Yuan who was appointed as an independent non-executive director of the Company on November 12, 2021 in respect of the resignation of Ms. Yen Mun-Gie (also known as Teresa Yen) shall hold office until 2022 AGM in accordance with Bye-law 86(2) of the Bye-laws and will then be eligible for re-election. Ms. Yen Mun-Gie resigned due to her other commitments and confirmed that she has no disagreement with the Board and there are no matters in relation to her resignation that need to be brought to the attention of the shareholders of the Company.

Directors and Directors' Service Contracts (continued)

Currently, all independent non-executive directors of the Company are appointed for a specific term of three years, subject to retirement by rotation in accordance with the provision of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Bye-laws.

The Company has received from each of its independent non-executive directors an annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of its independent non-executive directors are independent.

None of the Directors being proposed for re-election at the 2022 AGM has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Permitted Indemnity Provisions

Under the Bye-laws, and subject to the applicable laws and regulations, the directors and officers of the Group shall be indemnified out of the assets and profits of the Company from or against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices provided that such indemnity does not extend to any matter in respect of any fraud or dishonesty. Such permitted indemnity provision has been in force throughout the year ended December 31, 2021. The Company has arranged for appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

Directors' and Chief Executives' Interests in Securities

As at December 31, 2021, the interests or short positions of the Directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

(a) *Interests in the ordinary shares and underlying shares of HK$0.25 each of the Company*

Name of Director	**Capacity**	**Number of shares/ underlying shares held** *(Long position)*		**Percentage of the issued share capital of the Company** *(Note 1)*
Lu Chin Chu	Beneficial owner	139,000		0.01%
Chan Lu Min	Beneficial owner	117,000		0.01%
Lin Cheng-Tien	Beneficial owner	99,000		0.01%
Hu Chia-Ho	Beneficial owner	216,000	*(Note 2)*	0.01%
Liu George Hong-Chih	Beneficial owner	237,000	*(Note 2)*	0.01%
Yu Huan-Chang	Beneficial owner	30,000	*(Note 2)*	0.00%

Directors' and Chief Executives' Interests in Securities (continued)

(b) *Interests in the ordinary shares and underlying shares of HK$0.01 each of Pou Sheng, an associated corporation of the Company within the meaning of Part XV of the SFO*

Name of Director	Capacity	Number of shares/underlying shares held *(Long position)*	Percentage of the issued share capital of Pou Sheng *(Note 3)*
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.37%
Chan Lu Min	Beneficial owner	851,250	0.02%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

(c) *Interests in the ordinary shares and underlying shares of NT$10.00 each of PCC, an associated corporation of the Company within the meaning of Part XV of the SFO*

Name of Director	Capacity	Number of shares/underlying shares held *(Long position)*	Percentage of the issued share capital of PCC *(Note 4)*
Lu Chin Chu	Beneficial owner	1,070,470	0.04%
Lu Chin Chu	Interest of children under 18 and/or spouse	73,300	0.00%
Tsai Pei Chun, Patty	Beneficial owner	4,177,779	0.14%
Chan Lu Min	Beneficial owner	366,452	0.01%
Lin Cheng-Tien	Beneficial owner	297,760	0.01%

Notes:

1. The total issued share capital of the Company as at December 31, 2021 is 1,612,183,986 shares.

2. Each of Mr. Hu Chia-Ho and Mr. Liu George Hong-Chih is interested in 60,000 ordinary shares; Mr. Yu Huan-Chang is interested in 30,000 ordinary shares, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018.

3. The total issued share capital of Pou Sheng as at December 31, 2021 is 5,326,179,615 shares.

4. The total issued share capital of PCC as at December 31, 2021 is 2,946,787,213 shares.

Directors' Report

Directors' and Chief Executives' Interests in Securities (continued)

Other than the interest disclosed above, none of the Directors nor the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2021.

Directors' Interests in Competing Businesses

Between the Company and Pou Sheng

The Company was deemed to be interested in approximately 62.55% interest in Pou Sheng as at December 31, 2021, which is accounted for as a subsidiary of the Company. Pou Sheng is listed on the main board of the Stock Exchange. The principal businesses of Pou Sheng and its subsidiaries (collectively, the "Pou Sheng Group") are the retail and distribution of footwear and sportswear in the Greater China region.

As at December 31, 2021, Ms. Tsai Pei Chun, Patty, who was an executive director of the Company, was also a non-executive director of Pou Sheng. Ms. Tsai Pei Chun, Patty also holds certain shares in Pou Sheng.

As the Company and Pou Sheng are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from, Pou Sheng. As Pou Sheng no longer carries on a footwear manufacturing business, it is expected that there will not be any competition between the Pou Sheng Group and the Group in terms of the Group's footwear manufacturing business.

Between the Company and Eagle Nice

As at December 31, 2021, the Company held indirectly approximately 35.96% interest in Eagle Nice whose shares are listed on the main board of the Stock Exchange. Eagle Nice is principally engaged in the manufacturing and trading of sportswear and garments. Based on the published annual report of Eagle Nice, the revenue of Eagle Nice for the year ended March 31, 2021 was approximately HK$3.2 billion. As the Group's principal activities include the manufacturing of footwear business and the retail and distribution of sportswear products, the business of Eagle Nice and the Group potentially compete with each other.

As at December 31, 2021, Mr. Hu Chia-Ho, who was an executive director of the Company, was also an executive director of Eagle Nice.

As the Company and Eagle Nice are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independent of, and at arms length from, Eagle Nice.

Save as disclosed above, as at December 31, 2021, none of the Directors had any interest in a business which may compete with that of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Equity-linked Agreement

Save for the share option scheme of the Company, details of which is set out in the section headed "Share Incentive Schemes", no equity-linked agreement that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the year.

Share Incentive Schemes

(a) *Share Option Scheme of the Company*

The Company recognizes the importance of attracting talents and retaining employees and the contributions by other eligible participants by providing them with incentives and rewards through granting share-based incentives so as to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Company believes that this will align their interests with that of the Company. In this connection, the Company has adopted a share option scheme, the details of which are stipulated as follows:

On May 31, 2019, the Company adopted a new share option scheme (the "Yue Yuen Share Option Scheme") under which the Board may at its discretion grant share options to any eligible participants, including directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The Yue Yuen Share Option Scheme is valid and effective for a period of ten years commencing from May 31, 2019 to May 30, 2029, after which no further options may be offered or granted.

As at the date of this report, the total number of shares available for issue under the Yue Yuen Share Option Scheme is 161,449,998 shares, representing approximately 10.01% of the issued shares of the Company.

Without prior approval from the Shareholders, the maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Yue Yuen Share Option Scheme (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue for the time being. Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the twelve-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue on the date of such grant and having an aggregate value in excess of HK$5 million (equivalent to approximately US$0.6 million), must be approved in advance by the Shareholders.

Share Incentive Schemes (continued)

(a) *Share Option Scheme of the Company (continued)*

The Board will specify the period within which the shares must be taken up under an option at the time of grant and such period shall not expire later than ten years from the date of grant.

The Board may, at its discretion, specify the minimum period for which an option must be held before it can be exercised at the time of grant.

A non-refundable consideration of HK$10.00 shall be paid by each grantee on acceptance of the options within 14 days from the date of grant.

The exercise price shall be determined by the Board, but in any event must not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No share option has been granted under the Yue Yuen Share Option Scheme since its adoption.

Further details of the Yue Yuen Share Option Scheme are set out in Note 36 to the consolidated financial statements.

(b) *Share Award Scheme of the Company*

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company to recognize the contributions by certain personnel of the Group (and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder ("Associated Entity") and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the Board may at its discretion grant any eligible participants awarded shares as it may determine appropriate provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed 1% of the issued share capital of the Company from time to time. Subject to early termination determined by the Board, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund will be made by the Company.

Eligible participant(s) selected by the Board for participation in the Yue Yuen Share Award Scheme shall have no right to any dividend held under the trust which shall form part of the residual cash or any of the returned shares. The trustee of the Yue Yuen Share Award Scheme shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip shares).

Share Incentive Schemes (continued)

(b) *Share Award Scheme of the Company (continued)*

Details of the movements of the awards during the period ended December 31, 2021 are as follows:

			Number of awarded shares				
	Date of grant	**Vesting date**	**Outstanding as at January 1, 2021**	**Granted during the year**	**Lapsed/ Cancelled during the year**	**Vested during the year**	**Outstanding as at December 31, 2021**
Directors of the Company							
Lu Chin Chu	31.03.2021	01.06.2021	–	94,000	–	(94,000)	–
Chan Lu Min	31.03.2021	01.06.2021	–	117,000	–	(117,000)	–
Lin Cheng-Tien	31.03.2021	01.06.2021	–	54,000	–	(54,000)	–
Hu Chia-Ho	02.10.2018	31.05.2021	40,000	–	–	(40,000)	–
	31.03.2021	01.06.2021	–	38,000	–	(38,000)	–
	01.06.2021	31.05.2023	–	60,000	–	–	60,000
Liu George Hong-Chih	02.10.2018	31.05.2021	40,000	–	–	(40,000)	–
	31.03.2021	01.06.2021	–	59,000	–	(59,000)	–
	01.06.2021	31.05.2023	–	60,000	–	–	60,000
Yu Huan-Chang	01.06.2021	31.05.2023	–	30,000	–	–	30,000
Sub-total			80,000	512,000	–	(442,000)	150,000
Employees of the Group and/or Associated Entities							
	02.10.2018	31.05.2021	960,000	–	–	(960,000)	–
	08.02.2021	01.06.2021	–	279,000	(6,000)	(273,000)	–
	31.03.2021	01.06.2021	–	274,000	–	(274,000)	–
	01.06.2021	31.05.2023	–	1,650,000	(60,000)	–	1,590,000
Sub-total			960,000	2,203,000	(66,000)	(1,507,000)	1,590,000
Total			1,040,000	2,715,000	(66,000)	(1,949,000)	1,740,000

During the year ended December 31, 2021, the Group recognized a net expense of US$3,855,000 as equity-settled share-based payments in the consolidated income statement under the Yue Yuen Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed/cancelled prior to their vesting dates after recognizing share award expenses.

Further details of the Yue Yuen Share Award Scheme are set out in Note 36 to the consolidated financial statements.

Share Incentive Schemes (continued)

(c) <u>*Share Option Scheme of Pou Sheng*</u>

Pou Sheng recognizes the importance of offering incentives and rewards through the grant of share-based incentive mechanism for attracting talents and retaining employees. Pou Sheng believes that this will align their interests with that of Pou Sheng.

The share option scheme of Pou Sheng was adopted by the shareholders of Pou Sheng on May 14, 2008 (the "Pou Sheng Share Option Scheme''), certain terms of which were amended on March 7, 2012, and was valid and effective for a period of ten years from the date of adoption. The Pou Sheng Share Option Scheme expired at the end of the day on May 13, 2018, after which no further share options should be offered or granted. However, the share options granted prior to the expiration of the Pou Sheng Share Option Scheme shall continue to be valid and exercisable within their respective prescribed exercisable periods.

Eligible participants of the Pou Sheng Share Option Scheme include directors and full time employees of the Pou Sheng Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any member of the Pou Sheng Group who the board of director of Pou Sheng (the "Pou Sheng Board") considers, in its sole discretion, have contributed or will contribute to the development and growth of the Pou Sheng Group.

Pursuant to the terms of the Pou Sheng Share Option Scheme, the total number of Pou Sheng's shares which may be issued upon exercise of all share options to be granted under the Pou Sheng Share Option Scheme should not exceed 10% of the total number of the Pou Sheng's issued shares as at the date on which dealings in the Pou Sheng's shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 shares, representing approximately 6.67% of the total number of Pou Sheng's issued shares as at the date of this report). Unless approved by the shareholders of Pou Sheng and the Company, the maximum number of Pou Sheng's shares issued and to be issued upon exercise of the share options granted to each grantee under the Pou Sheng Share Option Scheme in any 12-month period should not exceed 1% of the Pou Sheng's shares in issue for the time being.

All the share options granted under the Pou Sheng Share Option Scheme should be exercised at any time during a period to be determined and notified by the Pou Sheng Board at the time of making an offer and should not be exercised later than 10 years after the date of grant. The minimum period for which a share option must be held before it can be exercised should be determined by the Pou Sheng Board. The exercise price of any share option should be determined by the Pou Sheng Board but in any event should not be less than the higher of (i) the closing price of the Pou Sheng's shares on the date of grant; (ii) the average closing price of the Pou Sheng's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Pou Sheng's shares. For grantee who is an employee or director of the Pou Sheng Group, he/she has to remain as an employee or director of the Pou Sheng Group until the share options being vested on him/her.

Directors' Report

Share Incentive Schemes (continued)

(c) *Share Option Scheme of Pou Sheng (continued)*

For the share options in respect of 11,663,190 Pou Sheng's shares granted on November 14, 2016, upon the terms of the operation and share incentive agreement governing the grant, the total amount payable on acceptance of the share options was US$303,950.77 and the payment must be made within 5 days from the date on which the offer letters were delivered to the relevant grantees. Save for the aforesaid, under the rules of the Pou Sheng Share Option Scheme, the amount payable on acceptance of an offer is HK$1.00 and the payment must be made within 28 days from the date on which the offer letter is delivered to the participant.

The Pou Sheng Share Option Scheme has already ceased to have any effect during the year upon the final batch of outstanding share options lapsed at the end of the day on September 1, 2021. As at December 31, 2021 and the date of this report, there were no outstanding share options. Overall, an aggregate of 31,125,000 Pou Sheng's shares have been issued upon exercise of all the share options granted under the Pou Sheng Share Option Scheme.

Pursuant to the Pou Sheng Share Option Scheme, movements in share options during the year are set out below:

				Number of underlying Pou Sheng's shares comprised in the share options				
Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding as at January 1, 2021	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at December 31, 2021
Former Employees of Pou Sheng								
14.11.2016	2.494	14.11.2016-31.08.2019	01.09.2019-01.09.2021	1,166,320	-	-	(1,166,320)	-
Total				1,166,320	-	-	(1,166,320)	-

Saved as disclosed above, no share options had been granted, exercised, lapsed or cancelled under the Pou Sheng Share Option Scheme during the year.

Further details of the Pou Sheng Share Option Scheme are set out in Note 36 to the consolidated financial statements.

Share Incentive Schemes (continued)

(d) *Share Award Scheme of Pou Sheng*

The Pou Sheng share award scheme was adopted on May 9, 2014 and duly amended on November 11, 2016 (the "Pou Sheng Share Award Scheme") for recognizing the contributions by certain persons, including directors of Pou Sheng and employees of the Pou Sheng Group, providing incentives to retain them for continual operation and development of the Group, and to attract suitable personnel for further development of the Pou Sheng Group. The Pou Sheng Share Award Scheme is valid and effective for a term of 10 years commencing on May 9, 2014. No further share awards should be granted upon termination or expiry of the term of the Pou Sheng Share Award Scheme.

Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Pou Sheng Board and approved by the Pou Sheng Board. All the share awards granted under the Pou Sheng Share Award Scheme should be vested in accordance with the conditions (such as employment status, individual performance and common key performance indicators) as determined by the Pou Sheng Board.

The total number of Pou Sheng's shares to be awarded under the Pou Sheng Share Award Scheme should not exceed 4% of the Pou Sheng's issued shares as at the date of grant. The maximum number of Pou Sheng's shares (including vested and non-vested shares) which may be awarded to a selected participant should not exceed 1% of the Pou Sheng's issued shares from time to time.

Eligible participant(s) selected by the Pou Sheng Board for participation in the Pou Sheng Share Award Scheme shall have no right to any dividend held under the trust before vesting which shall form part of the residual cash or any of the returned Pou Sheng's shares. The trustee of the Pou Sheng Share Award Scheme shall not exercise the voting rights in respect of any Pou Sheng's shares held under the trust (including but not limited to the awarded shares, the returned shares, any bonus shares and scrip dividend).

Share Incentive Schemes (continued)

(d) *Share Award Scheme of Pou Sheng (continued)*

Pursuant to the Pou Sheng Share Award Scheme, movements in awarded Pou Sheng's shares during the year are set out below:

	Date of grant	Vesting period	Number of awarded Pou Sheng's shares Outstanding as at January 1, 2021	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	Outstanding as at December 31, 2021
Director of Pou Sheng							
Lee, Shao-Wu	11.08.2018	11.08.2018-10.03.2021	500,000	–	(500,000)	–	–
	23.03.2019	23.03.2019-22.09.2021	300,000	–	(300,000)	–	–
	23.03.2019	23.03.2019-22.03.2022	500,000	–	–	–	500,000
	31.03.2020	31.03.2020-30.03.2021	500,000	–	(500,000)	–	–
	31.03.2020	31.03.2020-30.03.2022	500,000	–	–	–	500,000
	31.03.2020	31.03.2020-30.03.2023	500,000	–	–	–	500,000
	24.03.2021	24.03.2021-23.09.2022	–	100,000	–	–	100,000
	24.03.2021	24.03.2021-23.09.2023	–	150,000	–	–	150,000
	24.03.2021	24.03.2021-23.03.2024	–	250,000	–	–	250,000
Sub-total			2,800,000	500,000	(1,300,000)	–	2,000,000
Employees of Pou Sheng							
	11.08.2018	11.08.2018-10.03.2021	7,978,000	–	(7,888,000)	(90,000)	–
	23.03.2019	23.03.2019-22.09.2021	3,307,200	–	(2,829,000)	(478,200)	–
	23.03.2019	23.03.2019-22.03.2022	5,512,000	–	–	(991,500)	4,520,500
	24.03.2021	24.03.2021-23.09.2022	–	1,568,000	–	(126,600)	1,441,400
	24.03.2021	24.03.2021-23.09.2023	–	2,352,000	–	(189,900)	2,162,100
	24.03.2021	24.03.2021-23.03.2024	–	3,920,000	–	(316,500)	3,603,500
	13.08.2021	13.08.2021-12.02.2023	–	460,800	–	(12,800)	448,000
	13.08.2021	13.08.2021-12.02.2024	–	691,200	–	(19,200)	672,000
	13.08.2021	13.08.2021-12.08.2024	–	1,152,000	–	(32,000)	1,120,000
Sub-total			16,797,200	10,144,000	(10,717,000)	(2,256,700)	13,967,500
Total			19,597,200	10,644,000	(12,017,000)	(2,256,700)	15,967,500

The closing prices of the Pou Sheng's shares immediately before the grants of awarded Pou Sheng's shares on March 24, 2021 and August 13, 2021 were HK$1.78 and HK$1.57 per share respectively.

Further details of the Pou Sheng Share Award Scheme are set out in Note 36 to the consolidated financial statements.

Directors' Report

Arrangements to Purchase Shares or Debentures

Save as disclosed in the "Share Incentive Schemes" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests in Securities

As at December 31, 2021, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, other than the interests disclosed in "Directors' and Chief Executives' Interests in Securities", the following Shareholders had notified the Company of their relevant interests in the ordinary shares and underlying shares of HK$0.25 each of the Company, which represent 5% or more of the issued share capital of the Company:

Name of Shareholder	*Notes*	**Number of ordinary shares held**	**Percentage of the issued share capital of the Company***
		Long position	
Pou Chen Corporation ("PCC")	(a)	824,143,835	51.11%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	47.95%
Merrill Lynch & Co. Inc.	(b)	99,315,703	6.16%
Silchester International Investors LLP	(c)	97,081,000	6.02%
		Short position	
Merrill Lynch & Co. Inc.	(b)	109,341,792	6.78%

* The total issued share capital of the Company as at December 31, 2021 is 1,612,183,986 shares.

Substantial Shareholders' Interests in Securities (continued)

Notes:

(a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 773,156,303 ordinary shares were held by Wealthplus and 50,987,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC. Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty and Mr. Chan Lu Min, who are directors of the Company, are also directors of PCC and Wealthplus. Mr. Lu Chin Chu and Mr. Chan Lu Min are directors of Win Fortune.

(b) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch Portfolio Managers Limited. Merrill Lynch Portfolio Managers Limited is wholly-owned by ML Invest, Inc., which is in turn wholly-owned by Merrill Lynch Group, Inc., which is in turn wholly-owned by Merrill Lynch & Co. Inc..

Merrill Lynch & Co. Inc. is also deemed to be interested in 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc. (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Blackrock, Inc.. Merrill Lynch & Co. Inc. owns 49.8% of Blackrock, Inc. through its various subsidiaries, namely, Princeton Services, Inc., Princeton Administrators, L.P., Merrill Lynch Investment Managers, L.P. and Fund Asset Management, L.P., which are all 99% owned by Merrill Lynch & Co. Inc. except for Princeton Services, Inc., which is wholly-owned by Merrill Lynch Group, Inc.. Merrill Lynch Group, Inc., which is wholly-owned by Merrill Lynch & Co. Inc., is also deemed to be indirectly interested in the 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc..

In light of the above, Merrill Lynch & Co. Inc. is deemed to be interested in an aggregate of 6,020,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position).

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 ordinary shares (long position) and 106,721,792 ordinary shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International indirectly through six wholly-owned subsidiaries namely, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings. The above has been prepared based on the disclosure of interest form filed with the Company dated March 10, 2008.

(c) Silchester International Investors LLP is interested in these 97,081,000 ordinary shares in its capacity as investment manager.

Substantial Shareholders' Interests in Securities (continued)

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at December 31, 2021.

Connected Transactions and Directors' Interests in Transactions, Arrangements or Contracts of Significance

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 (Revised), Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Board has received an unqualified letter from the auditor of the Company in accordance with Rule 14A.56 of the Listing Rules containing the auditors' findings and conclusion on the continuing connected transactions of the Group, stating that the auditor have not noticed anything that causes them to believe that any of these continuing connected transactions: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreements governing such continuing connected transactions; and (d) have exceeded the relevant annual caps for the financial year ended December 31, 2021. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors confirm that the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions. Details of the transactions regarded as connected transactions for the year ended December 31, 2021 are set out in Note 45(I) to the consolidated financial statements.

Save as disclosed in Note 45(I):

(i) no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year;

(ii) no contract of significance was entered into between the Company or any of its subsidiaries, and a controlling shareholder of the Company or any of its subsidiaries during the year; and

(iii) there was no transaction which needs to be disclosed as connected transaction in accordance with Chapter 14A of the Listing Rules.

Directors' Report

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers were approximately 45% of the Group's total sales for the year; and the sales attributable to the Group's largest customer were approximately 21% of the Group's total sales for the year.

The aggregate purchases attributable to the Group's five largest suppliers were approximately 55% of the Group's total purchases for the year; and the purchases attributable to the Group's largest supplier were approximately 22% of the Group's total purchases for the year.

At no time during the year did a Director, a close associate of a Director or a Shareholder, which to the knowledge of the Directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers or suppliers of the Group.

Update on Directors' Information Under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's 2021 interim report on August 12, 2021 are set out below:

Mr. Wong Hak Kun has been an independent non-executive director of Hangzhou SF Intra-City Industrial Co., Ltd, a company listed on the main board of the Stock Exchange, since November 30, 2021.

Ms. Yen Mun-Gie (also known as Teresa Yen) resigned as an independent non-executive director of the Company, a member of the audit committee, the remuneration committee and the nomination committee of the Company on November 12, 2021.

Mr. Lin Shei-Yuan was appointed as an independent non-executive director of the Company, a member of the audit committee, the remuneration committee and the nomination committee of the Company on November 12, 2021.

Details of changes in the Directors' remunerations are set out in Note 11 to the consolidated financial statements.

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

During the year ended December 31, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities except that the trustee of the Yue Yuen Share Award Scheme, pursuant to the terms of the trust deed of the Yue Yuen Share Award Scheme, purchased on the Stock Exchange a total of 1,826,000 shares in the Company at a total consideration of approximately HK$34,684,000 (equivalent to approximately US$4,468,000).

Emolument Policy

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

Directors' Report

The emoluments of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, as authorized by Shareholders at the annual general meeting, having regard to the Group's operating results, the Directors' individual performance and comparable market statistics.

The Company adopted the Yue Yuen Share Option Scheme and the Yue Yuen Share Award Scheme to provide its Directors and eligible employees with incentives and rewards to recognize their contributions and to align their interest with the Company, details of which are set out in the section "Share Incentive Schemes" and Note 36 to the consolidated financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Corporate Governance

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 62 to 77 of this annual report.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, except for contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year.

Business Review

Business and External Environment

More information and details regarding the business and external environment of the Company are set out in the Chairman's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 10 to 21 of this annual report.

Performance and Financial Position

The key performance indicators of the Group are as follows:

Key Performance Indicator	FY2021	FY2020	FY2019
Gross Profit Margin (%)	24.0	21.7	24.9
Operating Profit Margin (%)	1.9	(0.1)	4.7
Net Profit Margin (%)	1.7	(0.9)	3.5
Total debt to equity (%)	37.3	42.7	46.1
Net debt to equity (%)	19.1	22.2	24.4
Return on equity (%)	2.8	(2.3)	7.3
Return on asset (%)	1.6	(0.8)	4.0

The Group is prudently managed in such a way that decision making are focused on long-term objectives, which are aimed towards sustainable development and balancing the interest of various stakeholders.

Directors' Report

Business Review (continued)

Environmental Policies and Performance

In respect of the footwear manufacturing business, the Group has established a set of management policies, mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy, water and materials, to reduce the use of natural resources and to protect the environment.

The actions taken by the Group are aligned with international standards, which include conducting greenhouse gas inventory, proper treatment of effluent and air emissions, reduction, classification and recycling of wastes, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels, etc. The Group is also committed to providing a safe and healthy working environment for the employees, and has gradually established a standardized safety and health management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution. In the event that an employee suffers a major illness, the medical rescue mechanism and emergency rescue measures in the factory will be activated. In addition, providing fast and innovative services to brand customers with professionalism and dedication has always been the core vision of the Group. In recent years, each production base has also been committed to process improvement, flexible manufacturing and local supply in order to shorten delivery time, stay close to the market and provide quick-response services for brand customers with an objective to enhance the competitiveness and long-term value of the Group. The Group also expects that a sustainable supply chain can be established through innovation collaboration with the suppliers and the vision of "resources integration and value enhancement" can be put into practice, such that the fulfilment of corporate social responsibility can be ensured.

Effective Use of Resources

The Group should conform to the relevant international product specifications and the prohibited and restricted substance standards required by brand customers in selection of raw materials, and at the same time actively adopts materials that conform to the requirements of brand customers for environmentally sustainable materials. For the procurement management of raw materials, the Group not only requires material suppliers to provide relevant material inspection reports and commitment documents for zero use of prohibited and restricted substances, but also conducts sample tests for specific materials to ensure that the quality meets the requirements. With respect to material procurement, we rely on the respective local suppliers to supply the materials in order to reduce the risk of supply interruption as well as carbon emissions in transportation.

Business Review (continued)

Environmental Policies and Performance (continued)

Effective Use of Resources (continued)

In line with the international community's active advocacy of climate change risk adaptation, the Group has set periodic energy management targets with reference to the Science-based Target Initiatives (SBTi), actively expanding various energy saving and carbon reduction initiatives, formulating energy conservation measures and energy inventory system in line with the relevant energy requirements of customers' local regulatory authorities, as well as reporting and reviewing the performance results of energy consumption and energy conservation initiative at the Company's operation and management meeting every year. In order to achieve sustainable development and operation of the Group, the year 2016 is taken as the baseline year, and the first stage of an overall energy conservation plan was formulated, with an overall management goal of reducing the energy intensity in 2020 by 8.0% as compared to which in 2016. The second stage of five-year management goal (2021-2025) was set with the year 2019 being the baseline year, with the expectation of reaching the goal of 0% growth in carbon dioxide emission in 2025 by continuously promoting energy conservation and expanding the use of green energy. Following the major brand customers, a further commitment was set to reduce greenhouse gas emissions by 46.2% in 2030 compared with the year 2019. Such target setting has been validated by the WRI (World Resources Institute) and is in line with the SBTi target setting methodology.

For the management of the safe use of water resources, the laboratories at the district administrative centers perform sample testing of water quality every month, and release the results of water quality testing to all factories. External parties are also engaged in water quality tests on a regular basis, which will be reported to the local authorities as required by laws to ensure the water in all factories is in compliance with the local water quality standards.

Business Review (continued)

Environmental Policies and Performance (continued)

Emission Management

With respect to greenhouse gas and carbon emission, the Group pays constant attention to the international community's trend of sustainable development. The Group responds to the call of the United Nations Framework Convention on Climate Change 26th Conference of the Parties, UNFCCC COP26 held in Glasgow, the United Kingdom in November 2021, which focuses on achieving net-zero emissions targets by the middle of this century, and the Paris Climate Accord, which has a goal to keep the increase of global temperature within 2°C and to pursue efforts to limit the increase to 1.5°C. It also responds to the United Nations 2030 Sustainable Development Agenda – Sustainable Development Goals, which states that measures must be taken to cope with global climate change and its impacts, as well as the expected demand for international green manufacturing. The Group will actively adopt relevant measures to ensure a sustainable production model that mitigates and responds to the operational risks and impacts caused by climate change. We will identify the potential risks associated with climate change based on the interaction between the organization's daily operations, services and the environment, assess and determine the impacts brought by such risks, and determine the relevant responses and management approaches. Greenhouse gas inventory and carbon reduction management have become the essential management issues for the Group's production and manufacturing operations. In addition to compliance with relevant laws and regulations at the production bases in various regions, results have also been achieved by the Group through energy-saving projects initiated by individual factories and gradual replacement of high pollutant/high carbon emission fossil fuel to help achieve energy-saving and carbon emission reduction at the production bases.

As for sewage discharge, most of the sewage of the footwear factories comes from water used by employees for domestic use, and small amount of sewage comes from the cleaning, painting and spraying operations of the soles manufacturing process. Chemical coagulation pre-treatment equipment has been set up in all factories especially for the treatment of industrial sewage before it is channeled to a sewage treatment work of the factories for secondary biodegradation and advanced purification treatment.

There is a dedicated water quality laboratory in large scale sewage treatment work to perform the testing and monitoring of water quality. We also regularly entrust inspection agency approved by competent local authority to conduct water sampling and testing of the effluent according to the applicable laws. The sewage is properly discharged through legally permitted means. Effluent from stand-alone factories are discharged to the receiving water bodies designated by the local authorities specified in the environmental assessment document according to laws and regulations, while those from factories located in industrial development parks are discharged to municipal sewage treatment works or the sewage treatment works in the industrial areas according to laws and regulations. There is no direct discharge into nearby water bodies. Some factories are also equipped with detention ponds to receive the processed water from sewage treatment works as a water supply source for subsequent reuse in the factories as well as in the parks where employees can relax after work.

Business Review (continued)

Environmental Policies and Performance (continued)

Emission Management (continued)

With respect to the prevention of air pollution, the Group has formulated the "Guidelines on Air Pollution Control Management". The first guiding principle is to keep the emission in line with the local emission standards. The next guiding principle is the introduction of pollution assessment on production processes with the aim of proper handling of the pollution in accordance with the regulatory requirements. Prevention and control facilitates have been set up and air pollution emission testing has been carried out to ensure that the emission meets the emission standards stipulated by local laws and regulations to reduce the impact on the environment. For the management of volatile organic gases (VOC) emissions, the Group has complied with the environmental assessment requirements stipulated by the competent authorities in every production bases and has set up necessary and effective collection and treatment facilities. For the production bases in Mainland China, in addition to establishing facilities for comprehensive treatment and purification, the Group has gradually installed online monitoring facilities to tighten its management on air pollutant emission, so as to assume the corporate responsibility of improving air quality in the local areas.

With respect to waste management, wastes in the factories are mainly classified into four categories, including: general wastes (household wastes), general industrial wastes (industrial wastes), statutory hazardous wastes (hazardous wastes), and recyclable wastes (reusable wastes). A local qualified disposal service provider is engaged for household wastes and industrial wastes disposal. Hazardous wastes and reusable wastes are centralized in the recycling material control center within the factory area, where classification, measurement and reporting are performed. As for the hazardous wastes, the Group follows local laws and regulations of the operation to identify and classify the hazardous wastes, establish dedicated temporary storage area and appoint dedicated staff to manage. Local recycling companies that have hazardous waste disposal operation licenses are engaged to handle subsequent delivery and processing. The Group does not carry out any waste disposals which involve transnational transportation. Vendors are identified to help with the handling of reusable wastes for recycling or reuse as appropriate.

Workplace Safety

With respect to occupational safety and health management, the Group's occupational safety and health management is based on the "Group Code of Conduct", which aims "to provide a safe and healthy workplace setting to prevent accidents and injury jeopardizing health when employees engage in work-related tasks or the operation of the Group's facilities". To fulfill the commitment of providing a safe and healthy working environment to the employees, the Group has gradually established a standardized safety and health management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution. In the event that an employee suffers a major illness, the medical rescue mechanism and emergency rescue measures in the factory will be activated. Each of the factories and the administrative centers of the Group has set up an "Environmental, Energy, and Safety and Health Committee" (ESH Committee) and holds regular meetings to review relevant management issues related to safety and health in a fixed organizational structure. Members represent unit staff on the committee and participate in discussions and provide suggestions for improvement on ESH-related issues as appropriate. Through the ESH committee, the management will continue to pay attention to and track related issues.

Business Review (continued)

Environmental Policies and Performance (continued)

Product Management and Services

The Group is committed to providing customers with products of high quality and safety. The Group will continue to improve its five core competitive advantages of "Innovation, speed, flexibility, quality, sustainability", as well as continue to develop cutting-edge technologies and modularize its existing production lines, so that it can provide customers with more flexible and diversified customized products in small quantities. From product development to production, the Group places high importance on any customer demand for product quality, follows international legal requirements and complies with the brand customers' lists of prohibited and restricted substances and the ZDHC Foundation's standards in the selection of raw materials. Through a comprehensive process and quality control strategy, the Group can continue to provide customers with stable and consistently high-quality products that are consistent with the principles of eco-friendliness and human health.

The Group continues to carry out streamlining of operation process and apply various kinds of electronic systems and management tools, in order to enhance the production optimization capabilities of the production bases in various regions. The Group has also improved its product development capability, and strengthened its factory automation and production efficiency, through research and development of customized digital tools, process improvements, integration of hardware and software systems and the establishment of a shoe manufacturing knowledge database. At the same time, we have continued to introduce new production models and new manufacturing technologies, improve the automated production process and extend further in the application of industry 4.0. Through the integration of the Internet of Things, all production facilities of production bases in various regions are incorporated into the Internet of Things early warning system for maintenance, to ensure the facilities can deliver the highest production capacity with consistent product qualities. The objective is to achieve continuous operation of the production line and full digitalization, with the ultimate goal being the establishment of intelligent production plants with smart, flexible production, distributed manufacturing and quick response, and the production of products which are in line with not only the manufacturer's philosophy but also the consumers' needs.

Customer Trade Secret, Privacy and Intellectual Property Protection

The Group has established long-term cooperative relations with multiple international eminent brands. It provides fast and innovative services to brand customers with professionalism and dedication and offers design and production services to customers according to their needs. Dedicated technical research and development centers were set up for customers, with strictly separated production areas and zoned processing operation areas so that the brand customers' privacy and trade secrets are protected. As such, we are able to become the best skilled production partner for the brand customers, and establish deep trusts between the brand customers and the Group. The Group also respects the intellectual property rights of the brand customers. The brand customers' intellectual property rights (such as trade marks) are only applied to products according to the scopes authorized by the brand customers. Meanwhile, the Group will continue to enhance the production optimization capabilities in various regions and continue to enhance the maximum flexibility in production configuration in line with the requirements of orders from brand customers and changes in the industry environment.

Business Review (continued)

Supply Chain Management

The main suppliers of the Company comprise of: material suppliers, shoe equipment suppliers, engineering contractors and service contractors. Through integration of resources and cooperation in know-how and technology, the Group connects the upper, middle and lower streams of the footwear manufacturing industry to continuously establish a complete supply chain system of the Group. To assist brand customers in developing unique and innovative products of high quality, and to perform the Group's responsibilities as citizens of the planet earth, the Group focuses primarily on aspects of quality and sustainable development management with respect to management of raw material and mechanical equipment suppliers. The Group sets various quality and sustainable development indicators, regularly evaluates suppliers and implements management mechanisms. Except for suppliers appointed by brand customers or those supplying specific items (such suppliers must follow the international social and environmental practices and standards stipulated by brand customers, including those on labor issues), the Group selects new suppliers of raw materials and mechanical equipment by applying the environmental standards. New suppliers must fill in a self-assessment form which covers assessment items including environmental management, fire safety, safety and health, and code of conduct of the company, etc. We actively implement supply chain management initiatives, setting up dedicated units and personnel, conducting internal and external training to obtain professional qualifications in various fields, such as ISO9001, RSL, ISO14001, ISO45001, SA8000 and other auditor qualifications, as well as performing risk assessment and audit verification on suppliers' quality, environmental, safety, health and human rights management to verify the compliance with laws of suppliers and establish long-term and efficient cooperation relations.

The Group also regularly conducts random site visits to new suppliers every year. In 2021, the Group had replaced site visits with document review or in conjunction with remote video audit due to the COVID-19 pandemic. After collecting the self-assessment forms and conducting sample visits, the Group will decide whether to include them as the Group's suppliers. Professional teams will subsequently carry out quality assessments and evaluation of sustainable development indicators to ensure that the relevant suppliers have systematic quality control capabilities, and that a supplier sustainable development management system will be established. In addition, the Group conducts regular reviews quarterly or half-yearly with the relevant suppliers according to the characteristics of different supplied items, so as to ensure the continued maintenance of quality standards and compliance with legal requirements of the production and supply of daily raw materials and mechanical equipment, which are critical to quality assurance for the brand customers and prompt adaptation to the trend of sustainable development. The procurement ratio of the suppliers who has failed to meet requirements will be adjusted through a supplier management mechanism, in order to establish a high quality supply chain management system. To maintain close interaction and sustain the excellent working relationship with our suppliers, the Group has invited suppliers to participate in the traceability and transparency initiative since 2021, which has received positive feedback from a total of 54 suppliers.

Directors' Report

Business Review (continued)

Compliance with Laws and Regulations

The Group operates its footwear manufacturing business mainly in Mainland China, Vietnam, Indonesia, Cambodia, Bangladesh and Myanmar. During the year ended December 31, 2021 and up to the date of this report, the Group is generally in compliance with all relevant laws and regulations of respective jurisdictions that have a significant impact on the Group. For further details, please refer to the 2021 Environmental, Social and Governance Report of the Company.

Relationship with Stakeholders

The Group identified stakeholders that are related to footwear manufacturing business including shareholders/investors, customers, employees, local community, regulatory authorities, suppliers, media, and non-governmental organizations. The Group conducts interactive communication with its stakeholders through various channels and seeks their opinions and suggestions which will be used as important reference for the Group's sustainable development strategy.

Shareholders/Investors

The Group understands that the issues which are of concern to shareholders/investors are the economic performance, corporate governance and market image etc.. The Group maintains close communication with shareholders/investors through various communication channels (such as publishing news on the Company/HKEx websites, convening shareholders' meetings, holding quarterly, interim and annual results presentation, publishing press releases, conducting roadshows, and holding one-on-one meetings, investors forums and teleconferences) to enable shareholders/investors to learn about the latest status of the Group.

Customers

The Group has established long-term cooperative relations with multiple international eminent brands, to whom we are committed to providing fast and innovative services and products with high quality and safety. The Group continually improves its service quality and responds immediately to brand customers' needs in terms of delivery lead time, quality and price, so as to strengthen the relationship with the brand customers and their reliance on the Group's product development capability and quality service.

Employees

The Group upholds the idea of "Focus on People, for the People". The Group believes that employees are important assets, and has planned a holistic approach of recruitment, employment, training and retention of employees and team events are organized to build the employees' sense of belonging. The Group provides employees with comprehensive training, competitive compensation and diversified communication channels. The performance management system has been introduced to effectively motivate the employees to engage in continuous development, to help the employees in career planning, and to achieve succession of talents and the Group's objective of sustainable operation.

Community

The Group adheres to the inclusive service spirit of diversity, and continues to focus on its 3 major axes: providing quality education, ensuring a healthy life and eliminating poverty among the disadvantaged groups, and actively promoting material participation in various local community activities.

Directors' Report

Business Review (continued)

Relationship with Stakeholders (continued)

Government/Regulatory Authorities

The Group understands that the regulatory authorities in all business districts consider corporate governance and compliance with laws and regulations as important issues, thus it uses its best efforts to cooperate with the relevant government and regulatory authorities on compliance inspections, make regular submission of monthly and quarterly statements and attended consultation visits.

Suppliers

The Group regards suppliers as cooperative partners. In addition to communicating with suppliers by way of letters of undertaking, procurement contracts, regular assessments, selection and management mechanism and business communication, the Group has also held exhibitions of suppliers' products, providing a platform for the exchange and sharing of information on the demand and development trends of products and materials among the suppliers and the Group's research and development personnel. In addition, the Group also made plans of the web platforms during the exhibition periods to help suppliers promote new materials, new technologies and future trends.

Media

The issues of concerns to the media are employee rights and the Group's business operation status. The Group not only releases information to the media through communication documents of relevant issues/press releases, but also coordinates requests for visits by the media.

Non-governmental Organizations

The issues of major concerns to non-governmental organizations (such as Fair Labor Association (FLA) and World Federation of the Sporting Goods Industry) are labor relations, labor rights, compliance with the laws and regulations and environmental issues. The Group also closely liaises with non-governmental organizations through various channels (including ad hoc communication meetings, emails and phone contacts, etc.).

Regarding Pou Sheng's relationship with its stakeholders, Pou Sheng's environmental policies and performance as well as compliance with relevant laws and regulations that have a significant impact on Pou Sheng, please refer to the 2021 annual report of Pou Sheng.

Business Review (continued)

Principal Risks and Uncertainties

The Group's activities involve both footwear manufacturing in various countries, as well as sportswear retailing across the Greater China region. The principal types of risk faced by each business are listed below.

The principal risks and uncertainties that could impact the Group's footwear manufacturing business performance and its mitigating measures are discussed below.

Description and Impact of Risks and Uncertainties	Mitigating Measures
Human Resources	
Loss of key management personnel could cause disruption in delivery of strategic objectives.	Effective retention system, succession plan, career development plan and systematic training are established to develop and train talents, and ensure effective continuation of leadership and expertise without any interruption respectively.
Failure to attract and retain talents and employees with relevant experience and knowledge may lead to failure to take advantage of all growth opportunities to achieve the Group's strategic objectives and maintain its leading position.	The Group continues to widen its talent pool. The performance management system is designed to provide competitive remuneration structures and challenging development opportunities to attract talents and retain employees.
Local governments in different countries have different labor laws and regulations.	The Group has engaged local labor law experts as consultants to assist in the collection and interpretation of laws and regulations, and has established smooth consultation and communication channels with the local government; and maintains positive interaction and communication with the labor unions. The implementation of changes in labor policies and regulations in each country requires obtaining the consensus of the labor union before implementing it. To strengthen the cultivation of relevant cadres to be familiar with the country's labor laws.
Information Technology and Data Security	
Protection for information technology system may be insufficient.	The Group has established a system access security regime, only authorized devices are allowed to connect, and only authorized employees can access sensitive data to prevent data leakage; and regularly review system authorizations to ensure that the rationality of the authorization granted; the access control measures are audited annually by internal and external auditors; the file server is not open for external access, and the mail server keeps records of sending and receiving to ensure data security.

Business Review (continued)

Principal Risks and Uncertainties (continued)

Description and Impact of Risks and Uncertainties	Mitigating Measures
Contingency plan and disaster recovery plans for IT Systems may be insufficient.	The Group makes significant investment in technology infrastructure. The system is regularly backed-up. Contingency and disaster recovery plans are in place to deal with any system failures.
Market	
Intensifying competitive environment.	The Group has designated a special task-force to conduct regular analysis of the overall competitiveness of the Group, and analyze market trends and trends of competitors, identify key capability gaps of the Group and propose improvement proposals as major strategic projects, and regularly track improvement results.
Changing market trends.	The Group has designated a special task-force to grasp market trends and brand trends, integrate relevant industry information, and regularly provide industry analysis. Major trend changes will be listed as special projects and regularly tracked.
Strategy and Operation	
Increasing demand from brand customers on higher flexibility and shorter lead time.	The Group develops response plans based on market pulses and product life cycles, continues to research and develop automated production, continuously promotes production line transformation, and continues to promote digital transformation, and implement enterprise resource management systems to respond.
Over-relying on key brands' strategy and reputation.	The Group is committed to enhancing its competitiveness in footwear manufacturing business. It reviews and analyzes the order status of brand customers on a monthly basis, and keeps abreast of brand customer moves at all time in order to respond accordingly.
The rising cost of wages and salaries, rents, services, utilities and fluctuations on materials prices may affect steady supply which could impact the operation and profitability of the Group.	The Group has designated a dedicated unit to closely monitor various observation indicators; in the event of a major event or abnormal price fluctuations, it will quantify the impact on operating costs and initiate relevant contingency plans accordingly.

Directors' Report

Business Review (continued)

Principal Risks and Uncertainties (continued)

Description and Impact of Risks and Uncertainties	Mitigating Measures
Political instability associated emerging or less developed countries could impact the Group's operation.	The Group has designated a dedicated unit to keep abreast of current trends and political and economic-related news, notify relevant units at any time when necessary, and activate response plans.
Legal Compliance and Corporate Governance	
Complying with local government policies, such as trade and tax policy, environmental protection regulations, labor regulations, enforcement rules of fire safety, accounting standards and other laws, rules and regulations – across multiple jurisdictions – which may adversely affect the Group's business and operation.	The Group pays close attention to the newly released regulations and policies in various countries and regions, actively identifies and cooperates with the implementation of new regulations and supervisory responsibilities, and ensures that relevant employees have a full understanding of new or revised regulations through education and training before taking effect. The Group's relevant procedures and formulated forms, etc. are also adjusted accordingly at the same time.
Potential operation delays caused by potential labor strikes.	The Group's management communicates with employees through various channels, collects employees' voices, and establishes a grievance channel to master and solve employees' problems; through annual internal and external employee relations activities, as well as cooperation with labor unions. The Group gradually improves internal cohesion and organizational identity, achieves the harmony of labor-management relations; regularly reviews the internal policies of the Group, whether it conforms to the current regulations and future trends.
Fraud or corruption.	The Group has the "Integrity Management Code" in place and related supporting measures, such as the dedicated mailbox for complaints and reporting, and boosted with universal education and training to enhance employees' awareness and establish a reward and punishment system to reward the good and punish the evil.

Business Review (continued)

Principal Risks and Uncertainties (continued)

Description and Impact of Risks and Uncertainties	Mitigating Measures
Public Health and Natural Environment	
Disrupted supply chains and operations due to the epidemic (such as COVID-19) outbreak.	The Group will accelerate digital transformation and increase investment in automated production research and development. A dedicated supervisory unit was established to closely monitor the development of the epidemic and the epidemic prevention regulations of various local governments on a daily basis. Important epidemic prevention materials (such as masks) were produced by the Group, strict epidemic prevention measures were taken to prevent employees from infecting each other, and production capacity allocation was re-planned.
Severe weather caused by climate change may cause interruption of public facilities (electricity, water, gas, transportation, etc.) in the production area, or damage to factory facilities or affect employee attendance due to severe weather, resulting in damage to the Group's operations.	The Group has established a sustainable development department to supervise and manage risks related to the environment. The Group's factories are equipped with backup generator sets, which can meet the power supply demand in the event of a power outage, and strengthen the work of flood control, decontamination, and building safety to avoid being affected by severe weather.
Exchange Rate and Financial Risks	
Some of the Group's production costs are denominated in local currencies (including Chinese Renminbi, Indonesian Rupiah and Vietnamese Dong), while revenue is mostly denominated in US dollars. The Group's functional currency and presentation currency are both US dollars. Fluctuations in exchange rates will affect the Group's costs and results of operations.	The Group has an exchange rate hedging operation policy in place, keeps an eye on market changes, and undertakes relevant exchange rate hedging contracts in a timely manner to reduce the risks caused by exchange rate fluctuations.
Likely defaults on receivables due from brand customers.	The Group has established a credit sales limit policy, and regularly reviews the credit status of customers. If necessary, it can arrange to pay for discounts through the bank, or request the counterparty to issue a letter of credit to mitigate relevant risk.

Directors' Report

Business Review (continued)

Principal Risks and Uncertainties (continued)

The principal risks and uncertainties that could impact the Group's retail business performance and its mitigating activities are discussed below.

Description and Impact of Risk and Uncertainty	Mitigating Measures
Information Technology and Data Security	
The reliance of Pou Sheng's operation on information technology ("IT") system is heavy. Any failure could cause adverse effects to the business operation.	Pou Sheng makes significant investment in technology infrastructure. The system is regularly backed-up. Contingency and disaster recovery plans are in place to deal with any system failures.
The IT system might be subject to security breaches resulting in theft, leakage or corruption of key information, trade secrets and sensitive customer and personal data, which could have a severe impact on Pou Sheng's reputation.	An information security regime is established. Confidential files are encrypted and/or password protected. Only relevant employees with authority are allowed to have access to sensitive data, especially financial data. Extensive and resilient controls, and vulnerability assessments are undertaken before updates are released to reduce risk of security breaches.
Human Resources	
Loss of key management personnel could cause disruption in delivery of strategic objectives.	Effective retention system, succession plan, career development plan and systematic training are established to develop and train talents, and ensure effective continuation of leadership and expertise without any interruption respectively.
Pou Sheng needs to attract talents and retain employees with relevant experience and knowledge in order to take advantage of all growth opportunities to achieve its strategic objectives and maintain its high quality services.	Pou Sheng continues to widen its talent pool. The performance management system is designed to provide reward, competitive remuneration structures and challenging development opportunities to attract talents and retain employees.
Market	
Pou Sheng operates in a highly competitive market with a wide variety of retailers, which makes it difficult for Pou Sheng to stand out and build long-term relationships with customers.	Pou Sheng strives to improve customer satisfaction continuously. Member exclusive and tailor-made offers, and attentive and sincere customer services are introduced to increase customers' loyalty. Innovative sports product-and-service experience-rich brick-and-mortar retail stores are launched to arouse consumer sentiments. 365-day interaction with customers is one of our customer relationship commitments.

Business Review (continued)

Principal Risks and Uncertainties (continued)

Description and Impact of Risk and Uncertainty	Mitigating Measures
Location of brick-and-mortar retail stores plays a vital role in Pou Sheng's success as most of Pou Sheng's revenue is derived from sales of brick-and-mortar retail stores. Wrong store location could cause waste of upfront investments and disruption to the marketing strategies.	Objective scientific methods are employed in the evaluation process of store location selection. Close and win-win relationships are built with nationwide landlords.
Public Health and Natural Environment	
Severe outbreak of infectious diseases (e.g. COVID-19) might lead to city lockdown and negative growth of global economy. Therefore, the operation of the brick-and-mortar retail stores of Pou Sheng might be suspended, and consumption sentiment including brick-and-mortar retail store traffic might significantly decline. These all might seriously affect the performance of Pou Sheng as majority of the revenue of Pou Sheng is derived from sales of the brick-and-mortar retail stores.	The development of digital and omni-channel business is accelerated to alleviate the effect of the drop in brick-and-mortar retail store business. A special steering panel is formed to oversee the operations and make prompt decisions on a daily basis. Stringent precautionary measures are adopted to protect the employees and customers from infection. IT infrastructure is well developed to support telecommuting.
More frequent and intense catastrophic weather events (e.g. Henan Floods and cold waves in northern People's Republic of China (the "PRC")) pose a very serious potential threat to the safety of employees and properties of Pou Sheng. Such critical events could also cause operational disruption, such as disruption to supply chains or distribution channels.	Sustainable development panel is established to manage the environmental related risks. Properties of Pou Sheng are well insured. Emergency financial aid is provided to employees and their families. Inventory is stored in various locations and the logistic network is well designed to support flexible delivery rearrangement.
Strategy and Operation	
Pou Sheng's experience and commitment in market development of emerging brands are limited. Wrong brand positioning could have a material adverse effect on the sales performance of those emerging brands and dampen the overall profitability of Pou Sheng.	Systematic and specialised talent nurturing programme is established. An integrated online-offline multi-brands hatching platform is developed.

Business Review (continued)

Principal Risks and Uncertainties (continued)

Description and Impact of Risk and Uncertainty	Mitigating Measures
Majority of the revenue of Pou Sheng is derived from products of a small number of top brands. Any strain in relationship with or loss of charisma of these top brands could have an adverse effect on Pou Sheng's business and financial condition.	Pou Sheng endeavors to strengthen its omni-sales channel capabilities and differentiate itself from other competitors by integrated sports product-and-service offerings and experience-rich brick-and-mortar retail stores in order to impress the top brands with its dedication and sincerity in being their most valuable partner. The brand mix of Pou Sheng is diversified.
Along with the expansion of Pou Sheng's digital sales, logistics and courier supports have become important. Inefficient logistics and courier could cause a very high operation cost and loss of customers.	Pou Sheng makes significant investment in logistics and courier infrastructure. For effective cost control, warehouses and inventories are shared with other strategic partners and part of logistics and courier supports are out-sourced.
Inventory management is very crucial to the success of Pou Sheng's business. Poor inventory management could affect Pou Sheng's ability to meet its customers' needs and jeopardise the profitability of Pou Sheng.	Rigor procurement and inventory management policies and practices are established. Mutually compatible online-offline sales strategies are adopted to reinforce in-season sales and effective off-season clearance. In order to meet customers' needs timely and precisely, real-time data analysis system is employed.
Legal Compliance	
Pou Sheng has to comply with a large number of different laws, rules, regulations and accounting standards, which are subject to continuing changes. Any breach and non-compliance could damage Pou Sheng's image and reputation.	Pou Sheng actively seeks to identify and meet its regulatory obligations and to respond to new requirements. Corporate governance policy is established to ensure good governance and ethical practices. Proper controls are also in place.
Pou Sheng enters into a lot of agreements with various parties. Any breach of such agreements could cause Pou Sheng to incur significant monetary liabilities and loss of future business opportunities.	All agreements are repeatedly reviewed by different departments before signing and are well documented. Independent professional advice is sought when required.
Economic and Social Environment	
Pou Sheng's business operations are mainly conducted in the PRC. Thus Pou Sheng's business and prospects are significantly affected by the economic and social environment in the PRC. If there is a downturn in the economy or social unrest in the PRC, consumer spending could be significantly weakened.	Pou Sheng keeps paying attention to the economic and social developments in the PRC on a proactive continuous basis to enable Pou Sheng to cope with changes effectively. To arouse consumer sentiments, Pou Sheng keeps exploring and strengthening its brand and product portfolios, and sales strategies continuously.

Business Review (continued)

Event after the Reporting Period

No significant event of the Group occurred after the end of the reporting period.

Future Development

Information and details regarding the future development in the Company's business are set out in the Chairman's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 10 to 21.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the latest practicable date prior to the printing of this annual report.

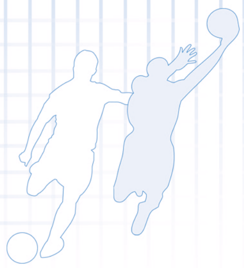
Auditor

There was no change in the Company's auditor in the preceding three years. A resolution will be proposed at the 2022 AGM to re-appoint Messrs. Deloitte Touche Tohmatsu ("Deloitte") as the auditor of the Company.

On behalf of the Board

Tsai Pei Chun, Patty
Managing Director

Hong Kong, March 15, 2022



Corporate Governance Report

The Company believes that good corporate governance provides a framework that is essential for effective management, healthy corporate culture, successful business growth and thereby enhancing Shareholders' value. It is committed to maintaining a high standard of corporate governance practices through the establishment of a comprehensive and efficient framework of policies, procedures and systems throughout the Group.

Corporate Governance Practices

During the year ended December 31, 2021, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code (the "Original CG Code") as set out in Appendix 14 to the Listing Rules. The Company has adopted and modified the relevant corporate governance policies and procedures on March 15, 2022 according to the new Corporate Governance Code Provision, which came into effect on January 1, 2022 (the "New CG Code"), the details of above, will be disclosed in 2022 Annual Report.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2021.

Board of Directors

As at the date of this report, the Board comprises the following eleven Directors:

Executive Directors

Mr. Lu Chin Chu *(Chairman)*
Ms. Tsai Pei Chun, Patty *(Managing Director)*
Mr. Chan Lu Min
Mr. Lin Cheng-Tien
Mr. Hu Chia-Ho
Mr. Liu George Hong-Chih
Mr. Yu Huan-Chang

Independent Non-executive Directors

Mr. Wong Hak Kun
Mr. Ho Lai Hong
Mr. Lin Shei-Yuan
Mr. Chen Chia-Shen

The list of Directors and their role and function is available on the Company's website.

During the year ended December 31, 2021, the Company has at all times met the requirements under Rules 3.10(1) and (2), and 3.10A of the Listing Rules by appointing sufficient number of independent non-executive directors with at least one of them possesses appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of its independent non-executive directors an annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules.

Corporate Governance Report

Relationship between Board Members

As at the date of this report, none of the members of the Board have any relationships with to one another.

Functions of the Board

The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval (after taking into consideration of the recommendations made by the relevant committees) of all policies, overall strategies, risk management and internal control systems, and monitoring the performance of the senior management. The Directors make decisions objectively and in the interests of the Company.

The day-to-day management, administration and operation of the Group are delegated to the managing director and the senior management of the Company. The delegated functions and work tasks are reviewed periodically.

Board meetings and practices

The Board meets regularly and Board meetings are held at least four times a year at approximately quarterly intervals. The chairman holds at least annually one meeting with the independent non-executive directors of the Company without the presence of other Directors. Notices of regular Board meetings are served to all Directors at least fourteen days before the meetings to ensure that all Directors are given the opportunity to attend the meetings. All Directors are advised to inform the Company Secretary any time before the date specified on the notice if they wish to include any matter in the agenda of the meeting. Matters which are material and may cause potential conflicts of interest will be dealt with by physical Board meetings instead of by written resolutions of the Directors. Draft minutes of Board meetings are circulated to all Directors for review and comments within a reasonable time after the meetings prior to confirmation. Minutes are recorded in sufficient detail of the matters considered by the Board and decisions reached. The final versions of the minutes would be opened for inspection at any reasonable notice by any Directors.

During the year ended December 31, 2021, seven Board meetings and one Shareholders' meeting were held. The attendance rate of each Board members at such meetings are set out in the section entitled "Attendance rate of meetings".

General Meetings

The summary of the matters resolved at the general meeting of the Company held in 2021 are as follows:

Date	Type of general meeting	Matters resolved
May 28, 2021	Annual general meeting	• Adopted the audited financial statements for the year ended December 31, 2020; and • Approved the re-election of Directors, re-appointment of auditor and grant of general mandates to issue and repurchase shares.

General Meetings (continued)

The 2022 AGM of the Company is scheduled to be held on Friday, May 27, 2022 at 2:00 p.m.. Shareholders may refer to the notice of the 2022 AGM dated April 19, 2022 for details.

All resolutions at the general meetings of the Company shall be decided by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands.

Induction and Continuous Professional Development of Directors

According to code provision A.6.1 of the Original CG Code (C.1.1 of the New CG Code), all newly appointed Directors are given a comprehensive, formal and tailored induction programme to ensure their proper understanding of the Company's operations and business, awareness of their responsibilities and obligations under the Listing Rules and relevant laws.

According to code provision A.6.5 of the Original CG Code (C.1.4 of the New CG Code), all Directors should participate in continuous professional development ("CPD") to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company has received from all Directors of their respective training records. A summary of the trainings participated by the Directors during the year ended December 31, 2021 is as follows:

	Mode of CPD Training	
	Reading materials	**Attending seminar**
Executive Directors		
Lu Chin Chu	3 hours	2 hours
Tsai Pei Chun, Patty	3 hours	2 hours
Chan Lu Min	3 hours	2 hours
Lin Cheng-Tien	3 hours	2 hours
Hu Chia-Ho	3 hours	2 hours
Liu George Hong-Chih	3 hours	2 hours
Yu Huan Chang	3 hours	2 hours
Independent Non-executive Directors		
Wong Hak Kun	3 hours	2 hours
Ho Lai Hong	3 hours	2 hours
Yen Mun-Gie *(also known as Teresa Yen)*[1]	3 hours	2 hours
Lin Shei-Yuan[2]	N/A	N/A
Chen Chia-Shen	3 hours	2 hours

Notes:

1. Ms. Yen Mun-Gie (also known as Teresa Yen) resigned as an independence non-executive director of the Company on November 12, 2021.

2. Mr. Lin Shei-Yuan was appointed as an independence non-executive director of the Company on November 12, 2021.

Corporate Governance Report

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to cover the liabilities of the Directors that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended December 31, 2021, no claim was made against any Directors.

Chairman and Managing Director

The position of the chairman of the Company is held by Mr. Lu Chin Chu and the position of the managing director of the Company is held by Ms. Tsai Pei Chun, Patty. The roles of the chairman and the managing director are clearly segregated and are not exercised by the same individual.

The chairman of the Company provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. It also ensures that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategies and policies and that Board decisions taken are in the Group's best interests and fairly reflect the Board's consensus. The managing director of the Company leads the management in the day-to-day operation of the Group's business in accordance with the business plans and develops and proposes the Group's strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Appointment and Re-Election of Directors

Any appointment of a new Director is recommended by the nomination committee of the Company (the "Nomination Committee") with reference to the Company's Nomination Policy and Board Diversity Policy for the Board's consideration and approval and is subject to the approval by the Shareholders in general meetings. Any Director who is appointed by the Board to fill a casual vacancy shall retire at the first general meeting of the Company after appointment. Any Director who is appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company.

All independent non-executive directors of the Company are appointed for a specific term of three years. All Directors are subject to retirement by rotation at least every three years and re-election in accordance with the provisions of the Listing Rules and the Bye-laws. At least one-third of the Directors shall retire from office every year at the Company's annual general meeting.

Board Committees

Currently, the Board has established three principal committees, namely the Nomination Committee, the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each committee is delegated with specific authorities by the Board in assisting the Board to discharge its duties and to administer particular aspects of the Group's activities. The Board and all Board committees are provided with adequate resources to discharge their duties and can seek independent professional advice at the Company's expense whenever deemed necessary by Directors. The roles and functions of each committee are summarized below.

Nomination Committee

The Nomination Committee was established on December 29, 2011 with written terms of reference which are available under the "Corporate Governance" section of the Company's website.

Board Committee (continued)

Nomination Committee (continued)

The Nomination Committee currently comprises Mr. Ho Lai Hong (chairman of the Nomination Committee), Ms. Tsai Pei Chun, Patty and Mr. Lin Shei-Yuan. All of the Nomination Committee members are independent non-executive directors of the Company except for Ms. Tsai Pei Chun, Patty who is an executive director of the Company.

The primary duties of the Nomination Committee are: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (v) to review the Board Diversity Policy of the Company and make recommendation to the Board on any revisions to the same, as appropriate, to ensure its effectiveness.

The Nomination Committee held two meetings during the year ended December 31, 2021. The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the work performed by the Nomination Committee for the year ended December 31, 2021:

- Assessed, reviewed and affirmed the independence of the independent non-executive directors of the Company;
- Reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- Considered the re-appointment of two executive directors of the Company upon expiry of their respective service agreements in 2021, and made recommendation for the Board's approval;
- Considered the re-appointment of two independence non-executive directors of the Company upon expiry of their respective appointment letters in 2021, and made recommendation for the Board's approval;
- Recommended the retirement and re-election of Directors at the 2021 AGM for the Board's approval;
- Reviewed the Company's Board Diversity Policy and Nomination Policy and their respective effectiveness; and
- Considered the appointment of a new independence non-executive director of the Company, with reference to his independence and the Company's Board Diversity Policy and Nomination Policy, and made recommendation for the Board's approval.

Board Committee (continued)

Remuneration Committee

The Remuneration Committee was established with written terms of reference which are available under the "Corporate Governance" section of the Company's website.

The Remuneration Committee currently comprises Mr. Wong Hak Kun (chairman of the Remuneration Committee), Mr. Ho Lai Hong, Mr. Lin Shei-Yuan and Mr. Chen Chia-Shen. All of the Remuneration Committee members are independent non-executive directors of the Company.

The primary duties of the Remuneration Committee are to make recommendations to the Board on (i) the Company's policy and structure for all Directors' and senior management's remuneration; (ii) the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments, etc.; and (iii) the remuneration of non-executive directors.

The Remuneration Committee held three meetings during the year ended December 31, 2021. The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the work performed by the Remuneration Committee for the year ended December 31, 2021:

- Considered the remuneration of two executive directors of the Company for renewal of their service agreements in 2021, and made recommendation for the Board's approval;
- Considered the director fee of two independent non-executive directors of the Company for renewal of their respective appointment letter in 2021, and made recommendation for the Board's approval;
- Reviewed the Company's 2020 remuneration for management with reference to the Board's corporate goal and objectives, salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, and made recommendation for the Board's approval;
- Reviewed the Company's remuneration policy and structure for all Directors' and senior management's remuneration;
- Reviewed the granting of share awards to the Directors and senior management of the Company pursuant to the Yue Yuen Share Award Scheme, and made recommendation for the Board's approval;
- Made sure that no Director or his/her associate was involved in deciding his/her own remuneration; and
- Considered the remuneration of a new independent non-executive director of the Company, and made recommendation for the Board's approval;

Pursuant to B.1.5 of the original CG Code (E.1.5 of the New CG Code), the remuneration of the senior management of the Company by band for the year ended December 31, 2021 was set out in Note 11 to the consolidated financial statements.

Board Committees (continued)

Audit Committee

The Audit Committee was established with written terms of reference which are available under the "Corporate Governance" section of the Company's website.

The Audit Committee currently comprises Mr. Wong Hak Kun (chairman of the Audit Committee), Mr. Ho Lai Hong, Mr. Lin Shei-Yuan and Mr. Chen Chia-Shen. All of the Audit Committee members are independent non-executive directors of the Company. The Audit Committee has reviewed the audited consolidated financial statements for the year ended December 31, 2021.

The primary duties of the Audit Committee are: (i) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; (ii) to approve the remuneration and terms of engagement of the external auditor; (iii) to monitor integrity of the Company's financial statements, interim and annual reports, and to review significant financial reporting judgments contained in such documents; and (i) to oversee the Company's financial reporting system, risk management and internal control systems. At least twice a year the Audit Committee meets with the external auditor, without the presence of executive directors of the Company, to discuss any area of concern during the audit or review.

The Audit Committee held four meetings during the year ended December 31, 2021 (two of the meetings have met with the external auditor of the Company). The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the major works performed by the Audit Committee for the year ended December 31, 2021:

- Reviewed the continuing connected transactions of the Group for the year ended December 31, 2020;
- Reviewed the Group's final results for the year ended December 31, 2020 and the interim results for the six months period ended June 30, 2021;
- Made recommendation to the Board for re-appointment of Deloitte as the Group's external auditor;
- Reviewed Deloitte's performance, independence and objectivity and the effectiveness of the audit process and its scope;
- Reviewed the Group's quarterly results for the three months ended March 31, 2021 and for the nine months ended September 30, 2021 respectively;
- Reviewed the "Report to the Audit Committee" prepared by the external auditor for the year ended December 31, 2020 and the six months ended June 30, 2021 respectively;
- Reviewed the internal audit report and the effectiveness of the risk management and internal control systems, both for the year ended December 31, 2020 and the six months ended June 30, 2021 respectively;

Corporate Governance Report

Board Committee (continued)

Audit Committee (continued)

- Reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and the effectiveness of the internal audit function, and made recommendation to the Board;

- Reviewed the arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and

- Reviewed the audited planning issue for the year ended December 31, 2021 with external auditor.

Attendance Rate of Meetings

The attendance rate of the Board, principal committees and Shareholders' meetings held in 2021 are as follows:

	Shareholders' Meetings	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting
	Number of Meeting(s) Attended/Held				
Executive Directors					
Lu Chin Chu	1/1	7/7	N/A	N/A	N/A
Tsai Pei Chun, Patty	1/1	7/7	N/A	N/A	2/2
Chan Lu Min	1/1	7/7	N/A	N/A	N/A
Lin Cheng-Tien	1/1	7/7	N/A	N/A	N/A
Hu Chia-Ho	1/1	7/7	N/A	N/A	N/A
Liu George Hong-Chih	1/1	7/7	N/A	N/A	N/A
Yu Huan-Chang	1/1	7/7	N/A	N/A	N/A
Independent Non-Executive Directors					
Wong Hak Kun	1/1	7/7	4/4	3/3	N/A
Ho Lai Hong	1/1	7/7	4/4	3/3	2/2
Yen Mun-Gie[1] *(also known as Teresa Yen)*	1/1	7/7	4/4	3/3	2/2
Lin Shei-Yuan[2]	N/A	N/A	N/A	N/A	N/A
Chen Chia-Shen	1/1	7/7	4/4	3/3	N/A

Notes:

1. Ms. Yen Mun-Gie (also known as Teresa Yen) resigned as an independence non-executive director of the Company on November 12, 2021.

2. Mr. Lin Shei-Yuan was appointed as an independence non-executive director of the Company on November 12, 2021.

Corporate Governance Functions

The Board is primarily responsible for performing the corporate governance functions of the Company.

The following is a summary of the work performed by the Board for the year ended December 31, 2021:

- Reviewed the Statement of Policy on Corporate Governance of the Company;

- Reviewed the summary of and monitored the training and continuous professional development of the Directors;

- Reviewed and monitored the practices on compliance with legal and regulatory requirements and reviewed the Company's compliance with the CG Code; and disclosure in the Corporate Governance Report as inherent in 2020 Annual Report;

- Reviewed the Guidelines for Securities Transactions by Relevant Employees of the Company;

- Reviewed the effectiveness of the Company's Shareholders' Communication Policy; and

- Reviewed and monitored the Code of Conduct of the Company.

The Board adopted a Statement of Policy on Corporate Governance which sets out the key corporate governance principles observed by the Company and illustrates the practices and systems established by the Board in line with those principles. It serves as a framework guideline to assist the Board in supervising the management of the business and affairs of the Group.

Board Diversity Policy

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. As mentioned in the Board Diversity Policy adopted by the Company, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates may bring to the Board. Further details of the Board's composition with their diversity perspectives are included in the section "Biographical Details of Directors and Senior Management" of this report.

Nomination Policy

The Company adopted a Nomination Policy on November 13, 2018. The Nomination Policy incorporated the selection criteria and nomination procedures for nomination of Directors. When considering a candidate nominated for directorship or a director's proposed re-appointment, the Nomination Committee will have regard to the following factors:

- with reference to the Company's Board Diversity Policy, a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

Nomination Policy (continued)

- commitment to devote sufficient time and attention to the Company's affairs;
- character and integrity;
- accomplishment, experience and knowledge in the relevant industry; and
- in respect of an independent non-executive director, independence of the candidate.

The aforesaid criteria are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Nomination Committee identifies or selects candidates recommended to the Nomination Committee pursuant to the aforesaid criteria. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. The Board maintains final decision on all matters relating to the selection and appointment of Directors and its recommendation of candidates to stand for election at any general meeting. Where the re-election or appointment of Directors is subject to shareholders' approval at a general meeting, a circular containing all the information of the candidates required under Rules 13.51(2) of the Listing Rules (as amended from time to time) and other applicable rules and regulations shall be sent to shareholders. No Director should be involved in deciding the recommendation of his/her own re-election.

Dividend Policy

The Company adopted a Dividend Policy on November 13, 2018. The Company is committed to maintaining a sustainable and stable absolute return to shareholders in the form of dividend. The Board has complete discretion on whether to pay a dividend, subject to shareholder's approval, where applicable. The Board shall decide the form, frequency and amount of the dividend payments.

The actual dividend payments will depend on a number of factors, including but not limited to the following:

- Financial performance of the Company;
- Conservation of adequate funds for the Company's capital expenditures or other strategic initiatives for growth and expansion prospects;
- Cash position and availability of funds for dividend payments;
- Financial position of the Company such as its capital structure and debt repayment capabilities;
- Any restraints on dividend payments as contained in the financing agreements; and
- Other factors that the Board may consider relevant.

The Company's ability to make distributions is also subject to the requirements of Bermuda law, the Bye-laws, the Listing Rules and any other applicable laws and regulations.

Auditor's Remuneration and Auditor Related Matters

During the year ended December 31, 2021, the remuneration paid or to be payable to the Company's external auditor, Deloitte, is set out as follows:

	US$'000
Audit services	1,437
Non-audit services	599
Total	2,036

The above non-audit services mainly include the review of interim financial statements, professional advisory on taxation and environmental, social and governance reporting requirement and professional services rendered in connection with consolidation system implementation and acquisition of a subsidiary.

Directors' Responsibility and Auditor's Responsibility in Respect of Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of the Group's affairs and results. In doing so, the generally accepted accounting standards and suitable accounting policies in Hong Kong are adopted and applied consistently. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 78 to 83 of this annual report.

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary confirmed that he has taken at least 15 hours of relevant professional training during the year under review in compliance with Rule 3.29 of the Listing Rules.

Shareholders' Rights

The general meetings of the Company provide a communication channel between the Shareholders and the Board. An annual general meeting of the Company is held in each year and at the place as may be determined by the Board. General meetings other than an annual general meeting are called special general meetings. The Board may whenever it thinks fit convene special general meetings.

The Procedures for Shareholders to Convene a Special General Meeting

Pursuant to Bye-law 58 of the Bye-laws, Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary at the Company's principal place of business in Hong Kong, to require a special general meeting to be convened by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act of Bermuda.

Shareholders' Rights (continued)

The Procedures for Sending Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited with the Board or the Company Secretary at the Company's principal place of business in Hong Kong as below:

Yue Yuen Industrial (Holdings) Limited
22nd Floor, C-Bons International Center
108 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

The Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

Pursuant to Sections 79 and 80 of the Companies Act of Bermuda, registered Shareholders are entitled to put forward proposals at general meetings if they (i) represent not less than one-twentieth of the total voting rights at general meetings of the Company at the date of deposit of the requisition; or (ii) are not less than 100 registered Shareholders. The written requisition stating the resolution(s) should be duly signed by the registered Shareholder(s) concerned, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with must be deposited at the Company's principal place of business in Hong Kong. The requisition will be verified by the Company's branch share registrar in Hong Kong and upon their confirmation that the same is proper and in order, the Company Secretary will arrange to include the proposed resolution in the agenda of the general meeting.

The Procedures for Shareholders to Propose a Person for Election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the "Corporate Governance" section of the Company's website.

Information Disclosure and Investor Relations

The Board maintains an on-going dialogue with the Shareholders and the investment community mainly through the Company's financial reports, annual general meetings and by making available its corporate communications and publications on the Company's website.

There is no change in the Memorandum of Association and Bye-laws of the Company during the year ended December 31, 2021. The aforesaid constitutional document is available for public inspection at the Company's website.

Shareholders Communication Policy

The Company adopted and modified a Shareholders Communication Policy setting out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, with a view to enabling the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.

Corporate Governance Report

Risk Management and Internal Control

The Board is responsible for maintaining sound and effective risk management and internal control systems for the Group, as well as reviewing the effectiveness of these systems. These systems are designated to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss, and to assist in the achievement of the Group's objectives. These systems also ensure the maintenance of proper accounting records and compliance with operating procedures as well as relevant laws and regulations.

During the year under review, the internal audit function of the Group was performed by the internal audit department, which was responsible for the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group. At the same time, it also assessed the risks inherent to the business and operation, and conducted reviews or audits to provide reasonable, and not absolute, assurance that adequate governance and controls are in place to address such risks. The Board had reviewed, through the Audit Committee, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Board had also reviewed, through the Audit Committee, the effectiveness of the Group's risk management and internal control systems including financial control, operational control and compliance control, for the year ended December 31, 2020 and for the six months ended June 30, 2021, in March and in August 2021 respectively, and has received confirmation from the management on the effectiveness of risk management and internal control systems, and considered such systems to be effective and adequate.

Main Features of the Risk Management and Internal Control Systems

The Board performs its duties by formulating policies and procedures, including parameters for delegated authorization, which provide a framework for identification and management of risks. The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval of all policies, overall strategies, risk management and internal control systems after taking into consideration of the recommendations made by the relevant committees, as well as monitoring the performance of the senior management and approving the detailed operational and financial report, budget and business plan submitted by the management. Meanwhile, the managing director conducts regular reviews with the management team of each core business unit on their authorized functions and work.

The management (including relevant heads of business units, departments and divisions) appropriately designs, implements and monitors the risk management and internal control systems, and ensures the effective performance of these systems; monitors risks and takes measures to mitigate risks in daily operations; provides timely responses and follow-up actions to findings on internal control matters raised by internal audit department or by external auditors; and provides confirmation to the Board on the effectiveness of these systems.

The Audit Committee is responsible for the ongoing review of the Group's risk management and internal control functions. On behalf of the Board, the Audit Committee regularly reviews the Group's risk management and internal control systems; ensures that the management has performed its duty to have effective systems; considers major investigation findings on risk management and internal control matters and management's responses to these findings; ensures co-ordination between the internal audit department and external auditor; and ensures that the internal audit function is adequately resourced and has appropriate standing within the Group, and reviews and monitors the effectiveness of the internal audit function.

Risk Management and Internal Control (continued)

Risk Management

The Group has put in place a set of internal audit planning and risk assessment systems, for the identification, assessment and management of significant risks. The processes are:

1. Audit Planning

    a. Audit Subject Selection – The Group's risks are assessed according to financial risk factor and non-financial risk factor, and different factors are weighted according to their respective importance. At the same time, the Group's businesses are categorized into eight industry groups, according to the characteristics of the respective product, for the assessment of risks and the selection of business units as audit subjects accordingly. Apart from selecting audit subjects according to the risks assessment system, the auditing work will also be carried out according to the instructions of the Board and the senior management of the Group, or according to the requests of the heads of the business units.

    b. Audit Preparation – After an annual refreshment of relevant data, the risk levels of each business units are recalculated, the audit of the new financial year is planned, and the Group's risk assessment report and the internal audit plan are presented to the Audit Committee by the head of the internal audit department.

2. Information Inspection and Evaluation – According to the annual internal audit plan and audit procedures, to understand, examine and evaluate the situation of internal control. According to the needs revealed from internal control assessment, the test is broadened to discover problems, after which the audit report will be produced and recommendations are made.

3. Audit results are communicated to the audited business units.

4. The head of the internal audit department reports to the Audit Committee half-yearly and annually on the results of audit work.

5. Improvements on defects discovered and mitigation of risks are requested and progresses are continuously tracked.

Internal Control Measures

Executive directors are appointed to the boards of all significant operating subsidiaries and associates to oversee the operations of these companies, which include the participation in their board meetings, approval of budgets and operating strategies, as well as the identification of related risks and formulation of key performance indicators. The management team of each core business unit is responsible for every business in their respective department. Similarly, the management team of each business unit is also responsible for their own conduct and performance. The Group's managing director continuously monitors the Group's performance and reviews the risk conditions of these companies through these measures.

The Group's internal control procedures include a set of comprehensive reporting system, through which informative reports are produced to the management team of each core business unit and to the executive directors.

Risk Management and Internal Control (continued)

Internal Control Measures (continued)

As part of the Group's annual business plan, business plans and budgets are prepared annually by individual business units, which are subject to approval by the management team and the managing director. Regular reviews of the differences between projections and actual financial data are conducted, and comparisons of variances against the original budgets are made and approved. In preparing budgets and making revised forecasts, the management will identify, assess and report on the likelihood of significant risks facing the business units and their potential financial impacts.

The executive directors of the Company review the monthly management reports which cover the financial performance and major operating statistics of each business unit, and meet regularly with the operation management team and senior business management team of the business units to review such reports, compare the business performances against the budgets and perform business forecasts as well as material risks assessments and strategies. In addition, the heads of the management team of the core business units meet quarterly with the managing director and their respective team members to review and carry out risk assessments, decisions and related matters of the major issues.

Inside Information

In respect of compliance with the requirements of the SFO and the Listing Rules to identify, handle and disseminate inside information (having the meaning under the SFO), the Group has adopted the Inside Information Policy to ensure that inside information of the Group is disseminated to the public in equal and timely manner and in accordance with the applicable laws and regulations. It is the obligation of the Board to ensure the Company's compliance with its disclosure responsibilities. The Company must disclose inside information to the public as soon as reasonably practicable, unless the "safe harbor" provisions under the SFO apply. The Board shall take reasonable precautions for preserving the confidentiality of inside information and the relevant announcement (if applicable) before publication. The Company has implemented procedures and adopted the "Guidelines for Securities Transactions by Relevant Employees". To guard against mishandling of inside information, the Group's securities transactions by the Directors and relevant employees are subject to pre-clearance and the Directors and relevant employees are notified of the regular blackout period and securities dealing restrictions. If there are rumours in the public, concern should be addressed to the disclosure committee of the Company for determination as to whether the nature of such rumours falls into the category of insider information as mentioned above. No persons other than those authorized by the Board shall disclose or clarify any inside information, or attempt to do so, in particular to the media, analysts or investors. Any disclosure of inside information must be made through the electronic publication system operated by the Stock Exchange's and the Company's website.

Risk Management and Internal Control (continued)

Internal Audit

The head of the Group's internal audit department reports to the managing director on the department's daily duties, and directly reports to the Audit Committee. The internal audit department formulates its annual audit plan based on the risks assessment method, taking into consideration the operational mechanism of the Group. The plan is reviewed by the Audit Committee and re-assessed during the year, if necessary, to ensure that sufficient resources are available for use and the objectives of the plan are achieved. The internal audit department is responsible for the assessment of the risk management and internal control systems of the Group, provision of impartial advices on the system, reporting the assessment results to the Audit Committee, managing director and relevant senior management, and following up on all reports to ensure the satisfactory resolution of all issues. Depending on the business nature and risks of the individual business unit, the work of internal audit function includes reviews on finance/information technology and operation, recurring and ad hoc audits and fraud investigations, etc. In addition, the internal audit department also communicates with the Group's external auditors on a regular basis.

For the year under review, the Audit Committee considered that the Group's risk management and internal control systems were adequate and effective.

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 84 to 224, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
We identified the impairment assessment of goodwill allocated to several groups of cash generating units ("CGUs") which are engaged in the business of distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales as a key audit matter due to the complexity and significant judgments and estimates involved in the assessment process of the management of the Group. As disclosed in Note 19 to the consolidated financial statements, the carrying amount of this goodwill was US$83,274,000 as at December 31, 2021. Determining whether goodwill is impaired requires the management's estimation of the recoverable amounts of the relevant groups of CGUs to which the goodwill has been allocated, which is the higher of value in use and fair value less costs of disposal. In estimating the value in use of the above groups of CGUs, key inputs used by the management included discount rates, growth rates, budgeted sales and gross margin and their related cash inflow and outflow patterns. The management also engaged an independent valuer to determine the discount rate. The above groups of CGUs containing goodwill did not suffer any impairment during the year ended December 31, 2021.	Our procedures in relation to the impairment assessment of goodwill included: • Evaluating the competence, capabilities and objectivity of the independent valuer; • Evaluating the assumptions underpinning the discounted cash flow models, including growth rates, budgeted sales and gross margin through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industry trend; • Involving our team of internal valuation experts to assess the discount rate applied underpinning the discounted cash flow models by performing re-calculations based on market data and certain company specific parameters, as well as evaluating the reasonableness of parameters applied by the independent valuer; • Evaluating the reasonableness of sensitivity analysis provided by the management of the Group, and performing re-calculations to assess the extent of impact on the value in use; and • Evaluating the historical accuracy of the forecasted future cash flows by comparing them to actual results in the current year and understanding the causes for any significant variances.

Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of net realizable value of obsolete & slow-moving finished goods	
We identified the assessment of net realizable value of finished goods for the retail and distribution of sportswear and footwear products as a key audit matter due to the significant judgments and estimates involved in the determination of the net realizable value of these finished goods by the management of the Group. As disclosed in Notes 24 and 10 to the consolidated financial statements, the carrying amount of finished goods for the retail and distribution of sportswear and footwear products included in the inventories balances as at December 31, 2021 was US$1,190,504,000 and the net changes in allowance for inventories arose from the finished goods for the retail and distribution of sportswear and footwear products debited to the consolidated income statement for the year then ended was US$5,031,000. Accumulated allowance made as at December 31, 2021 was US$26,007,000. As explained in Note 4(b)(iii) to the consolidated financial statements, the management of the Group reviewed the aging and saleability of the inventories at the end of the reporting period and made allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The management of the Group estimated the net realizable value for those items based primarily on the inventories condition, current market conditions and latest transaction prices.	Our procedures in relation to assessment of net realizable value of obsolete and slow-moving inventories included: • Understanding the process performed by management of the Group on identification of obsolete and slow-moving inventories; • Evaluating the accuracy of aging analysis of inventories by utilizing computer assisted audit techniques and checking, on a sample basis, to the invoices and other relevant supporting documents; • Based on historical sales data of inventories in different aging categories, developing a point estimate to evaluate the reasonableness of allowance for inventories due to net realizable value of potentially obsolete and slow-moving inventories; and • Performing retrospective review using data analytic on actual sales performance in 2021 for those inventories as at December 31, 2020.

Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wu Ka Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 15, 2022

Consolidated Income Statement

For the year ended December 31, 2021

	NOTES	2021 US$'000	2020 US$'000
Revenue	5	**8,533,337**	8,444,935
Cost of sales		**(6,485,102)**	(6,613,920)
Gross profit		**2,048,235**	1,831,015
Other income	6	**140,067**	122,364
Selling and distribution expenses		**(1,189,488)**	(1,079,169)
Administrative expenses		**(611,886)**	(546,668)
Other expenses		**(225,367)**	(338,258)
Finance costs	7	**(52,698)**	(68,078)
Share of results of associates		**26,292**	27,205
Share of results of joint ventures		**(14,538)**	21,551
Other gains and losses	8	**54,814**	(21,361)
Profit (loss) before taxation		**175,431**	(51,399)
Income tax expense	9	**(33,485)**	(20,962)
Profit (loss) for the year	10	**141,946**	(72,361)
Attributable to:			
Owners of the Company		**115,072**	(90,791)
Non-controlling interests		**26,874**	18,430
		141,946	(72,361)
		US cents	US cents
Earnings (loss) per share	13		
– Basic		**7.15**	(5.64)
– Diluted		**7.14**	(5.64)

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2021

	2021 US$'000	2020 US$'000
Profit (loss) for the year	**141,946**	(72,361)
Other comprehensive income (expense)		
Items that will not be reclassified subsequently to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	**3,536**	(1,424)
Share of other comprehensive income (expense) of associates	**28,386**	(1,721)
Remeasurement of defined benefit obligations, net of tax	**(2,104)**	(13,221)
Revaluation gain on transfer of properties to investment properties, net of tax	**38,464**	2,270
	68,282	(14,096)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**26,908**	78,585
Share of other comprehensive income of associates and joint ventures	**3,524**	19,316
Reserve released upon disposal of an associate	**(868)**	(270)
Reserve released upon deemed disposal of an associate	**(9)**	–
Reserve released upon partial disposal of a joint venture	**–**	(4,246)
Reserve released upon deregistration of a subsidiary	**–**	(53)
	29,555	93,332
Other comprehensive income for the year	**97,837**	79,236
Total comprehensive income for the year	**239,783**	6,875
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**201,950**	(43,155)
Non-controlling interests	**37,833**	50,030
	239,783	6,875

Consolidated Statement of Financial Position

At December 31, 2021

	NOTES	2021 US$'000	2020 US$'000
Non-current assets			
Investment properties	14	**233,999**	125,382
Property, plant and equipment	15	**2,024,657**	2,212,365
Right-of-use assets	16	**629,324**	665,439
Deposits paid for acquisition of property, plant and equipment		**122,000**	101,423
Intangible assets	17	**11,280**	27,738
Goodwill	18	**267,015**	265,292
Interests in associates	20	**431,074**	418,370
Interests in joint ventures	21	**197,579**	281,879
Equity instruments at fair value through other comprehensive income	22	**28,608**	30,496
Financial assets at fair value through profit or loss	23	**21,754**	31,200
Rental deposits		**26,464**	28,297
Deferred tax assets	31	**124,919**	94,070
Deferred consideration receivable		**–**	5,018
		4,118,673	4,286,969
Current assets			
Inventories	24	**2,058,022**	1,584,934
Trade and other receivables	25	**1,477,957**	1,597,108
Equity instrument at fair value through other comprehensive income	22	**4,908**	–
Other financial asset at amortized cost		**9,424**	–
Financial assets at fair value through profit or loss	23	**105,268**	120,763
Taxation recoverable		**25,867**	13,968
Bank balances and cash	26	**837,965**	896,977
		4,519,411	4,213,750
Assets classified as held for sale	27	**–**	22,151
		4,519,411	4,235,901

Consolidated Statement of Financial Position

At December 31, 2021

	NOTES	2021 US$'000	2020 US$'000
Current liabilities			
Trade and other payables	28	**1,516,947**	1,446,616
Contract liabilities	29	**80,299**	95,238
Financial liabilities at fair value through profit or loss	23	**1,996**	1,085
Taxation payable		**57,495**	58,303
Bank borrowings	30	**655,839**	574,638
Lease liabilities	32	**155,923**	161,989
		2,468,499	2,337,869
Net current assets		**2,050,912**	1,898,032
Total assets less current liabilities		**6,169,585**	6,185,001
Non-current liabilities			
Financial liabilities at fair value through profit or loss	23	**8,382**	25,099
Bank borrowings	30	**1,061,258**	1,293,303
Deferred tax liabilities	31	**52,992**	39,271
Lease liabilities	32	**301,014**	330,994
Retirement benefit obligations	44(b) & (c)	**141,488**	122,192
		1,565,134	1,810,859
Net assets		**4,604,451**	4,374,142
Capital and reserves			
Share capital	33	**52,040**	52,040
Reserves		**4,046,418**	3,843,814
Equity attributable to owners of the Company		**4,098,458**	3,895,854
Non-controlling interests	46	**505,993**	478,288
Total equity		**4,604,451**	4,374,142

The consolidated financial statements on pages 84 to 224 were approved and authorized for issue by the board of directors of the Company on March 15, 2022 and are signed on its behalf by:

Tsai Pei Chun, Patty
MANAGING DIRECTOR

Yu Huan-Chang
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended December 31, 2021

	Equity attributable to owners of the Company														
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Other reserve US$'000 (note b)	Other revaluation reserve US$'000	Property revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Statutory reserve fund US$'000 (note c)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2020	52,040	592,677	29,750	(16,688)	21,996	4,551	21,804	(6,910)	1,388	114,764	18,347	3,264,987	4,098,706	434,385	4,533,091
(Loss) profit for the year	–	–	–	–	–	–	–	–	–	–	–	(90,791)	(90,791)	18,430	(72,361)
Remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	(16,651)	(16,651)	(192)	(16,843)
Deferred tax arising from remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	3,575	3,575	47	3,622
Revaluation gain on transfer of properties to investment properties	–	–	–	–	–	–	3,026	–	–	–	–	–	3,026	–	3,026
Deferred tax arising from gain on revaluation of properties to investment properties	–	–	–	–	–	–	(756)	–	–	–	–	–	(756)	–	(756)
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	48,830	–	48,830	29,755	78,585
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	–	–	(1,469)	–	–	–	–	–	–	–	–	–	(1,469)	45	(1,424)
Share of other comprehensive (expense) income of associates and joint ventures	–	–	(2,601)	–	–	–	880	–	–	–	17,371	–	15,650	1,945	17,595
Reserve released upon disposal of an associate	–	–	–	–	–	–	–	–	–	–	(270)	–	(270)	–	(270)
Reserve released upon partial disposal of a joint venture	–	–	–	–	–	–	–	–	–	–	(4,246)	–	(4,246)	–	(4,246)
Reserve released upon deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(53)	–	(53)	–	(53)
Total comprehensive (expense) income for the year	–	–	(4,070)	–	–	–	3,150	–	–	–	61,632	(103,867)	(43,155)	50,030	6,875
Recognition of equity-settled share-based payments, net of amounts lapsed relating to share options and share awards not yet vested	–	–	–	–	–	–	–	–	697	–	–	–	697	(281)	416
Share awards vested	–	–	–	–	–	–	–	279	(216)	–	–	(63)	–	–	–
Share option lapsed under share option scheme of a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	76	76	(76)	–
Exercise of a listed subsidiary's share options	–	–	–	–	(75)	–	–	–	–	–	–	–	(75)	124	49
Purchase of shares under share award scheme of a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(20,881)	(20,881)
Acquisition of additional interests in subsidiaries	–	–	–	–	(11,424)	–	–	–	–	–	–	–	(11,424)	(1,270)	(12,694)
Capital contribution from a non-controlling interest of a subsidiary	–	–	–	–	(3,541)	–	–	–	–	–	–	–	(3,541)	16,762	13,221
Dividends (Note 12)	–	–	–	–	–	–	–	–	–	–	–	(145,430)	(145,430)	–	(145,430)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(505)	(505)
Transfer to statutory reserve fund	–	–	–	–	–	–	–	–	–	15,399	–	(15,399)	–	–	–
At December 31, 2020	52,040	592,677	25,680	(16,688)	6,956	4,551	24,954	(6,631)	1,869	130,163	79,979	3,000,304	3,895,854	478,288	4,374,142

Consolidated Statement of Changes in Equity

For the year ended December 31, 2021

	Equity attributable to owners of the Company														
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Other reserve US$'000 (note b)	Other revaluation reserve US$'000	Property revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Statutory reserve fund US$'000 (note c)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2021	52,040	592,677	25,680	(16,688)	6,956	4,551	24,954	(6,631)	1,869	130,163	79,979	3,000,304	3,895,854	478,288	4,374,142
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	115,072	115,072	26,874	141,946
Remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	(2,521)	(2,521)	(98)	(2,619)
Deferred tax arising from remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	493	493	22	515
Revaluation gain on transfer of properties to investment properties	–	–	–	–	–	–	51,286	–	–	–	–	–	51,286	–	51,286
Deferred tax arising from gain on revaluation of properties to investment properties	–	–	–	–	–	–	(12,822)	–	–	–	–	–	(12,822)	–	(12,822)
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	16,364	–	16,364	10,544	26,908
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	–	–	3,542	–	–	–	–	–	–	–	–	–	3,542	(6)	3,536
Share of other comprehensive income of associates and joint ventures	–	–	28,386	–	–	–	–	–	–	–	3,027	–	31,413	497	31,910
Reserve released upon disposal of an associate	–	–	–	–	–	–	–	–	–	–	(868)	–	(868)	–	(868)
Reserve released upon deemed disposal of an associate	–	–	–	–	–	–	–	–	–	–	(9)	–	(9)	–	(9)
Total comprehensive income for the year	–	–	31,928	–	–	–	38,464	–	–	–	18,514	113,044	201,950	37,833	239,783
Recognition of equity-settled share-based payments, net of amounts lapsed relating to share awards not yet vested	–	–	–	–	–	–	–	–	3,855	–	–	–	3,855	853	4,708
Share awards vested	–	–	–	–	–	–	–	6,684	(4,402)	–	–	(2,282)	–	–	–
Repurchase of ordinary shares of a listed subsidiary	–	–	–	–	1,760	–	–	–	–	–	–	–	1,760	(6,466)	(4,706)
Share option lapsed under share option scheme of a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	105	105	(105)	–
Purchase of shares under share award scheme	–	–	–	–	–	–	–	(4,468)	–	–	–	–	(4,468)	–	(4,468)
Capital contribution from a non-controlling interest of a subsidiary	–	–	–	–	(598)	–	–	–	–	–	–	–	(598)	1,139	541
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(5,549)	(5,549)
Transfer upon disposal of an equity instrument at fair value through other comprehensive income	–	–	(88)	–	–	–	–	–	–	–	–	88	–	–	–
Transfer to statutory reserve fund	–	–	–	–	–	–	–	–	–	13,596	–	(13,596)	–	–	–
At December 31, 2021	**52,040**	**592,677**	**57,520**	**(16,688)**	**8,118**	**4,551**	**63,418**	**(4,415)**	**1,322**	**143,759**	**98,493**	**3,097,663**	**4,098,458**	**505,993**	**4,604,451**

Consolidated Statement of Changes in Equity

For the year ended December 31, 2021

notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the nominal amount of the shares of subsidiaries acquired pursuant to a corporate reorganization in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1992.

(b) The Group accounted for the acquisition of additional interests in subsidiaries and partial disposal of interests in subsidiaries without losing control as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received, after re-attribution of relevant reserves, was recognized in "other reserve".

(c) According to the relevant laws in the People's Republic of China (the "PRC"), the subsidiaries of the Company established in the PRC are required to transfer at least 10% of their net profits after taxation, as determined under the PRC accounting regulations, to a statutory reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The statutory reserve fund can be used to offset the accumulated losses, if any, or to increase the capital of those subsidiaries.

According to the laws and regulations of Republic of China ("Taiwan"), the subsidiaries of the Company incorporated in Taiwan are required to set aside 10% of their statutory net income each year to statutory reserve fund, until the reserve balance has reached the paid-in share capital amount of those subsidiaries. The statutory reserve fund may be used to offset the accumulated losses of those subsidiaries. If those subsidiaries have no accumulated losses and the reserve has exceeded 25% of those subsidiaries' paid-in share capital, the excess may be transferred to the capital of those subsidiaries or distributed in cash.

Consolidated Statement of Cash Flows

For the year ended December 31, 2021

	2021 US$'000	2020 US$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**175,431**	(51,399)
Adjustments for:		
Depreciation of property, plant and equipment	**369,368**	353,690
Depreciation of right-of-use assets	**197,981**	178,200
Amortization of intangible assets	**15,536**	14,912
Net changes in allowance for inventories	**4,366**	(3,123)
Loss on disposal of property, plant and equipment	**12,678**	16,078
Equity-settled share-based payments	**4,708**	416
Defined benefit costs recognized	**25,232**	4,271
Dividend income from equity instruments at fair value through other comprehensive income ("FVTOCI")	**(1,160)**	(1,273)
Finance costs	**52,698**	68,078
Interest income	**(17,051)**	(8,583)
Share of results of associates and joint ventures	**(11,754)**	(48,756)
Fair value changes on financial instruments at fair value through profit or loss ("FVTPL")	**(21,936)**	30,394
Fair value changes on investment properties	**(15,068)**	(6,773)
Gain on disposal/deemed disposal of associates	**(7,770)**	(2,087)
Gain on disposal/partial disposal of a joint venture	**(24,278)**	(15,665)
Gain on disposal of right-of-use assets	**–**	(5,353)
Gain on deregistration of a subsidiary	**–**	(53)
Impairment loss on interest in an associate	**14,011**	14,000
Impairment loss on intangible asset/goodwill	**1,570**	1,618
Impairment loss on trade and other receivables	**1,064**	1,024
Reversal of impairment loss on amount due from an associate/a joint venture	**(1,343)**	(73)
Operating cash flows before movements in working capital	**774,283**	539,543
(Increase) decrease in inventories	**(328,338)**	303,543
Decrease in trade and other receivables	**135,792**	31,065
Decrease in trade and other payables	**(7,249)**	(3,543)
(Decrease) increase in contract liabilities	**(16,577)**	25,467
(Increase) decrease in financial instruments at FVTPL	**(3,678)**	11,149
Decrease in retirement benefit obligations	**(7,764)**	(13,331)
Net cash generated from operations	**546,469**	893,893
Taxation paid	**(83,366)**	(59,663)
NET CASH FROM OPERATING ACTIVITIES	**463,103**	834,230

Consolidated Statement of Cash Flows

For the year ended December 31, 2021

	NOTE	2021 US$'000	2020 US$'000
INVESTING ACTIVITIES			
Payment for acquisition of property, plant and equipment		**(286,044)**	(255,359)
Payment for right-of-use assets		**(3,468)**	(3,179)
Payment for acquisition of an intangible asset		**(292)**	–
Receipt (payment) of rental deposits		**3,586**	(284)
Proceeds from disposal of property, plant and equipment		**14,356**	43,542
Dividends received from associates and joint ventures		**36,738**	38,446
Dividends received from equity instruments at FVTOCI		**1,160**	1,273
Acquisition of a subsidiary	39	**1,486**	–
Proceeds from/deposits received in respect of disposal of associates/joint ventures		**78,199**	3,519
Refund of investment costs from joint ventures		**6,630**	2,047
Receipt of deferred consideration receivable		**6,429**	1,250
Acquisition of financial instruments at FVTPL		**(124,701)**	(127,286)
Settlement of financial instruments at FVTPL		**159,450**	5,629
Acquisition of other financial asset at amortized cost		**(9,272)**	–
Proceed from disposal of an equity instrument at FVTOCI		**522**	–
Interest received		**17,047**	8,619
Repayment from amount due from an associate/a joint venture		**1,343**	73
Investments in joint ventures and an associate		**–**	(29,681)
Proceeds from disposal of right-of-use assets		**–**	6,077
Redemption of other financial assets at amortized cost		**–**	6,000
Release of restricted bank deposits		**–**	1,150
NET CASH USED IN INVESTING ACTIVITIES		**(96,831)**	(298,164)

Consolidated Statement of Cash Flows

For the year ended December 31, 2021

	2021 US$'000	2020 US$'000
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(3,659,553)	(2,564,772)
Bank and other borrowings raised	3,477,373	2,314,678
Interest paid	(27,886)	(47,167)
Payment of upfront fee on bank borrowings	(2,430)	(100)
Repayment of lease liabilities, including related interests	(204,605)	(176,836)
Dividends paid to non-controlling interests of subsidiaries	(5,549)	(505)
Purchase of shares under share award scheme	(4,468)	–
Repurchase of shares of a listed subsidiary	(4,706)	–
Contribution from a non-controlling interest of a subsidiary	541	13,221
Dividends paid	–	(145,430)
Purchase of shares under a listed subsidiary's share award scheme	–	(20,881)
Acquisition of additional interests in subsidiaries	–	(12,694)
Proceeds from issuance of a listed subsidiary's shares upon exercise of a listed subsidiary's share options	–	49
NET CASH USED IN FINANCING ACTIVITIES	(431,283)	(640,437)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(65,011)	(104,371)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	896,977	982,079
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	5,999	19,269
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	837,965	896,977

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate parent is Pou Chen Corporation ("PCC"), a company incorporated in Taiwan and listed on the Taiwan Stock Exchange Corporation. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report.

The consolidated financial statements are presented in United States dollar ("USD"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Group are manufacturing and sales of footwear products, as well as retail and distribution of sportswear and footwear products. Retail operation also includes provision of large scale commercial spaces to retailers and distributors.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures.

As at January 1, 2021, the Group has credit linked notes, bank borrowings and interest rate swaps, the interest of which are indexed to benchmark rates that may be subject to interest rate benchmark reform. The carrying amount of the credit linked notes and bank borrowings were US$20,306,000 and US$1,376,653,000, respectively. The notional amount of the interest rate swaps were US$800,000,000. Credit linked notes are carrying with London Interbank Offered Rate ("LIBOR") plus spread of 1.10%, bank borrowings are carrying with LIBOR plus spread ranging from 0.70% to 0.90% and interest rate swaps are exchanging LIBOR with fixed rates.

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortized cost. Additional disclosures as required by HKFRS 7 are set out in Note 38.

2.2 Potential impact of application of the June 2021 International Financial Reporting Standards Interpretations Committee's (the "Committee") agenda decision – Costs necessary to sell inventories

In June 2021, the Committee, through its agenda decision clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realizable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental to a particular sale.

As at December 31, 2021, the Group is still in the process of assessing the potential impact and has yet to implement the change in accounting policy based on the Committee's agenda decision. The impacts on such change, if any, will be disclosed in the Group's future consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond June 30, 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[2]

1 Effective for annual periods beginning on or after April 1, 2021.
2 Effective for annual periods beginning on or after January 1, 2022.
3 Effective for annual periods beginning on or after January 1, 2023.
4 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognizes the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

The Group is in the process of assessing borrowings with covenants and the impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in Note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (continued)

Upon the application of the amendments, the Group will recognize a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual period beginning on January 1, 2023, with early application permitted. As at December 31, 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to US$451,318,000 and US$456,937,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation of consolidated financial statements (continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Changes in the Group's ownership interests in existing subsidiaries (continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an interest in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in October 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date;

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Business combinations (continued)

- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low-value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU"), or group of CGUs that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU or group of CGUs to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or group of CGUs. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Goodwill (continued)

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate or a joint venture is described below.

Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified accounted for in accordance with HKFRS 5. Any retained portion of an interests in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint ventures other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's investment in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An interest in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the interest in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Interests in associates and joint ventures (continued)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any assets, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) until disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an interest in an associate becomes an interest in a joint venture or an interest in a joint venture becomes an interest in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interests in the relevant subsidiary after the sales.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell which continue to be measured in accordance with the accounting policies as set out in respective sections.

When there is a delay caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group), an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Provision on customer loyalty programme

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to redeem award points for cash discount in the future which provides a material right to the customers and gives rise to a separate performance obligation. The transaction price is allocated to the product and the award points, taking into account for the expected likelihood of redemption, on a relative stand-alone selling price basis. Revenue from the award points is recognized when the award points are redeemed. Contract liabilities are recognized until the award points are redeemed. Revenue for points that are not expected to be redeemed is recognized in proportion to the pattern of rights exercised by customers.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties also include leased properties which are being recognized as right-of-use assets and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress and freehold land as described below, are stated in the consolidated statement of financial position at cost or fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Advantage has been taken of the transitional relief provided by paragraph 80AA of HKAS 16 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to September 30, 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to September 30, 1995, the revaluation increase arising on the revaluation of these assets was credited to the property revaluation reserve. Any future decrease in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the property revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is stated at cost less accumulated impairment losses, if any.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Property, plant and equipment (continued)

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the cost or fair value of items of property, plant and equipment, other than construction in progress and freehold land, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land classified as right-of-use assets) at the date of transfer is recognized in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Intangible assets

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a practical expedient, leases with similar characteristics are accounted for on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on revised lease payments (including the non-lease components) and the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains one or more additional lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component. The associated non-lease components are included in the respective lease components.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Leases (continued)

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments that do not depend on an index or a rate are recognized as income when they arise.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of property, plant and equipment, right-of-use assets, and intangible asset is estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rates that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined based on the weighted average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value except trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend and is included in the "other gains and losses" line item in profit or loss.

Impairment of financial assets

The Group recognizes loss allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amounts due from associates, amounts due from joint ventures, amounts due from connected and related parties, bank balances and cash, other financial asset at amortized cost and deferred consideration receivable). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iv) Write-off policy

The Group writes off a financial asset when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for trade receivables of Manufacturing Business (as defined in Note 5) are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

Lifetime ECL for trade receivables of Retailing Business (as defined in Note 5) is considered using provision matrix. The trade receivables are grouped on the basis of past-due status.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognized through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities is held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Financial liabilities at amortized cost

Financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortized cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives related to different risk exposures and are readily separable and independent of each other.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of loss allowance, as determined in accordance with HKFRS 9; and

(ii) the amount initially recognized less, when appropriate, cumulative amortization over the guarantee period.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

Share options granted to employees and other providing similar services

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options at the grant date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

When the share options are exercised, the amount previously recognized in equity will be transferred to share premium of the relevant group entity. When the share options are lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognized in equity will be transferred to retained profits.

Awarded shares granted to employees and other providing similar services

For grants of awarded shares that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of awarded shares at the grant date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of awarded shares that will eventually vest, with a corresponding increase in equity (share award reserve).

At the end of each reporting period, the Group revises its estimates of the number of awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity (share award reserve).

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under share award scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

When the trustee transfers the Company's granted shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under share award scheme. Accordingly, the related expense of the granted shares vested is reversed from share award reserve. The difference arising from such transfer is debited/credited to retained profits.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated income statement because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, except for freehold land, which is always presented to be recovered entirely through sale.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Taxation (continued)

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole.

Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. USD) using exchange rates prevailing at the end of the reporting period.

Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognized in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants that are not related to assets are presented under "other income".

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

Past service cost is recognized in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognized when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).

- Net interest expense or income.

- Remeasurement.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Retirement benefit costs (continued)

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rates at the beginning of the period to the net defined benefit liability or asset.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognizes any related restructuring costs.

Short-term and other long-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(a) Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue recognition from sales of products with no alternative use at a point in time

Control of the asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the contractual terms and the relevant local laws that apply to those relevant contracts. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators such as whether the right to payment for the Group for the performance completed to date include a reasonable profit margin. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

(ii) Discount rate determination for lease liabilities

In determining the incremental borrowing rate, the Group is required to exercise considerable judgement in relation to determining the discount rate taking into account the nature of the underlying assets, the terms and conditions of the leases, credit worthiness of the relevant group entities and economic environment at both the commencement date and the effective date of the modification.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(a) Critical judgments in applying the Group's accounting policies (continued)

(iii) Control over Kunshan Baowei (as defined in Note 39)

On December 31, 2021, the Group entered into an equity transfer agreement with a joint venture partner to acquire its 45% equity interest of Kunshan Baowei, a joint venture jointly controlled by the Group and the joint venture partner through the 55% and 45% equity interest held by the Group and the joint venture partner respectively. Pursuant to the equity transfer agreements, (1) all of the profit or loss of Kunshan Baowei subsequent to December 31, 2021 is attributable to the Group (2) all existing directors of Kunshan Baowei who were appointed by the joint venture partner resigned on December 31, 2021 and (3) the right for the joint venture partner to appoint any director(s) in Kunshan Baowei has been terminated on December 31, 2021. In view of the above, despite the transfer of the 45% equity interest of the joint venture was yet to register at the local State Administration for Market Regulation of the PRC on December 31, 2021, in making their judgment, the management of the Group considers that the Group has obtained control over Kunshan Baowei on December 31, 2021 and the Group is entitled to 100% equity interest of Kunshan Baowei as at December 31, 2021. Accordingly, Kunshan Baowei is considered as an indirect owned subsidiary of the Company with consideration payable of US$27,670,000 recognised as at December 31, 2021. Details of the transaction are set out in Note 39.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU or group of CGUs to which goodwill has been allocated, which is the higher of the value in use or fair value less cost of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU or group of CGUs containing goodwill using suitable discount rates in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets. As at December 31, 2021 carrying amount of goodwill being US$267,015,000 (2020: US$265,292,000). Details of the recoverable amount calculation are disclosed in Note 19.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Key sources of estimation uncertainty (continued)

(ii) Provision of ECL for trade receivables

For trade receivables of Manufacturing Business (as defined in Note 5) which are individually insignificant or when the Group does not have reasonable and supportable information that is available without undue cost or effort to measure ECL on individual basis, collective assessment is performed by grouping debtors based on the Group's internal credit ratings.

The Group uses practical expedient in estimating ECL on trade receivables of Retailing Business (as defined in Note 5) which are not assessed individually using a provision matrix. The provision rates are based on aging status of trade receivables as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

The information about the ECL and the Group's trade receivables are disclosed in Notes 38(b) and 25 respectively.

(iii) Allowance for inventories

The management of the Group reviews the aging and saleability of the inventories amounting to US$2,058 million (2020: US$1,585 million) at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management of the Group estimates the net realizable value for such items based primarily on the inventories condition, current market conditions and latest transaction prices. In making allowance for obsolete and slow moving inventory items, the Group carries out an inventory review on a product-by-product basis at the end of the reporting period for the Manufacturing Business (as defined in Note 5) and an inventory review on aging categories at the end of the reporting period for the Retailing Business (as defined in Note 5). Where the actual transaction prices are less than expected, a loss may arise. As at the end of the reporting period, inventories of US$1,190,504,000 (2020: US$902,729,000) represented finished goods for the retail and distribution of sportswear and footwear products in which accumulated allowance made as at December 31, 2021 was US$26,007,000 (2020: US$20,473,000). The net changes in allowance from inventories arose from the finished goods for the retail and distribution of sportswear and footwear products debited to the consolidated income statement for the year then ended was US$5,031,000 (2020: credited of US$3,499,000)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(b) Key sources of estimation uncertainty (continued)

(iv) Estimated impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, which is the value in use, (3) the appropriate key assumptions to be applied in estimating the recoverable amounts. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of CGUs, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rates in the cash flow projections, could materially affect the recoverable amounts.

The Group has material leasehold improvements and right-of-use assets in the retail stores which are subject to impairment test in the event of performance is below expectation. Impairment assessments were carried out against retail stores which still underperformed after one year's operation since opening. As at December 31, 2021, the Group performed impairment assessment on certain CGUs/groups of CGUs with impairment indicators. No impairment losses on right-of-use assets and property, plant and equipment were recognized respectively.

5. REVENUE AND SEGMENTAL INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of performance, focuses specifically on the revenue analysis by principal categories of the Group's business. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear and footwear products ("Retailing Business") which includes provision of large scale commercial spaces to retailers and distributors. Accordingly, only entity – wide disclosures are presented.

The information regarding revenue derived from the principal businesses described above is reported below.

	2021 US$'000	2020 US$'000
Revenue		
Manufacturing Business	4,914,043	4,735,704
Retailing Business	3,619,294	3,709,231
	8,533,337	8,444,935

Revenue from major products

The following is an analysis of the Group's revenue from its major products recognized at a point in time:

	2021 US$'000	2020 US$'000
Athletic/outdoor shoes (note)	3,762,196	3,666,574
Casual shoes and sports sandals (note)	688,315	706,319
Soles, components and others	463,532	362,811
Retail sales – shoes, apparel and commissions from concessionaire sales and others	3,619,294	3,709,231
	8,533,337	8,444,935

note: The comparative figures were regrouped in accordance with the Group's new category classification.

5. REVENUE AND SEGMENTAL INFORMATION (continued)

Manufacturing Business

The Group manufactures and sells the footwear products to brand companies directly.

Revenue is recognized when control of the goods has transferred, being when the goods have been delivered to the designated location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

Retailing Business

The Group sells the sportswear and footwear products to the wholesale market and directly to customers both through its own retail stores and counters in department stores and through internet sales. Revenue is recognized at the point when control of the goods has been physically transferred to customers.

For the commission from concessionaire sales, revenue is recognized at the point upon the sale of goods by the relevant concessionaries.

Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("US"), Europe and the PRC. The Group's revenue by the geographical location of the customers, determined based on the destination of goods delivered, irrespective of the origin of the goods, is detailed below:

	2021 US$'000	2020 US$'000
US	1,691,480	1,404,679
Europe	1,208,100	1,247,882
PRC	4,452,730	4,593,087
Other countries in Asia	818,605	850,297
Others	362,422	348,990
	8,533,337	8,444,935

5. REVENUE AND SEGMENTAL INFORMATION (continued)

Geographical information (continued)

The Group's business activities are conducted predominantly in the PRC, Vietnam, Indonesia, Myanmar and Cambodia. Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2021 US$'000	2020 US$'000
PRC	**1,301,736**	1,381,527
Vietnam	**740,785**	825,216
Indonesia	**704,687**	655,979
Myanmar	**96,601**	106,113
Cambodia	**54,094**	55,762
Taiwan	**80,583**	78,682
Others	**69,238**	57,365
	3,047,724	3,160,644

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, deferred tax assets, deferred consideration receivable and financial instruments.

Information about major customers

Revenue from customers contributing over 10% of the total annual revenue of the Group are as follows:

	2021 US$'000	2020 US$'000
Customer A	**1,755,185**	1,576,520
Customer B	**1,345,255**	1,464,338

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

6. OTHER INCOME

	2021 US$'000	2020 US$'000
Interest income	**17,051**	8,583
Dividend income from equity instruments at FVTOCI	**1,160**	1,273
Net exchange gain	**9,043**	4,126
Operating lease income	**20,679**	16,660
Management and other service income	**44,452**	20,453
Logistics service income	**5,666**	4,657
Government subsidy	**14,005**	11,616
Sales of obsolete inventories	**2,315**	4,455
Gain on disposal of right-of-use assets	**–**	5,353
Others	**25,696**	45,188
	140,067	122,364

7. FINANCE COSTS

	2021 US$'000	2020 US$'000
Interest on bank and other borrowings	**27,689**	45,021
Interest on lease liabilities	**21,260**	20,604
Amortization of upfront fee on bank borrowings	**3,749**	2,453
	52,698	68,078

8. OTHER GAINS AND LOSSES

	2021 US$'000	2020 US$'000
Fair value changes on financial instruments at FVTPL	**21,936**	(30,394)
Fair value changes on investment properties	**15,068**	6,773
Gain on disposal/deemed disposal of associates	**7,770**	2,087
Gain on disposal/partial disposal of a joint venture	**24,278**	15,665
Gain on deregistration of a subsidiary	**–**	53
Impairment loss on interest in an associate	**(14,011)**	(14,000)
Impairment loss on intangible asset/goodwill	**(1,570)**	(1,618)
Reversal of impairment loss on amount due from an associate/a joint venture	**1,343**	73
	54,814	(21,361)

9. INCOME TAX EXPENSE

	2021 US$'000	2020 US$'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax ("EIT") (note ii)		
– current year	**39,647**	34,075
– overprovision in prior years	**(2,406)**	(1,856)
Overseas taxation (note iii)		
– current year	**24,766**	15,682
– under(over)provision in prior years	**1,152**	(2,503)
	63,159	45,398
Deferred tax (Note 31)		
– current year	**(23,955)**	(37,232)
– attributable to a change in tax rate	**(5,719)**	12,796
	33,485	20,962

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

9. INCOME TAX EXPENSE (continued)

notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for both years.

(ii) PRC

The PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant enterprise income tax law, implementation rules and notices in the PRC (the "EIT Law of PRC"), except for certain subsidiaries which commenced operations during the year and are eligible for PRC EIT of 15% from local tax bureaus.

Pursuant to EIT Law of PRC and the Detailed Implementation Rules, distribution of the profits earned by the subsidiaries in the PRC since January 1, 2008 to holding companies is subject to the PRC withholding tax at the applicable tax rates of 10%.

(iii) Overseas

As approved by the relevant tax authorities in Vietnam, certain subsidiaries of the Company are entitled to two to four years' exemption from income taxes followed by four to nine years of a 50% tax reduction based on preferential income tax rates, commencing from the first profitable year. The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% for both years.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, certain subsidiaries of the Company established in Macau are exempted from Macao Complementary Tax during the year ended December 31, 2020. In accordance with the Decree Law No.15/2018 – Repeal of the Legal Regime of the Offshore Services, these subsidiaries of the Company established in Macau will no longer be exempted from filing the Macao Complementary Tax return after December 31, 2020. The applicable tax rate for the subsidiaries in Macau is calculated at 12% for the year ended December 31, 2021.

Taxation arising in other jurisdictions including Taiwan and US is calculated at the rates prevailing in the respective jurisdictions, which were 20% and 21% respectively for both years. For Indonesia, the tax rate has been changed from 25% to 22% for the year ended December 31, 2020 and according to the announcement made by Indonesia tax authority during the year, the tax rate will remain unchanged at 22% and onwards (2020: will further be changed to 20% from the year ending December 31, 2022 and onwards).

9. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2021 **US$'000**	2020 US$'000
Profit (loss) before taxation	**175,431**	(51,399)
Tax at domestic rates applicable to profits/losses of taxable entities in the countries concerned (note)	**17,150**	5,531
Tax effect of share of results of associates and joint ventures	**(2,104)**	(11,341)
Tax effect of expenses not deductible for tax purpose	**21,863**	39,968
Tax effect of income not taxable for tax purpose	**(13,323)**	(10,557)
Tax effect of tax losses not recognized	**16,010**	4,273
Effect of tax holidays granted to PRC subsidiaries	**–**	(1,148)
Effect of tax exemption granted to overseas subsidiaries	**–**	(14,201)
Withholding tax on undistributed earnings of PRC and overseas entities, net	**862**	–
Overprovision in prior years, net	**(1,254)**	(4,359)
(Increase) decrease in opening deferred tax assets resulting from (an increase) a decrease in applicable tax rate	**(5,719)**	12,796
Income tax expense for the year	**33,485**	20,962

note: As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

10. PROFIT (LOSS) FOR THE YEAR

	2021 US$'000	2020 US$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Employee benefit expense, including directors' emoluments (note iii)		
– basic salaries, bonus, allowances and staff welfare	**1,900,127**	1,873,861
– retirement benefit scheme contributions	**231,517**	310,532
– share-based payments	**4,708**	416
	2,136,352	2,184,809
Auditor's remuneration	**1,437**	1,399
Amortization of intangible assets	**15,536**	14,912
Depreciation of property, plant and equipment (note iii)	**369,368**	353,690
Depreciation of right-of-use assets	**197,981**	178,200
Loss on disposal of property, plant and equipment (included in other expenses)	**12,678**	16,078
Research and development expenditure (included in other expenses)	**185,430**	187,146
Net changes in allowance for inventories (included in cost of sales) (note ii)	**4,366**	(3,123)
Impairment loss on trade and other receivables (Note 38(b))	**1,064**	1,024

notes:

(i) For the years ended December 31, 2021 and 2020, cost of inventories recognized as expenses represents cost of sales as shown in the consolidated income statement.

(ii) Changes in allowance for inventories of US$5,031,000 was debited (2020: US$3,499,000 was credited) to the consolidated income statement for the year ended December 31, 2021 arose from the finished goods for the retail and distribution of sportswear and footwear products.

(iii) Staff costs and depreciation of property, plant and equipment disclosed above included amounts capitalized in inventories. In addition, the staff costs for the year ended December 31, 2020 included severance costs of approximately US$107 million (included in other expenses) arising from factory adjustments on the manufacturing side.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO is as follows:

	Fees US$'000	Salaries and other benefits US$'000	Performance related bonus US$'000	Retirement benefit scheme contributions US$'000	Share-based payments US$'000	Total US$'000
For the year ended December 31, 2021						
Executive directors:						
Lu Chin Chu	–	141	320	–	235	696
Chan Lu Min	–	103	108	–	292	503
Tsai Pei Chun, Patty	–	148	103	–	–	251
Liu George Hong-Chih	–	134	326	2	205	667
Hu Chia-Ho	–	69	11	–	153	233
Lin Cheng-Tien	–	103	173	–	135	411
Yu Huan-Chang (note i)	–	133	134	–	22	289
Sub-total	–	831	1,175	2	1,042	3,050
Independent non-executive directors:						
Wong Hak Kun	38	–	–	–	–	38
Yen Mun-Gie (note ii)	32	–	–	–	–	32
Ho Lai Hong	37	–	–	–	–	37
Chen Chia-Shen (note iii)	37	–	–	–	–	37
Lin Shei-Yuan (note iv)	5	–	–	–	–	5
Sub-total	149	–	–	–	–	149
Total						3,199

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Fees US$'000	Salaries and other benefits US$'000	Performance related bonus US$'000	Retirement benefit scheme contributions US$'000	Share-based payments US$'000	Total US$'000
For the year ended December 31, 2020						
Executive directors:						
Lu Chin Chu	–	123	322	–	–	445
Chan Lu Min	–	89	109	–	–	198
Tsai Pei Chun, Patty	–	66	103	–	–	169
Liu George Hong-Chih	–	124	261	2	32	419
Hu Chia-Ho	–	60	12	–	32	104
Lin Cheng-Tien	–	89	175	–	–	264
Yu Huan-Chang (note i)	–	72	8	–	–	80
Tsai Ming-Lun, Ming (note v)	–	23	–	–	(40)	(17)
Hu Dien Chien (note vi)	–	149	–	2	(22)	129
Sub-total	–	795	990	4	2	1,791
Independent non-executive directors:						
Wong Hak Kun	39	–	–	–	–	39
Yen Mun-Gie	37	–	–	–	–	37
Ho Lai Hong	37	–	–	–	–	37
Chen Chia-Shen (note iii)	36	–	–	–	–	36
Hsieh Yung Hsiang (note vii)	9	–	–	–	–	9
Sub-total	158	–	–	–	–	158
Total						1,949

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Notes:

i. Yu Huan-Chang was appointed as an executive director on April 27, 2020.

ii. Yen Mun-Gie resigned as an independent non-executive director on November 12, 2021.

iii. Chen Chia-Shen was appointed as an independent non-executive director on January 10, 2020.

iv. Lin Shei-Yuan was appointed as an independent non-executive director on November 12, 2021.

v. Tsai Ming-Lun, Ming resigned as an executive director on April 1, 2020.

vi. Hu Dien Chien resigned as an executive director on November 30, 2020.

vii. Hsieh Yung Hsiang retired as an independent non-executive director on March 25, 2020.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics.

Significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year are disclosed in Note 45.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

Of the five employees with the highest emoluments in the Group, two (2020: one) were directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2020: four) employees were as follows:

	2021 US$'000	2020 US$'000
Basic salaries and other allowances	881	903
Performance related bonus	896	1,451
Retirement benefit scheme contributions	43	37
Share-based payments	144	241
	1,964	2,632

The emoluments of the remaining three (2020: four) employees were within the following bands:

	2021 Number of employees	2020 Number of employees
HK$3,500,001 to HK$4,000,000	–	1
HK$4,000,001 to HK$4,500,000	1	1
HK$4,500,001 to HK$5,000,000	1	–
HK$5,000,001 to HK$5,500,000	–	1
HK$6,000,001 to HK$6,500,000	1	–
HK$7,000,001 to HK$7,500,000	–	1
	3	4

No emoluments were paid by the Group to any of the directors or the five highest paid employees (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during both years. None of the directors has waived any emoluments during both years.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(c) Emoluments of senior management

None of the senior management of the Group is either a director of the Company or one of the top five highest paid individuals during both years.

The emoluments of the eight (2020: eight) individuals of senior management for the year were within the following bands:

	2021 Number of employees	2020 Number of employees
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	2	4
HK$2,000,001 to HK$2,500,000	4	2
HK$2,500,001 to HK$3,000,000	1	1
	8	8

12. DIVIDENDS

	2021 US$'000	2020 US$'000
Dividends recognized as distribution during the year:		
2019 Final dividend of HK$0.70 per share	–	145,430

The board of directors of the Company has resolved to declare a final dividend of HK$0.20 per share for the year ended December 31, 2021 (2020: nil) for shareholders whose names appear on the register of members of the Company on June 6, 2022. The proposed final dividend of approximately HK$322,076,000 shall be paid on June 23, 2022.

This proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to owners of the Company is based on the following data:

	2021 US$'000	2020 US$'000
Earnings (loss):		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share, being profit (loss) for the year attributable to owners of the Company	**115,072**	(90,791)

	2021	2020
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,610,445,518**	1,610,199,619
Effect of dilutive potential ordinary shares:		
– Unvested awarded shares	**1,656,370**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,612,101,888**	1,610,199,619

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company (see Note 36(b)).

The computation of diluted loss per share for the year ended December 31, 2020 did not assume vesting of the Company's outstanding unvested awarded shares since their assumed vest would result in a decrease in loss per share.

14. INVESTMENT PROPERTIES

	Completed investment properties US$'000
FAIR VALUE	
At January 1, 2020	113,222
Exchange realignment	966
Net increase in fair value recognized in profit or loss	6,773
Transfer from property, plant and equipment (Note 15)	1,365
Transfer from right-of-use assets	30
Revaluation gain on transfer from property, plant and equipment and right-of-use assets	3,026
At December 31, 2020	125,382
Exchange realignment	301
Net increase in fair value recognized in profit or loss	15,068
Transfer from property, plant and equipment (Note 15)	37,428
Transfer from right-of-use assets	4,534
Revaluation gain on transfer from property, plant and equipment and right-of-use assets	51,286
At December 31, 2021	**233,999**

The Group leases out various shopping mall spaces and land and buildings under operating leases with rentals receivable monthly. The leases typically run for an initial period of 2 to 15 years. These leases contain minimum annual lease payment that are fixed over the lease term.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

14. INVESTMENT PROPERTIES (continued)

The fair value of the Group's investment properties as at December 31, 2021 and December 31, 2020 has been arrived at on the basis of a valuation carried out on the respective dates by Cushman & Wakefield Limited, APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation") and Jones Lang LaSalle ("JLL") which are independent qualified professional valuers not connected with the Group. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties. The market yield is determined by reference to the yields derived from analyzing the rental and market price of similar properties.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties situated in the PRC and US was the market yield, which ranged from 4.30% to 8.50% and 2.50% to 3.25% (2020: 3.70% to 8.50% and 3.95% to 4.25%), respectively. A significant increase in the market yield used would result in a significant decrease in fair value measurement of the respective investment properties, and vice versa.

Details of the Group's investment properties at Level 3 fair value hierarchy are as follows:

	As at December 31,	
	2021	2020
	US$'000	US$'000
Investment properties located in:		
PRC	**201,299**	100,182
US	**32,700**	25,200

There were no transfers into or out of Level 3 during the years ended December 31, 2021 and December 31, 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000 (note i)	Freehold land US$'000	Land and buildings US$'000 (note i)	Construction in progress US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
COST OR VALUATION									
At January 1, 2020	1,982,802	81,910	133,195	96,364	1,639,520	417,419	252,805	36,705	4,640,720
Exchange realignment	4,423	–	597	–	650	20,682	4,574	241	31,167
Additions	12,476	–	–	70,009	73,859	69,775	23,787	1,545	251,451
Reclassification	102,381	–	–	(104,204)	–	1,823	–	–	–
Transfer to investment properties (Note 14)	(2,340)	–	–	–	–	–	–	–	(2,340)
Disposals	(6,558)	–	(6,050)	–	(132,830)	(59,487)	(11,863)	(3,481)	(220,269)
At December 31, 2020	2,093,184	81,910	127,742	62,169	1,581,199	450,212	269,303	35,010	4,700,729
Exchange realignment	1,429	–	193	–	194	6,790	1,555	74	10,235
Additions	14,990	–	–	79,215	85,819	57,571	18,570	1,283	257,448
Acquired on acquisition of a subsidiary (Note 39)	–	–	–	–	–	27	92	–	119
Reclassification	137,898	–	(58,214)	(88,317)	–	8,633	–	–	–
Transfer to right-of-use assets	–	–	(24,219)	–	–	–	–	–	(24,219)
Transfer to investment properties (Note 14)	(69,220)	–	(1,441)	–	–	(4,279)	–	–	(74,940)
Disposals	(7,213)	–	–	–	(75,223)	(67,419)	(41,603)	(2,496)	(193,954)
At December 31, 2021	**2,171,068**	**81,910**	**44,061**	**53,067**	**1,591,989**	**451,535**	**247,917**	**33,871**	**4,675,418**

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings US$'000 (note i)	Freehold land US$'000	Land and buildings US$'000 (note i)	Construction in progress US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
DEPRECIATION AND IMPAIRMENT									
At January 1, 2020	820,980	–	42,164	–	992,673	235,938	161,927	24,804	2,278,486
Exchange realignment	1,995	–	200	–	510	12,150	2,793	164	17,812
Provided for the year	90,636	–	3,051	–	153,217	73,866	29,690	3,230	353,690
Transfer to investment properties (Note 14)	(975)	–	–	–	–	–	–	–	(975)
Eliminated on disposals	(3,023)	–	(1,555)	–	(97,701)	(46,486)	(8,775)	(3,109)	(160,649)
At December 31, 2020	909,613	–	43,860	–	1,048,699	275,468	185,635	25,089	2,488,364
Exchange realignment	681	–	68	–	159	4,375	1,024	52	6,359
Provided for the year	114,991	–	2,438	–	142,056	78,745	28,271	2,867	369,368
Reclassification	28,231	–	(28,231)	–	–	–	–	–	–
Transfer to right-of-use assets	–	–	(8,898)	–	–	–	–	–	(8,898)
Transfer to investment properties (Note 14)	(34,530)	–	(538)	–	–	(2,444)	–	–	(37,512)
Eliminated on disposals	(5,779)	–	–	–	(69,771)	(49,913)	(39,086)	(2,371)	(166,920)
At December 31, 2021	**1,013,207**	**–**	**8,699**	**–**	**1,121,143**	**306,231**	**175,844**	**25,637**	**2,650,761**
CARRYING VALUE									
At December 31, 2021	**1,157,861**	**81,910**	**35,362**	**53,067**	**470,846**	**145,304**	**72,073**	**8,234**	**2,024,657**
At December 31, 2020	1,183,571	81,910	83,882	62,169	532,500	174,744	83,668	9,921	2,212,365

15. PROPERTY, PLANT AND EQUIPMENT (continued)

note:

(i) During the year, the Group has allocated and reclassified land and buildings with carrying amounts of US$45,304,000 to right-of-use assets (US$15,321,000) and buildings (US$29,983,000). In the opinion of the directors, the remaining land and building element of certain properties held by the Group cannot be allocated reliably.

Property, plant and equipment, other than freehold land and construction in progress, are depreciated on a straight-line method at the following rates per annum:

Land and buildings	Over 20 years to 50 years, or the lease terms of the relevant land whichever is shorter
Plant and machinery	5% – 15%
Leasehold improvements	10% – 50% or shorter of the lease term
Furniture, fixtures and equipment	20% – 30%
Motor vehicles	20% – 30%

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

16. RIGHT-OF-USE ASSETS

Right-of-use assets

	Leasehold lands US$'000	Land and buildings and retail stores US$'000	Machinery and equipments US$'000	Motor vehicles US$'000	Total US$'000
As at December 31, 2021					
Carrying value	178,006	450,969	227	122	629,324
As at December 31, 2020					
Carrying value	171,237	493,713	227	262	665,439
For the year ended December 31, 2021					
Depreciation charge	4,379	193,260	202	140	197,981
For the year ended December 31, 2020					
Depreciation charge	4,369	173,430	250	151	178,200

	2021 US$'000	2020 US$'000
Expense relating to short-term leases	**27,689**	26,028
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**187**	68
Variable lease payments not included in the measurement of lease liabilities	**196,353**	192,251
Total cash outflow for leases	**432,302**	398,362
Additions to right-of-use assets, net of early termination and modification	**141,080**	230,768

16. RIGHT-OF-USE ASSETS (continued)

The Group leases various leasehold lands, office buildings, warehouses, retail stores, machinery equipments, and motor vehicles for its operations. Majority of lease contracts are entered into for lease term of 2 to 5 years (2020: 2 to 5 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for properties, motor vehicles and office equipment. As at December 31, 2021, the portfolio of short-term leases is similar to those entered in 2020.

Leases of properties are either with only fixed lease payments or contain variable lease payment that are based on certain percentage of sales and minimum annual lease payment that are fixed over the lease term. Some variable payment terms include cap clauses.

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

Rent concessions

The changes in lease payments due to rent concessions constitute lease modifications. During the current year, reduction of the Group's lease liabilities of US$7,643,000 (2020: US$28,362,000) and a corresponding adjustment of the same amount to the right-of-use assets were recognized because of lease modifications made during the year.

Lease committed

As at December 31, 2021, the Group entered into new leases for several retail stores (2020: office, factory and retail stores) that have not yet commenced, with average non-cancellable period ranging from 1 to 5 years (2020: 3 to 5 years), the total future undiscounted cash flows over the non-cancellable period amounted to US$2,406,000 (2020: US$17,040,000).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

17. INTANGIBLE ASSETS

	Brand names US$'000	Accounting software US$'000	Licensing agreements US$'000	Non-compete agreements US$'000	Total US$'000
COST					
At January 1, 2020	67,110	–	14,442	22,766	104,318
Exchange realignment	4,767	–	1,025	1,616	7,408
At December 31, 2020	71,877	–	15,467	24,382	111,726
Exchange realignment	1,541	–	192	524	2,257
Additions	–	292	–	–	292
Write-off	–	–	(9,796)	–	(9,796)
At December 31, 2021	**73,418**	**292**	**5,863**	**24,906**	**104,479**
AMORTIZATION AND IMPAIRMENT					
At January 1, 2020	42,879	–	10,501	10,255	63,635
Exchange realignment	3,803	–	836	802	5,441
Provided for the year	12,218	–	1,471	1,223	14,912
At December 31, 2020	58,900	–	12,808	12,280	83,988
Exchange realignment	1,441	–	179	281	1,901
Provided for the year	13,077	49	1,102	1,308	15,536
Impairment loss recognized during the year	–	–	1,570	–	1,570
Eliminated on write-off	–	–	(9,796)	–	(9,796)
At December 31, 2021	**73,418**	**49**	**5,863**	**13,869**	**93,199**
CARRYING VALUE					
At December 31, 2021	**–**	**243**	**–**	**11,037**	**11,280**
At December 31, 2020	12,977	–	2,659	12,102	27,738

17. INTANGIBLE ASSETS (continued)

The management of the Group considers brand names, accounting software, licensing agreements and non-compete agreements have finite useful lives and are amortized on a straight-line basis over the following periods:

Brand names	5 years
Accounting software	3 years
Licensing agreements	10 years
Non-compete agreements	5 to 20 years

During the year ended December 31, 2021, full impairment loss of US$1,570,000 has been recognized on an intangible asset of licensing agreement as it is not expected to generate a significant future cash flow from this licensing agreement in the foreseeable future.

18. GOODWILL

	US$'000
COST	
At January 1, 2020	261,558
Exchange realignment	5,352
Impairment loss	(1,618)
At December 31, 2020	265,292
Exchange realignment	1,723
At December 31, 2021	**267,015**

Particulars regarding impairment assessment on goodwill are disclosed in Note 19.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

19. IMPAIRMENT ASSESSMENT ON GOODWILL

For the purposes of impairment assessment of goodwill, the carrying value of goodwill as detailed in Note 18 have been allocated to the following units of groups of CGUs:

	Goodwill	
	2021 **US$'000**	2020 US$'000
Manufacturing and marketing of footwear materials ("Unit A")	**183,395**	183,395
Manufacturing and marketing of sports apparel ("Unit B")	**346**	346
Retailing Business – Retail and distribution of sportswear and footwear products ("Unit C")	**83,274**	81,551
	267,015	265,292

In addition to goodwill above, property, plant and equipment, intangible assets and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective CGU for the purpose of impairment assessment.

Other than the impairment of goodwill related to Unit C of US$1,618,000 recognized during the year ended December 31, 2020, the management of the Group determined that there were no impairment in any of the groups of CGUs containing goodwill during the years ended December 31, 2021 and 2020. The basis of the recoverable amounts of the above groups of CGUs and their principal underlying assumptions are summarized below.

The recoverable amounts of the above CGUs and groups of CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rates ranging from 15% to 20% (2020: 14% to 17%). The value in use calculation for Unit A and the discount rates used for Unit C were determined by independent valuers. The cash flows beyond the five year period are extrapolated using a steady growth rate of 2%, 1%, and 3% for Unit A, Unit B and Unit C respectively (2020: 2%, 1%, and 3% for Unit A, Unit B and Unit C respectively). These growth rates are based on the forecasts of the relevant industries and do not exceed the average long-term growth rate for the relevant industries. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the units' historical performance and management's expectation of the market development. The cash flow projections, growth rates and discount rates have been reassessed as at December 31, 2021 taking into consideration higher degree of estimation uncertainties in the current year due to how the COVID-19 pandemic may progress and evolve and volatility in financial markets. The management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of Unit A, Unit B and Unit C to fall below their respective carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

20. INTERESTS IN ASSOCIATES

	2021 US$'000	2020 US$'000
Cost of interests in associates (note):		
Listed in Hong Kong	**55,275**	55,318
Listed in Taiwan	**97,115**	97,115
Unlisted	**59,388**	62,238
Share of post-acquisition profits and reserves, net of dividends received	**255,912**	226,304
Less: impairment losses	**(36,616)**	(22,605)
	431,074	418,370
Fair value of listed investments	**394,653**	369,606

note: Included in cost of investments is goodwill of US$76,506,000 (2020: US$76,549,000).

The Group's material associates at the end of the reporting period are Oftenrich Holdings Limited ("Oftenrich") and San Fang Chemical Industry Co. Ltd. ("San Fang"). In the opinion of the directors, the nature of the activities of these associates are strategic to the Group's activities. Oftenrich and San Fang are accounted for using equity method in these consolidated financial statements. Details of the Group's material associates at the end of the reporting period are as follows:

Name of entity	Place of incorporation	Principal place of operation	Proportion of ownership interest and voting rights held by the Group 2021	2020	Principal activities
Oftenrich	Bermuda	PRC	**45%**	45%	Investment holding and its subsidiaries are engaged in manufacture and sales of safety shoes and casual shoes
San Fang (note)	Taiwan	Taiwan	**44.72%**	44.72%	Manufacture and sales of synthetic leather

note: The company's shares are listed on the Taiwan Stock Exchange Corporation.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES (continued)

Summarized financial information in respect of each of the Group's material associates are set out below. The summarized financial information below represents amount shown in the associates' financial statements prepared in accordance with HKFRSs.

	2021		2020	
	Oftenrich US$'000	**San Fang US$'000**	Oftenrich US$'000	San Fang US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income				
Revenue	**350,816**	**261,972**	267,222	241,292
Profit for the year	**12,464**	**2,923**	3,350	8,817
Other comprehensive (expense) income for the year	**–**	**(10,227)**	–	9,730
Total comprehensive income (expense) for the year	**12,464**	**(7,304)**	3,350	18,547
Profit for the year, attributable to the Group	**5,609**	**1,307**	1,508	3,943
Other comprehensive (expense) income for the year, attributable to the Group	**–**	**(4,574)**	–	4,351
Total comprehensive income (expense) for the year, attributable to the Group	**5,609**	**(3,267)**	1,508	8,294
Dividends received from the associate during the year	**–**	**3,215**	–	4,838

20. INTERESTS IN ASSOCIATES (continued)

	2021		2020	
	Oftenrich US$'000	**San Fang US$'000**	Oftenrich US$'000	San Fang US$'000
Financial information of consolidated statement of financial position				
Non-current assets	**105,089**	**331,976**	95,416	358,364
Current assets	**206,605**	**158,998**	175,516	152,443
Current liabilities	**(138,225)**	**(97,632)**	(111,576)	(92,232)
Non-current liabilities	**(15,803)**	**(146,030)**	(14,154)	(156,770)
Net assets	**157,666**	**247,312**	145,202	261,805
Reconciliation to the carrying amount of interest in the associate:				
Net assets attributable to the equity holders of the associate	**157,666**	**247,312**	145,202	261,805
Proportion of the Group's ownership interest in the associate	**45%**	**44.72%**	45%	44.72%
Net assets of the Group's interest in the associate	**70,950**	**110,597**	65,341	117,079
Goodwill	**16,110**	**35,586**	16,110	35,586
Carrying amount of the Group's interest in the associate	**87,060**	**146,183**	81,451	152,665
Fair value of listed associate (measured as Level 1)	**N/A**	**134,057**	N/A	143,414

There are no significant restrictions on the ability of associates to transfer funds to the Group in form of cash dividends, or to repay loans or advances made by the Group.

20. INTERESTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material:

	2021 US$'000	2020 US$'000
Profit for the year, attributable to the Group	19,376	21,754
Other comprehensive income for the year, attributable to the Group	31,830	4,563
Total comprehensive income for the year, attributable to the Group	51,206	26,317
Carrying amount of the Group's interests in these associates	197,831	184,254

21. INTERESTS IN JOINT VENTURES

	2021 US$'000	2020 US$'000
Cost of unlisted interests in joint ventures (note)	135,705	193,850
Share of post-acquisition profits and other comprehensive income, net of dividends received	61,874	88,029
	197,579	281,879

note: Included in cost of investments is goodwill of approximately US$3,725,000 (2020: US$3,725,000).

21. INTERESTS IN JOINT VENTURES (continued)

All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements. Details of the Group's material joint venture at the end of the reporting period are as follows:

Name of entity	Place of incorporation	Principal place of operation	Proportion of ownership interest and voting rights held by the Group		Principal activities
			2021	2020	
中奧廣場管理集團有限公司（「中奧廣場」）	PRC	PRC	46.82%	46.82%	Real estate developer and stadium service provider

Under the relevant shareholders' agreements, decisions on certain matters of the entity require unanimous consent from all of the relevant joint venture partners. In the opinion of the directors, these certain matters relate to the activities that significantly affect the returns of the entity. Accordingly, neither the Group nor the other relevant joint venture partners has the ability to control the respective entity unilaterally and the entity is therefore considered as jointly controlled by the Group and the relevant joint venture partners. As the Group has rights to the net assets of the joint arrangement, the above entity is accounted for as joint venture of the Group.

The above table lists the joint venture of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other joint ventures would, in the opinion of the directors, result in particulars of excessive length.

Summarized financial information in respect of the Group's material joint venture is set out below. The summarized unaudited financial information below represents amount shown in the joint venture's financial statements prepared in accordance with HKFRSs.

21. INTERESTS IN JOINT VENTURES (continued)

	中奧廣場	
	2021 US$'000	2020 US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income		
Revenue	29,866	30,006
Profit for the year	880	3,589
Other comprehensive income for the year	2,197	6,713
Total comprehensive income for the year	3,077	10,302
Profit for the year, attributable to the Group	412	1,680
Other comprehensive income for the year, attributable to the Group	1,029	3,143
Total comprehensive income for the year, attributable to the Group	1,441	4,823
Dividends received from the joint venture during the year	1,583	1,497
The above profit for the year include the following:		
Depreciation and amortization	49	48
Interest income	177	377
Interest expense	–	277
Income tax expense	2,274	2,041

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

21. INTERESTS IN JOINT VENTURES (continued)

	中奧廣場	
	2021 **US$'000**	2020 US$'000
Financial information of consolidated statement of financial position		
Non-current assets	**14,978**	14,308
Current assets	**175,643**	186,678
Current liabilities	**(57,701)**	(74,348)
Non-controlling interests	**(30,327)**	(23,741)
Net assets attributable to the equity holders of the joint venture	**102,593**	102,897
The above amounts of assets and liabilities include the followings:		
Cash and cash equivalents	**10,860**	14,544
Reconciliation to the carrying amount of interest in the joint venture:		
Net assets attributable to the equity holders of the joint venture	**102,593**	102,897
Proportion of the Group's ownership interest in the joint venture	**46.82%**	46.82%
Net assets of the Group's interest in the joint venture	**48,034**	48,176
Goodwill	**3,725**	3,725
Carrying amount of the Group's interest in the joint venture	**51,759**	51,901

21. INTERESTS IN JOINT VENTURES (continued)

Aggregate information of joint ventures that are not individually material:

	2021 US$'000	2020 US$'000
(Loss) profit for the year attributable to the Group	(14,950)	19,871
Other comprehensive income for the year, attributable to the Group	3,625	5,538
Total comprehensive (expense) income for the year, attributable to the Group	(11,325)	25,409
Carrying amount of the Group's interests in these joint ventures	145,820	229,978

22. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 US$'000	2020 US$'000
Equity securities listed overseas	33,042	30,012
Unlisted private equity investment	474	484
	33,516	30,496

All the listed investments are stated at their fair values, determined by reference to bid prices quoted in active markets.

The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run, except for the investment shown under current assets which is expected to be sold within one year.

23. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

		Non-current assets		Current assets		Current liabilities		Non-current liabilities	
	notes	**2021 US$'000**	2020 US$'000	**2021 US$'000**	2020 US$'000	**2021 US$'000**	2020 US$'000	**2021 US$'000**	2020 US$'000
Credit linked notes	(i)	**–**	20,306	**20,264**	–	**–**	–	**–**	–
Unlisted overseas funds		**21,583**	10,894	**6,958**	3,212	**–**	–	**–**	–
Interest rate swaps	(ii)	**171**	–	**–**	–	**1,975**	78	**8,382**	25,099
Currency structured forward contracts		**–**	–	**–**	507	**–**	514	**–**	–
Forward contracts		**–**	–	**1,377**	2,173	**21**	493	**–**	–
Dual currency option structured deposits	(iii)	**–**	–	**15,848**	114,871	**–**	–	**–**	–
Daily range accrual notes	(iv)	**–**	–	**60,821**	–	**–**	–	**–**	–
		21,754	31,200	**105,268**	120,763	**1,996**	1,085	**8,382**	25,099

notes:

(i) On October 25, 2017, the Company invested US$20 million for an index & credit linked notes which will mature on September 20, 2022.

(ii) Interest rate swaps

Aggregate notional amount	**Maturity**	**Swaps**
As at December 31, 2021		
US$200 million	August 2022	Receive LIBOR and pay fixed rate of 1.85% to 1.93%
US$250 million	July 2023	Receive LIBOR and pay fixed rate of 2.635% to 2.640%
US$300 million	March 2023	Receive LIBOR and pay fixed rate of 0.485% to 0.720%
As at December 31, 2020		
US$50 million	March 2021	Receive certain subsidy if LIBOR is over 0.84%; pay 0.84% and receive LIBOR if LIBOR is below 0.84%
US$200 million	August 2022	Receive LIBOR and pay fixed rate of 1.85% to 1.93%
US$250 million	July 2023	Receive LIBOR and pay fixed rate of 2.635% to 2.640%
US$300 million	March 2023	Receive LIBOR and pay fixed rate of 0.485% to 0.720%

23. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

notes: (continued)

(iii) Dual currency option structured deposits

As at December 31, 2021, there was a dual currency option structured deposit placed with a financial institution outstanding for principal amount of RMB102,000,000 (equivalent to US$15,881,000) at an interest rate of 3.25% per annum which will mature in 2022. At the maturity of the deposit, the Renminbi ("RMB") principal amount will be converted into USD at a predetermined exchange rate if the market exchange rate of RMB vs USD then prevailing appreciates beyond the predetermined exchange rate.

(iv) Daily range accrual notes

As at December 31, 2021, there were USD/RMB daily range accrual notes placed with a financial institution for a total principal amount equivalent to US$60,964,000 at interest rates of 1.35% and 3.80% per annum for USD and RMB notes respectively, calculated based on the proportion of the number of business days where the USD vs RMB exchange rates are within a predetermined range to the total number of business days of the investment periods. The notes will mature in 2022. At the maturity of the USD notes, the USD principal amount will be converted into RMB at a predetermined exchange rate if the market exchange rate of RMB vs USD then prevailing depreciates beyond the predetermined exchange rate. At the maturity of the RMB notes, the RMB principal amount will be converted into USD at a predetermined exchange rate if the market exchange rate of RMB vs USD then prevailing appreciates beyond the predetermined exchange rate.

24. INVENTORIES

	2021 **US$'000**	2020 US$'000
Raw materials	**356,432**	218,582
Work in progress	**205,058**	164,121
Finished goods	**1,496,532**	1,202,231
	2,058,022	1,584,934

As at the end of the reporting period, inventories of US$1,190,504,000 (2020: US$902,729,000) represented finished goods for the retail and distribution of sportswear and footwear products in which accumulated allowance made as at December 31, 2021 was US$26,007,000 (2020: US$20,473,000). The net changes in allowance from inventories arose from the finished goods for the retail and distribution of sportswear and footwear products debited to the consolidated income statement for the year then ended was US$5,031,000 (2020: credited of US$3,499,000).

25. TRADE AND OTHER RECEIVABLES

	2021 US$'000	2020 US$'000
Trade receivables	964,551	1,126,849
Less: allowance for credit losses	(7,310)	(6,708)
	957,241	1,120,141
Other receivables (note i)	115,678	132,283
Amounts due from associates (note ii)	664	632
Amounts due from joint ventures (note ii)	1,917	43,505
Amounts due from connected and related parties (note ii)	6,176	6,290
Rental deposits, prepayments and others	129,420	102,695
Deposits paid to trade suppliers	148,856	95,871
Value-added tax recoverable	118,005	95,691
	1,477,957	1,597,108

notes:

(i) Included in other receivables are amount due from a non-controlling interest of a subsidiary of US$5,341,000 (2020: US$5,229,000), which is unsecured and is repayable within three months from the date of advance and carries fixed interest rate of 6.53% (2020: 6.53%) per annum.

(ii) Except for an amount of RMB264,000,000 (equivalent to US$40,603,000) due from a joint venture as at December 31, 2020 which carried fixed interest rate of 4.35% per annum and repayable within one year and has been fully settled during year ended December 31, 2021 as detailed in Note 48(i), the remaining amounts are unsecured, interest-free and repayable on demand.

The Group allows credit period ranging from 30 days to 90 days which are agreed with each of its trade customers. Included in trade and other receivables are trade receivables, net of allowance for credit losses, of US$957,241,000 (2020: US$1,120,141,000) and an aged analysis based on invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	2021 US$'000	2020 US$'000
0 to 30 days	641,709	651,103
31 to 90 days	304,773	452,393
Over 90 days	10,759	16,645
	957,241	1,120,141

25. TRADE AND OTHER RECEIVABLES (continued)

As at December 31, 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$56,756,000 (2020: US$68,724,000) which are past due as at the reporting date. Out of the past due balances, US$10,001,000 (2020: US$13,000,000) has been past due 90 days or more and is not considered as in default because the management is of the opinion that the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended December 31, 2021 are set out in Note 38(b).

26. BANK BALANCES AND CASH

The bank balances and short-term bank deposits are interest-bearing at market interest rate and are with an original maturity of three months or less. The bank deposits carry interest at rates ranged from 0.01% to 5.00% (2020: 0.01% to 5.25%) per annum.

27. ASSETS CLASSIFIED AS HELD FOR SALE

	2021 US$'000	2020 US$'000
Amount comprises:		
Interests in joint ventures	–	20,082
Interests in associates	–	2,069
Total assets classified as held for sale	–	22,151

During the year ended December 31, 2020, the Group had partially disposed of its interest in a joint venture to the relevant joint venture partner for a consideration of approximately US$32,279,000 and recognized a gain on partial disposal of approximately US$15,665,000. Pursuant to the disposal framework agreement, the Group and the relevant joint venture partner agreed to retain the board of directors for both parties until the remaining interest in the joint venture is sold to the relevant joint venture partner. The decisions about the relevant activities of the joint venture require at least 50% voting in the board of directors. Accordingly, management of the Group considers the Group continues to have joint control in the joint venture. As at December 31, 2020, the remaining interest in this joint venture was amounted to approximately US$16,942,000 and was expected to be sold within twelve months and therefore remained as an asset classified as held for sale.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

27. ASSETS CLASSIFIED AS HELD FOR SALE (continued)

During the year ended December 31, 2021, due to the continuous impact of COVID-19 pandemic and the Ethiopia civil war, the joint venture partner proposed to delay the transaction and the management of the Group expected the transaction is not highly probable to be completed within twelve months. Accordingly, it no longer meets the criteria of asset classified as held for sale and the remaining interest in the joint venture amounting to US$16,942,000 has been reclassified to interests in joint ventures under Note 21. Based on the assessment of the management of the Group, the impact on the interests in joint ventures as at January 1, 2020 and December 31, 2020, and the share of results of joint ventures, share of other comprehensive income of joint ventures for the year ended December 31, 2020 are immaterial, if equity method has been accounted for retrospectively for periods since classification as held for sale. In view of this, the management of the Group has not restated the financial statements for the prior periods. The cumulative impact is adjusted in the share of results of joint ventures and share of other comprehensive income of joint ventures during the current year.

28. TRADE AND OTHER PAYABLES

	2021 **US$'000**	2020 US$'000
Trade payables	**648,527**	597,922
Accrued employee benefit expenses	**455,069**	446,788
Other tax payables	**14,837**	24,683
Utility and rental payables	**3,883**	6,344
Other accruals and payables	**263,476**	248,805
Construction payable	**27,719**	43,816
Amounts due to associates (note)	**7**	193
Amounts due to joint ventures (note)	**109**	6,433
Amounts due to connected and related parties (note)	**14,902**	14,671
Deposits from customers	**60,748**	56,961
Consideration payable for acquisition of a subsidiary (Note 39)	**27,670**	–
	1,516,947	1,446,616

Note: The amounts are unsecured, interest-free and repayable on demand.

28. TRADE AND OTHER PAYABLES (continued)

An aged analysis of trade payables based on the invoice date at the end of the reporting period is as follows:

	2021 US$'000	2020 US$'000
0 to 30 days	**532,598**	462,502
31 to 90 days	**105,896**	113,747
Over 90 days	**10,033**	21,673
	648,527	597,922

The credit period on purchases of goods ranged from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

29. CONTRACT LIABILITIES

Contract liabilities mainly included prepayments received from wholesale customers when they sign the sale and purchase agreements. They are expected to be recognized as revenue within one year upon receipt, and were recognized as revenue in current period upon the satisfaction of performance obligation, i.e. the delivery of goods to customers.

As at January 1, 2020, contract liabilities amounted to US$64,005,000.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

30. BANK BORROWINGS

The Group's bank borrowings are unsecured and carry fixed interest rate at 1.11% to 4.35% or variable interest rates at a credit spread over Hong Kong Interbank Offered Rate ("HIBOR"), LIBOR or Taipei Interbank Offered Rate ("TAIBOR") or loan prime rate published by National Interbank Funding Center ("NIFC"), as appropriate.

The range of effective interest rates on the Group's bank borrowings during the year are as follows:

	2021	2020
Effective interest rate:		
Fixed rate short-term bank borrowings	**1.11% – 4.35%**	1.25% – 5.00%
Variable rate short-term bank borrowings	**0.55% – 1.58%**	0.60% to 3.25%
Fixed rate long-term bank borrowings	**1.60% – 2.50%**	1.60% – 2.50%
Variable rate long-term bank borrowings	**0.75% – 1.12%**	0.91% to 2.65%

	2021 US$'000	2020 US$'000
Fixed rate bank borrowings	**373,926**	438,044
Variable rate bank borrowings	**1,343,171**	1,429,897
	1,717,097	1,867,941
The bank borrowings are repayable*:		
Within one year	**655,839**	574,638
Within a period of more than one year, but not exceeding two years	**233,540**	988,507
Within a period of more than two years, but not exceeding five years	**827,718**	304,796
	1,717,097	1,867,941

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

31. DEFERRED TAXATION

The following is an analysis of the deferred tax balances for financial reporting purpose:

	2021 US$'000	2020 US$'000
Deferred tax assets	**(124,919)**	(94,070)
Deferred tax liabilities	**52,992**	39,271
	(71,927)	(54,799)

The major deferred tax (assets) liabilities recognized and movements thereon during the year are as follows:

	Depreciation of property, plant and equipment US$'000	Revaluation of investment properties US$'000	Undistributed earnings of the PRC and overseas entities US$'000 (note)	Fair value adjustments of intangible assets on business combinations US$'000	Tax losses US$'000	Retirement benefit obligation US$'000	Right-of-use assets/ related lease liabilities US$'000	Total US$'000
At January 1, 2020	(36,497)	12,095	2,455	12,254	–	(16,437)	(1,374)	(27,504)
Effect of change in tax rate (Note 9)	9,508	–	–	–	–	3,288	–	12,796
(Credit) charge to profit or loss (Note 9)	(3,053)	1,658	–	(4,652)	(30,923)	2,284	(2,546)	(37,232)
Charge (credit) to other comprehensive income	–	756	–	–	–	(3,622)	–	(2,866)
Exchange realignment	–	–	174	423	(335)	–	(255)	7
At December 31, 2020	(30,042)	14,509	2,629	8,025	(31,258)	(14,487)	(4,175)	(54,799)
Effect of change in tax rate (Note 9)	(2,770)	–	–	–	(1,500)	(1,449)	–	(5,719)
(Credit) charge to profit or loss (Note 9)	(5,691)	3,689	862	(5,242)	(14,304)	(2,459)	(810)	(23,955)
Charge (credit) to other comprehensive income	–	12,822	–	–	–	(515)	–	12,307
Exchange realignment	–	–	41	393	(96)	–	(99)	239
At December 31, 2021	**(38,503)**	**31,020**	**3,532**	**3,176**	**(47,158)**	**(18,910)**	**(5,084)**	**(71,927)**

note: These entities include subsidiaries, associates and joint ventures.

31. DEFERRED TAXATION (continued)

As at December 31, 2021, the Group had unused tax losses of approximately US$665.3 million (2020: US$500.8 million) available for offset against future profits. A deferred tax asset has been recognized in respect of tax losses of approximately US$229.5 million (2020: US$150.5 million) as at December 31, 2021. No deferred tax asset has been recognized in respect of the remaining tax losses of approximately US$435.8 million (2020: US$350.3 million) due to the unpredictability of future profit streams.

Under the relevant laws of the PRC and Taiwan, withholding tax is also imposed on dividend declared in respect of profits earned by the subsidiaries of the Company. At December 31, 2021, the aggregate amount of undistributed earnings of the Company's PRC subsidiaries and Taiwan subsidiaries in respect of which the Group has not provided for dividend withholding tax were approximately US$1,261.5 million (2020: US$1,170.4 million) and approximately US$112.5 million (2020: US$107.0 million) respectively. No deferred tax liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

32. LEASE LIABILITIES

	2021 US$'000	2020 US$'000
Lease liabilities payable:		
Within one year	**155,923**	161,989
Within a period of more than one year but not exceeding two years	**102,659**	113,551
Within a period of more than two years but not exceeding five years	**135,807**	150,878
Within a period of more than five years	**62,548**	66,565
	456,937	492,983
Less: Amount due for settlement with 12 months shown under current liabilities	**(155,923)**	(161,989)
Amount due for settlement after 12 months shown under non-current liabilities	**301,014**	330,994

The weighted average incremental borrowing rates applied to lease liabilities are 4.10% (2020: 4.11%).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

33. SHARE CAPITAL

	No. of shares	Amount HK$'000
Ordinary shares of HK$0.25 each		
Authorized:		
At January 1, 2020, December 31, 2020 and December 31, 2021	2,000,000,000	500,000
Issued and fully paid:		
At January 1, 2020, December 31, 2020 and December 31, 2021	1,612,183,986	403,046

	2021 US$'000	2020 US$'000
Shown in the consolidated financial statements as at December 31,	**52,040**	52,040

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

34. INFORMATION ON THE FINANCIAL POSITION OF THE COMPANY

	2021 US$'000	2020 US$'000
Non-current assets		
Property, plant and equipment	**359**	463
Intangible asset	**243**	–
Investments in subsidiaries	**2,624,783**	2,870,983
Financial assets at FVTPL	**171**	20,306
	2,625,556	2,891,752
Current assets		
Amounts due from subsidiaries	**905,802**	694,773
Sundry receivables	**979**	3,359
Other financial asset at amortized cost	**9,424**	–
Financial assets at FVTPL	**98,310**	117,551
Bank balances and cash	**90,744**	150,952
	1,105,259	966,635
Current liabilities		
Sundry payables	**4,030**	3,243
Financial liabilities at FVTPL	**1,975**	1,066
Amount due to a substantial shareholder	**57**	66
Bank borrowings	**100,000**	100,000
	106,062	104,375
Net current assets	**999,197**	862,260
Total assets less current liabilities	**3,624,753**	3,754,012
Non-current liabilities		
Financial liabilities at FVTPL	**8,382**	25,099
Bank borrowings	**1,051,861**	1,265,542
	1,060,243	1,290,641
Net assets	**2,564,510**	2,463,371
Capital and reserves		
Share capital	**52,040**	52,040
Reserves (Note 35)	**2,512,470**	2,411,331
	2,564,510	2,463,371

35. RESERVES OF THE COMPANY

	Share premium US$'000	Contributed surplus US$'000 (note)	Shares held under share award scheme US$'000	Share award reserve US$'000	Retained profits US$'000	Total US$'000
At January 1, 2020	592,677	38,126	(6,910)	1,388	1,539,756	2,165,037
Profit for the year	–	–	–	–	391,027	391,027
Recognition of equity-settled share-based payments, net of amounts lapsed relating to share awards not yet vested	–	–	–	697	–	697
Share awards vested	–	–	279	(216)	(63)	–
Dividends (Note 12)	–	–	–	–	(145,430)	(145,430)
At December 31, 2020	592,677	38,126	(6,631)	1,869	1,785,290	2,411,331
Profit for the year	–	–	–	–	101,752	101,752
Recognition of equity-settled share-based payments, net of amounts lapsed relating to share awards not yet vested	–	–	–	3,855	–	3,855
Share awards vested	–	–	6,684	(4,402)	(2,282)	–
Purchase of shares under share award scheme	–	–	(4,468)	–	–	(4,468)
At December 31, 2021	**592,677**	**38,126**	**(4,415)**	**1,322**	**1,884,760**	**2,512,470**

note: The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company under a corporate reorganization in 1992 and the nominal amount of the Company's shares issued for the acquisition.

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company and Pou Sheng operate share incentive schemes, particulars of which are set out below.

(a) Share option scheme of the Company

The Company's share option scheme was adopted pursuant to a shareholders' resolution passed on February 27, 2009 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and has expired on February 26, 2019.

On May 31, 2019, the Company adopted a new share option scheme (the "Yue Yuen Share Option Scheme") under which the board of directors of the Company may at its discretion grant share options to any eligible participants, including directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The Yue Yuen Share Option Scheme is valid and effective for a period of ten years commencing from May 31, 2019 to May 30, 2029, after which no further options may be offered or granted.

The exercise price is to be determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

As at December 31, 2021, the number of shares available for issue under the Yue Yuen Share Option Scheme is 161,449,998 shares, representing 10.01% of the issued share capital of the Company as at that date.

No share option has been granted, exercised nor lapsed under the Yue Yuen Share Option Scheme since its adoption.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company to recognize the contributions by certain personnel of the Group and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder (the "Associated Entities") and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the board of directors of the Company may at its discretion grant any eligible participants awarded shares, provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed 1% of the issued share capital of the Company from time to time. Subject to early termination determined by the board of directors of the Company, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund of the Yue Yuen Share Award Scheme will be made by the Company.

The Yue Yuen Share Award Scheme is operated through a trustee which is independent of the Group. After the notification and instruction by the Company, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the period at which the directors of the Company are prohibited from dealing in shares by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. The directors would notify the trustee of the Yue Yuen Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the selected participant. Vesting of the award shares will be conditional on the selected participant remaining as an employee of the Group and/or Associated Entity on a vesting date and the board has not determined to vary or cancel such an award for any reason (including but not limited to exceptionally poor performance, misconduct or material breach of the terms of employment or rules or policies of the Company). An award shall automatically lapse forthwith when a selected participant is on unpaid leave of absence on the vesting date, or ceases to be an employee of the Group or an Associated Entity, or the company by which a selected participant is employed ceases to be a subsidiary of the Company or an Associated Entity, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, or selected participant's employment is terminated for cause if the award has not been vested.

The Company has purchased 1,826,000 ordinary shares for share award scheme during the year ended December 31, 2021 (2020: nil). A total of 1,806,000 ordinary shares (2020: 1,929,000 ordinary shares) of the Company were held by the trustee of the Yue Yuen Share Award Scheme as at December 31, 2021. The awarded shares shall be vested in the grantees pursuant to the terms as provided in their respective grant letters.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company (continued)

Details of the awards, including the number of shares which were awarded according to the terms of the Yue Yuen Share Award Scheme during the two years ended December 31, 2021 and 2020 were as follows:

			Number of awarded shares								
	Date of grant	Vesting date	Outstanding at January 1, 2020	Granted during the year	Lapsed during the year	Vested during the year	Outstanding at December 31, 2020	Granted during the year	Lapsed during the year	Vested during the year	Outstanding at December 31, 2021
Directors of the Company											
Liu George Hong-Chih	10.02.2018	05.31.2021	40,000	–	–	–	40,000	–	–	(40,000)	–
	03.31.2021	06.01.2021	–	–	–	–	–	59,000	–	(59,000)	–
	06.01.2021	05.31.2023	–	–	–	–	–	60,000	–	–	60,000
Hu Chia-Ho	10.02.2018	05.31.2021	40,000	–	–	–	40,000	–	–	(40,000)	–
	03.31.2021	06.01.2021	–	–	–	–	–	38,000	–	(38,000)	–
	06.01.2021	05.31.2023	–	–	–	–	–	60,000	–	–	60,000
Tsai Ming-Lun, Ming	10.02.2018	05.31.2021	40,000	–	(40,000)	–	–	–	–	–	–
Hu Dien Chien	06.01.2018	06.01.2020	35,000	–	–	(35,000)	–	–	–	–	–
	10.02.2018	05.31.2021	40,000	–	(40,000)	–	–	–	–	–	–
Chan Lu Min	03.31.2021	06.01.2021	–	–	–	–	–	117,000	–	(117,000)	–
Lu Chin Chu	03.31.2021	06.01.2021	–	–	–	–	–	94,000	–	(94,000)	–
Lin Cheng-Tien	03.31.2021	06.01.2021	–	–	–	–	–	54,000	–	(54,000)	–
Yu Huan-Chang	06.01.2021	05.31.2023	–	–	–	–	–	30,000	–	–	30,000
Sub-total			195,000	–	(80,000)	(35,000)	80,000	512,000	–	(442,000)	150,000
Employees of the Group and/or its Associated Entities	10.03.2016	10.02.2018#	16,500	–	–	(16,500)	–	–	–	–	–
	10.02.2018	05.31.2021	1,080,000	–	(120,000)	–	960,000	–	–	(960,000)	–
	11.21.2018	11.06.2020	20,000	–	–	(20,000)	–	–	–	–	–
	10.15.2020	10.15.2020	–	16,500	–	(16,500)	–	–	–	–	–
	02.08.2021	06.01.2021	–	–	–	–	–	279,000	(6,000)	(273,000)	–
	03.31.2021	06.01.2021	–	–	–	–	–	274,000	–	(274,000)	–
	06.01.2021	05.31.2023	–	–	–	–	–	1,650,000	(60,000)	–	1,590,000
Sub-total			1,116,500	16,500	(120,000)	(53,000)	960,000	2,203,000	(66,000)	(1,507,000)	1,590,000
Total			1,311,500	16,500	(200,000)	(88,000)	1,040,000	2,715,000	(66,000)	(1,949,000)	1,740,000

These 16,500 shares were pending for vest because the employee to whom these shares were awarded on October 3, 2016 had taken unpaid leave of absence on the vesting date. The employee returned to work on September 1, 2019 and the vesting period of these 16,500 shares has been extended to August 31, 2020, as approved by the board of directors of the Company, and were vested on August 31, 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company (continued)

The closing prices of Company's shares at the date of grant on February 8, 2021 was HK$17.02 per share, on March 31, 2021 was HK$19.40 per share and on June 1, 2021 was HK$19.88 per share (2020: on October 15, 2020 was HK$13.38 per share).

During the year ended December 31, 2021, the Group recognized a net expense of US$3,855,000 (2020: US$697,000) as equity-settled share-based payments in relation to the Yue Yuen Share Award Scheme.

(c) Share option scheme of Pou Sheng

Pou Sheng's share option scheme (the "Pou Sheng Share Option Scheme") was adopted pursuant to a resolution passed by Pou Sheng's shareholders on May 14, 2008 and amended on March 7, 2012 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of Pou Sheng and its shares for the benefit of Pou Sheng and its shareholders as a whole, and has expired on May 13, 2018. However, the share options granted prior to the expiration of the Pou Sheng Share Option Scheme shall continue to be valid and exercisable within their respective prescribed exercisable periods. Under the Pou Sheng Share Option Scheme, the board of directors of Pou Sheng may grant options to eligible persons, including directors and employees of Pou Sheng and its subsidiaries, to subscribe for shares in Pou Sheng.

36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Pou Sheng (continued)

The following tables disclose movements in the share options under the Pou Sheng Share Option Scheme during the two years ended December 31, 2021 and 2020:

				Number of share options					
	Date of grant	Exercise price HK$	Exercisable period	Outstanding at January 1, 2020	Exercised during the year	Lapsed during the year	Outstanding at December 31, 2020	Lapsed during the year	Outstanding at December 31, 2021
Current and former Employees of Pou Sheng	03.07.2012	1.050	03.07.2013 – 03.06.2020	375,000	(375,000)	–	–	–	–
	11.14.2016	2.494	09.01.2018 – 09.01.2020	1,166,320	–	(1,166,320)	–	–	–
	11.14.2016	2.494	09.01.2019 – 09.01.2021	1,166,320	–	–	1,166,320	(1,166,320)	–
	11.14.2016	2.494	09.01.2020 – 09.01.2022	2,332,640	–	(2,332,640)	–	–	–
	11.14.2016	2.494	09.01.2021 – 09.01.2023	5,831,590	–	(5,831,590)	–	–	–
Total				10,871,870	(375,000)	(9,330,550)	1,166,320	(1,166,320)	–
Exercisable as at January 1, 2020, December 31, 2020 and December 31, 2021				2,707,640			1,166,320		–

In respect of the share options exercised in 2020, the weighted average share price of Pou Sheng at the dates of exercise is HK$2.00 per share.

During the year ended December 31, 2021, 1,166,320 (2020: 1,166,320) share options were lapsed as they were not exercised within the exercisable period and nil (2020: 8,164,230) share options were lapsed as vesting conditions were not met.

During the year ended December 31, 2021, the Group did not recognize any equity-settled share-based payments (2020: recognized a net income of US$710,000) in the consolidated income statement under the Pou Sheng Share Option Scheme with reference to the share options' respective vesting periods and the share options lapsed prior to their vesting dates.

(d) Share award scheme of Pou Sheng

Pou Sheng's share award scheme (the "Pou Sheng Share Award Scheme") was adopted pursuant to a board resolution passed on May 9, 2014 and amended on November 11, 2016. The objective of the Pou Sheng Share Award Scheme is to recognize the contributions by certain persons, including directors of Pou Sheng and employees of the Pou Sheng and its subsidiaries (the "Pou Sheng Group") (the "Selected Participants") and to provide incentives to retain them for the continual operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. The Pou Sheng Share Award Scheme became effective on May 9, 2014 and, unless otherwise terminated or amended, will remain in force for 10 years.

Pou Sheng did not purchase any shares for share award scheme during the year ended December 31, 2021 (2020: purchased 84,270,000 ordinary shares). A total of 156,485,560 ordinary shares of Pou Sheng were held by the trustee of the Pou Sheng Share Award Scheme as at December 31, 2021 (2020: 168,502,560 ordinary shares).

36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) Share award scheme of Pou Sheng (continued)

The following table discloses movements in Pou Sheng's share awards under the Pou Sheng Share Award Scheme during the two years ended December 31, 2021 and 2020:

	Date of grant	Vesting date	Number of share awards Outstanding at January 1, 2020	Granted during the year	Lapsed during the year	Vested during the year	Outstanding at December 31, 2020	Granted during the year	Lapsed during the year	Vested during the year	Outstanding at December 31, 2021
Director of Pou Sheng											
Lee Shao Wu	03.25.2017	03.25.2020	400,000	–	–	(400,000)	–	–	–	–	–
	08.11.2018	09.11.2020	300,000	–	–	(300,000)	–	–	–	–	–
	08.11.2018	03.11.2021	500,000	–	–	–	500,000	–	–	(500,000)	–
	03.23.2019	09.23.2020	200,000	–	–	(200,000)	–	–	–	–	–
	03.23.2019	09.23.2021	300,000	–	–	–	300,000	–	–	(300,000)	–
	03.23.2019	03.23.2022	500,000	–	–	–	500,000	–	–	–	500,000
	03.31.2020	03.31.2021	–	500,000	–	–	500,000	–	–	(500,000)	–
	03.31.2020	03.31.2022	–	500,000	–	–	500,000	–	–	–	500,000
	03.31.2020	03.31.2023	–	500,000	–	–	500,000	–	–	–	500,000
	03.24.2021	09.24.2022	–	–	–	–	–	100,000	–	–	100,000
	03.24.2021	09.24.2023	–	–	–	–	–	150,000	–	–	150,000
	03.24.2021	03.24.2024	–	–	–	–	–	250,000	–	–	250,000
Sub-total			2,200,000	1,500,000	–	(900,000)	2,800,000	500,000	–	(1,300,000)	2,000,000
Employees of Pou Sheng	11.14.2016	09.01.2020	1,667,360	–	(1,667,360)	–	–	–	–	–	–
	11.14.2016	09.01.2021	4,168,410	–	(4,168,410)	–	–	–	–	–	–
	03.25.2017	03.25.2020	4,031,000	–	(126,000)	(3,905,000)	–	–	–	–	–
	07.03.2017	07.03.2020	300,000	–	(300,000)	–	–	–	–	–	–
	11.14.2017	11.14.2020	3,200,000	–	(1,000,000)	(2,200,000)	–	–	–	–	–
	08.11.2018	07.01.2020	210,000	–	(210,000)	–	–	–	–	–	–
	08.11.2018	01.01.2021	350,000	–	(350,000)	–	–	–	–	–	–
	08.11.2018	09.11.2020	4,976,400	–	(189,600)	(4,786,800)	–	–	–	–	–
	08.11.2018	03.11.2021	8,294,000	–	(316,000)	–	7,978,000	–	(90,000)	(7,888,000)	–
	03.23.2019	09.23.2020	2,407,200	–	(191,200)	(2,216,000)	–	–	–	–	–
	03.23.2019	09.23.2021	3,610,800	–	(303,600)	–	3,307,200	–	(478,200)	(2,829,000)	–
	03.23.2019	03.23.2022	6,018,000	–	(506,000)	–	5,512,000	–	(991,500)	–	4,520,500
	03.23.2019	10.01.2020	112,000	–	(112,000)	–	–	–	–	–	–
	03.23.2019	10.01.2021	168,000	–	(168,000)	–	–	–	–	–	–
	03.23.2019	04.01.2022	280,000	–	(280,000)	–	–	–	–	–	–
	11.15.2019	12.15.2020	750,000	–	(750,000)	–	–	–	–	–	–
	03.24.2021	09.24.2022	–	–	–	–	–	1,568,000	(126,600)	–	1,441,400
	03.24.2021	09.24.2023	–	–	–	–	–	2,352,000	(189,900)	–	2,162,100
	03.24.2021	03.24.2024	–	–	–	–	–	3,920,000	(316,500)	–	3,603,500
	08.13.2021	02.13.2023	–	–	–	–	–	460,800	(12,800)	–	448,000
	08.13.2021	02.13.2024	–	–	–	–	–	691,200	(19,200)	–	672,000
	08.13.2021	08.13.2024	–	–	–	–	–	1,152,000	(32,000)	–	1,120,000
Sub-total			40,543,170	–	(10,638,170)	(13,107,800)	16,797,200	10,144,000	(2,256,700)	(10,717,000)	13,967,500
Total			42,743,170	1,500,000	(10,638,170)	(14,007,800)	19,597,200	10,644,000	(2,256,700)	(12,017,000)	15,967,500

36. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) Share award scheme of Pou Sheng (continued)

The closing prices of Pou Sheng's shares immediately before the grant date of Pou Sheng's share awards on March 24, 2021 was HK$1.78 per share and on August 13, 2021 was HK$1.57 per share (2020: on March 31, 2020 was HK$1.45 per share).

During the year ended December 31, 2021, the Group recognized a net expense of US$853,000 (2020: US$429,000) as equity-settled share-based payments in the consolidated income statement under the Pou Sheng Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed prior to their vesting dates.

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a quarterly basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share repurchases as well as the issue of new debt or the redemption of existing debt.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2021 US$'000	2020 US$'000
Financial assets		
Financial assets at FVTPL	**127,022**	151,963
Financial assets at amortized cost	**1,880,390**	2,160,371
Equity instruments at FVTOCI	**33,516**	30,496
Financial liabilities		
Financial liabilities at amortized cost	**2,674,906**	2,733,677
Financial liabilities at FVTPL	**10,378**	26,184
Lease liabilities	**456,937**	492,983

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, financial assets/liabilities at FVTPL, other financial asset at amortized cost, trade and other receivables, bank balances and cash, trade and other payables, lease liabilities and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the policies on how to mitigate these risks.

Market risk

(i) Currency risk

Majority of the Group's revenue is denominated in USD and RMB. However, the Group has certain trade and other receivables, trade and other payables, bank balances and debt obligations that are denominated in foreign currencies relative to functional currencies of the respective group entities. As a result, the Group is exposed to fluctuations in foreign exchange rates. In order to mitigate the currency risk, the Group has entered into forward and other foreign currency contracts to partially hedge USD against Indonesia Rupiah ("IDR"). The Group regularly reviews the effectiveness of these instruments and the underlying strategies in monitoring currency risk.

The carrying amounts of the Group's monetary assets and liabilities that are denominated in currencies other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2021 US$'000	2020 US$'000	**2021 US$'000**	2020 US$'000
USD	**6,686**	2,961	**2,898**	3,171
RMB	**306,537**	280,586	**49,927**	61,291
New Taiwan dollars ("NTD")	**51,753**	51,850	**83,875**	76,365
Vietnamese Dong ("VND")	**174,401**	26,910	**59,006**	94,976
IDR	**11,659**	9,004	**36,949**	27,308
Hong Kong dollars ("HKD")	**10,926**	12,840	**2,813**	1,964

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of USD, RMB, NTD, VND, IDR and HKD against the functional currencies of the respective group entities. Since HKD is pegged to USD, the Group does not expect any significant movements in USD/HKD exchange rate.

The following table details the Group's sensitivity to a 5% (2020: 5%) decrease in the functional currency of the relevant group entities against the relevant foreign currencies. The following sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the year end for a 5% change in foreign currency exchange rates, which are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in currencies exchange rates. A positive (negative) number below indicates an increase (decrease) in profit before taxation (2020: decrease (increase) to loss before taxation) when the currency below strengthen 5% against the functional currency of the relevant group entities. For a 5% (2020: 5%) weakening of these currencies against the functional currency of the relevant group entities, there would be an equal and opposite impact on the profit before taxation (2020: loss before taxation).

	notes	2021 US$'000	2020 US$'000
Gain (loss) in relation to:			
– USD	(i)	**189**	(11)
– RMB	(i)	**12,831**	10,965
– NTD	(ii)	**(1,606)**	(1,226)
– VND	(i)	**5,770**	(3,403)
– IDR	(i)	**(1,265)**	(915)

notes:

(i) This is mainly attributable to the exposure on bank balances, receivables and payables.

(ii) This is mainly attributable to the exposure on bank and loan balances, receivables and payables and equity instruments.

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank balances (Note 26) and bank borrowings (Note 30) due to the fluctuation of the prevailing market interest rate. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

The Group is also exposed to fair value interest rate risk in relation to other financial asset at amortized cost, amounts due from a non-controlling interest of a subsidiary and a joint venture (Note 25), bank borrowings (Note 30) and lease liabilities (Note 32).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR, HIBOR, TAIBOR and loan prime rate published by NIFC.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some Interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the carrying amount of liabilities which carried floating interest rates and outstanding at the end of the reporting period were outstanding for the whole year and the stipulated change taking place at the beginning of the financial year and held constant throughout the financial year. A 100 basis points (2020: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on variable-rate bank borrowings had been 100 basis points (2020: 100 basis points) higher and all other variables were held constant, the Group's profit before taxation for the year would decrease by US$13,431,000 (2020: loss before taxation increase by US$14,344,000). If interest rates were lower by 100 basis points (2020: 100 basis points), there would be an equal and opposite impact on the profit before taxation (2020: loss before taxation) for the year.

This is mainly attributable to the Group's exposure to its variable-rate borrowings.

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, bank balances, amounts due from associates/joint ventures/connected and related parties, deferred consideration receivables, other receivables and other financial asset at amortized cost. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts as disclosed in Note 42.

The Group has concentration of credit risk on certain individual customers. At the end of the reporting period, the five largest trade receivable balances accounted for approximately 62% (2020: 60%) of the trade receivables and the largest trade receivable balance was approximately 27% (2020: 29%) of the Group's total trade receivables. For both years, the five largest customers, which are internationally well known companies engaging in sports footwear and sportswear business with good financial position by reference to their respective published financial statements, have good repayment history and credit quality with reference to the track records of these customers under internal assessment by the Group. The Group seeks to minimize its risk by dealing with counterparties which have good credit history.

In order to minimize the credit risk, the management of the Group has delegated different teams responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade balances from Manufacturing Business individually or collectively and trade balances from Retailing Business individually or based on provision matrix.

In addition to the credit risk on trade debts, the Group is also exposed to credit risk through its advances to, and guarantees granted to banks in respect of banking facilities utilized by its associates, joint ventures and connected and related parties. Because of the Group's involvement, either through significant influence or joint control, the Group is in a position to monitor their financial performance and can take timely actions to safeguard its assets and/or to minimize its losses. Accordingly, management believes that the Group's exposure in this regard is significantly reduced.

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and good credit ratings by reference to published information or good repayment records	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence that the debtor has been placed under liquidation or has entered into bankruptcy proceedings and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	Internal credit rating	12m or lifetime ECL	2021 Gross carrying amount US$'000	2020 Gross carrying amount US$'000
Financial assets at amortized cost					
Amounts due from associates	25	Low risk (note 4)	12m ECL	**664**	632
Amounts due from joint ventures	25	Low risk (note 4)	12m ECL	**1,917**	43,505
Amounts due from connected and related parties	25	Low risk (note 4)	12m ECL	**6,176**	6,290
Deferred consideration receivable		Low risk	12m ECL	**–**	5,018
Bank balances and cash	26	Low risk (note 2)	12m ECL	**837,965**	896,977
Other financial asset at amortized cost		N/A (note 3)	12m ECL	**9,424**	–
Other receivables	25	Low risk/ Watch list	12m ECL	**67,003**	87,808
		Loss (note 5)	Credit-impaired	**6,988**	6,752
				73,991	94,560
Trade receivables	25	(note 1)	Lifetime ECL	**957,241**	1,120,141
		Loss	Credit-impaired	**7,310**	6,708
				964,551	1,126,849

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

notes:

1. The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors that are credit-impaired, the Group determines the ECL on those trade receivables from Manufacturing Business on a collective basis, grouped by internal credit rating and those trade receivables from Retailing Business by using a provision matrix, grouped by aging status. No loss allowance at lifetime ECL (not credit-impaired) on trade receivables has been provided as the directors of the Company considered the amount is insignificant.

2. The credit risk on bank balances is low because the counterparties are banks with good reputation.

3. The credit risk on other financial assets at amortized cost is low because the counterparties are bank or financial institutions with good reputation.

4. The credit risk on amounts due from associates, amounts due from joint ventures and amounts due from connected and related parties is low because these balances have good repayment records.

5. During the year ended December 31, 2021, impairment losses of US$191,000 (2020: US$149,000) arising from other receivables (which are credit-impaired) were recognized based on the impairment assessment with regard to an actual or expected significant deterioration in the operating results of the receivables that decrease the counterparties' ability to meet their debt obligations.

As part of the Group's credit risk management, the Group applies internal credit rating and debtors' aging status to assess the impairment for its customers in relation to its Manufacturing Business and Retailing Business respectively. The following tables provide information about the exposure to credit risk for trade receivables which are assessed based on collective basis (for Manufacturing Business) and provision matrix (for Retailing Business) within lifetime ECL (not credit-impaired).

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

Gross carrying amount assessed based on collective basis

Manufacturing Business

	Trade receivables			
Internal credit rating	**Average loss rate**	**2021 US$'000**	Average loss rate	2020 US$'000
Low risk	**0.1%**	**684,700**	0.1%	763,861
Watch list	**1.0%**	**75,653**	1.0%	50,177
Doubtful	**8.0%**	**13,867**	8.0%	44,189
		774,220		858,227

Gross carrying amount assessed based on provision matrix

Retailing Business

	Trade receivables	
Debtors' aging	**2021 US$'000**	2020 US$'000
Current (not past due)	**173,214**	252,563
1 – 120 days past due	**9,807**	9,351
	183,021	261,914

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Gross carrying amount assessed based on provision matrix (continued)

The average loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The following table shows the movement in loss allowance at lifetime ECL (credit-impaired) that has been recognized for trade receivables under the simplified approach.

	Trade receivables US$'000
As at January 1, 2020	9,605
Impairment losses recognized	875
Write-offs	(4,157)
Exchange realignment	385
As at December 31, 2020	6,708
Impairment losses recognized	873
Write-offs	(369)
Exchange realignment	98
As at December 31, 2021	**7,310**

The Group writes off a trade receivable when there is information indicating that the debtor has been placed under liquidation or has entered into bankruptcy proceedings. The Group has taken legal action to recover certain trade receivables that have been written off.

The Group's concentration of credit risk by geographical locations of customers are mainly in the US, Europe and Asia which accounted for 29%, 21% and 44% (2020: 25%, 19% and 50%), respectively, of the trade receivables at December 31, 2021.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cashflows from operations. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the undiscounted cash flows of financial liabilities based on the settlement dates on which the Group are required to pay.

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	1 - 3 months US$'000	3 months to 1 year US$'000	1 - 5 years US$'000	Over 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 12.31.2021 US$'000
As at December 31, 2021								
Non-derivative financial liabilities								
Trade and other payables	–	822,563	106,432	28,814	–	–	957,809	957,809
Bank borrowings								
– fixed rate	3.11	137,567	99,768	129,836	9,509	–	376,680	373,926
– variable rate	0.93	156,273	55,405	89,871	1,070,790	–	1,372,339	1,343,171
Lease liabilities	4.10	15,406	44,502	111,299	262,690	71,132	505,029	456,937
Financial guarantee contracts	–	43,971	–	–	–	–	43,971	–
		1,175,780	306,107	359,820	1,342,989	71,132	3,255,828	3,131,843
Derivatives – net settlement								
Interest rate swaps	–	–	2,590	6,302	1,670	–	10,562	10,357
Forward contracts	–	21	–	–	–	–	21	21

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	1 - 3 months US$'000	3 months to 1 year US$'000	1 - 5 years US$'000	Over 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 12.31.2020 US$'000
As at December 31, 2020								
Non-derivative financial liabilities								
Trade and other payables	–	754,736	90,507	20,493	–	–	865,736	865,736
Bank borrowings								
– fixed rate	3.12	132,208	81,302	110,469	129,774	–	453,753	438,044
– variable rate	0.98	154,642	6,803	111,935	1,179,199	–	1,452,579	1,429,897
Lease liabilities	4.11	15,753	46,912	117,946	294,734	78,968	554,313	492,983
Financial guarantee contracts	–	49,817	–	–	–	–	49,817	–
		1,107,156	225,524	360,843	1,603,707	78,968	3,376,198	3,226,660
Derivatives – net settlement								
Interest rate swaps	–	–	2,724	8,032	14,577	–	25,333	25,177
Currency structured and forward contracts	–	–	493	514	–	–	1,007	1,007

The amounts included above for financial guarantee contracts are the maximum amounts the Group can be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Interest rate benchmark reform

As listed in Notes 23 and 30, several of the Group's LIBOR/HIBOR credit linked notes, interest rate swaps and bank borrowings will or may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after December 31, 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and

- immediately after June 30, 2023, in the case of the remaining US dollar settings.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist.

(i) Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management.

38. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Interest rate benchmark reform (continued)

(ii) Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, the Group is planning to negotiate with the relevant counterparties to continue the LIBOR-linked contracts to the extent LIBOR remains available.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at December 31, 2021. The amounts of financial assets and liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts. Also, for HIBOR financial instruments as at December 31, 2021, the Group had confirmed with the relevant counterparties that HIBOR will continue to maturity. Therefore, it is not presented in the following table.

Financial instruments prior to transition	Maturing in	Carrying amounts/ notional amounts US$'000	Hedge accounting	Transition progress for financial instruments
Non-derivative financial asset				
Credit linked notes linked to 3-month USD LIBOR	2022	20,264	N/A	Expected LIBOR will continue till before maturity
Non-derivative financial liabilities				
Bank borrowings linked to 3-month USD LIBOR	2022/2023	275,000	N/A	Expected LIBOR will continue till maturity
Bank borrowings linked to 3-month USD LIBOR	2023/2024	880,000	N/A	Expected to transit by June 30, 2023
Derivatives				
Interest rate swaps – Receive 3-month USD LIBOR, pay fixed interest rate	2022/2023	750,000	N/A	Expected LIBOR will continue till maturity

38. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3 as set out in Note 3) based on the degree to which the inputs to the fair value measurements is observable.

	2021 US$'000	2020 US$'000	Fair value hierarchy
Financial assets at FVTPL			
Credit linked notes (note iii)	**20,264**	20,306	Level 2
Forward contracts (note i)	**1,377**	2,173	Level 2
Interest rate swaps (note ii)	**171**	–	Level 2
Unlisted overseas funds (note iii)	**28,541**	14,106	Level 2
Currency structured forward contracts (note i)	**–**	507	Level 2
Dual currency option structured deposits (note i)	**15,848**	114,871	Level 2
Daily range accrual notes (note i)	**60,821**	–	Level 2
Equity instruments at FVTOCI			
Listed equity securities (note iv)	**33,042**	30,012	Level 1
Financial liabilities at FVTPL			
Forward contracts (note i)	**21**	493	Level 2
Interest rate swaps (note ii)	**10,357**	25,177	Level 2
Currency structured forward contracts (note i)	**–**	514	Level 2

notes:

(i) These financial assets and liabilities are measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(ii) The interest rate swaps are measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the counterparties.

38. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

notes: (continued)

(iii) The fair values of credit linked notes and unlisted overseas funds are determined with reference to prices provided by the respective issuing financial institutions.

(iv) Listed equity securities are traded on active markets and their fair values are determined with reference to quoted bid prices in active markets.

Except as described above, the directors consider the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

39. ACQUISITION OF A SUBSIDIARY

On December 31, 2021, Yue Cheng (Kunshan) Sports Co., Ltd., an indirectly owned subsidiary of the Company incorporated in the PRC (the "Purchaser"), Vipshop (China) Co., Ltd., a limited company incorporated in the PRC (the "Vendor"), and Kunshan Baowei Information Technology Co., Ltd. ("Kunshan Baowei"), a joint venture of the Group incorporated in the PRC with 55% equity interest owned by the Purchaser and 45% equity interest owned by the Vendor entered into an equity transfer agreement. Pursuant to the equity transfer agreement, the Vendor agreed to sell 45% equity interest in Kunshan Baowei to the Purchaser (the "Acquisition"). The consideration of the Acquisition shall be equal to an amount which is equivalent to 45% of the consolidated net asset value of Kunshan Baowei as at December 31, 2021 (the "Consideration"), and shall be funded and settled by way of transfer of inventories from the Purchaser to the Vendor with fair value equivalent to the Consideration. The Group considered the settlement of the Consideration through transfer of inventories does not constitute a contract with customer and the transaction was not within the ordinary activities of the Group. Accordingly, US$27,670,000 was recorded as consideration payable. Kunshan Baowei became an indirectly owned subsidiary of the Company on December 31, 2021 (Note 4(a)(iii)). The Acquisition has been accounted for as acquisition of business using the acquisition method.

Details of the acquisition were set out in the announcement of the Company dated December 31, 2021.

39. ACQUISITION OF A SUBSIDIARY (continued)

Assets acquired and liabilities recognized at the date of acquisition

	US$'000
Plant and equipment	119
Right-of-use assets	544
Inventories	86,392
Trade and other receivables	20,303
Amounts due from subsidiaries of the Company	26,246
Taxation recoverable	619
Bank balances and cash	1,486
Trade and other payables	(19,778)
Amounts due to subsidiaries of the Company	(30,236)
Taxation payable	(98)
Lease liabilities	(544)
Bank borrowings	(23,565)
	61,488

The receivables acquired (which principally comprised trade and other receivables and amounts due from subsidiaries of the Company) with a fair value of US$46,549,000 at the date of acquisition had gross contractual amounts of US$50,144,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to US$3,595,000.

Consideration transferred

	US$'000
Consideration payable (Note 28)	27,670
Plus: interest in a joint venture upon remeasurement to fair value	33,818
Less: recognized amounts of net assets acquired	(61,488)
	–

Cash inflow

	US$'000
Cash and cash equivalents balances acquired	1,486

39. ACQUISITION OF A SUBSIDIARY (continued)

Impact of acquisition on the result of the Group

For the year ended December 31, 2021, the revenue and loss and total comprehensive expense for the year of Kunshan Baowei were US$335,942,000 and US$46,081,000 respectively. Had the Acquisition been completed on January 1, 2021, revenue for the year of the Group would have been US$8,581,097,000 and profit for the year would have been US$121,210,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2021, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Kunshan Baowei been acquired at the beginning of the current year, the directors of the Company calculated depreciation of plant and equipment based on the recognized amounts of plant and equipment at the date of the acquisition.

40. OPERATING LEASES

The Group as lessor

All of the Group's investment properties held have committed tenants for the next one to fifteen years and rentals are fixed.

At the end of the reporting period, undiscounted lease payments receivables over non-cancellable period on leases are as follows:

	2021 US$'000	2020 US$'000
Within one year	**21,401**	13,759
In the second year	**19,138**	12,585
In the third year	**15,551**	11,281
In the fourth year	**14,983**	9,163
In the fifth year	**8,554**	8,765
After five years	**13,145**	21,470
	92,772	77,023

41. CAPITAL COMMITMENTS

	2021 US$'000	2020 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– construction of buildings	**37,249**	36,478
– acquisition of property, plant and equipment	**14,206**	22,934
	51,455	59,412

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

42. FINANCIAL GUARANTEE CONTRACTS

At the end of the reporting period, the Group had financial guarantee contracts as follows:

	2021 US$'000	2020 US$'000
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**27,771**	36,267
– amount utilized	**10,594**	12,019
(ii) associates		
– amount guaranteed	**16,200**	13,550
– amount utilized	**15,750**	11,700

In the opinion of the directors, the fair value of the financial guarantees given to the banks by the Group are insignificant at initial recognition. Also, after taking into consideration the probability of default and the loss given default of the relevant joint ventures and associates, the management of the Company is of the opinion that no provision is required to be recognized in the consolidated statement of financial position as at December 31, 2021 and 2020.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable (included in other payables)	Bank and other borrowings (note)	Lease liabilities
	US$'000	US$'000	US$'000
At January 1, 2020	3,410	2,089,879	402,732
Amortization of upfront fee of bank borrowings	–	2,453	–
Financing cash flows	(47,167)	(250,194)	(176,836)
New leases/lease modification/lease termination	–	–	215,042
Interest expenses	45,021	–	20,604
Exchange realignment	110	25,803	31,441
At December 31, 2020	1,374	1,867,941	492,983
Amortization of upfront fee of bank borrowings	–	3,749	–
Financing cash flows	(27,886)	(184,610)	(204,605)
New leases/lease modification/lease termination	–	–	137,068
Interest expenses	27,689	–	21,260
Acquisition of a subsidiary	–	23,565	544
Exchange realignment	27	6,452	9,687
At December 31, 2021	**1,204**	**1,717,097**	**456,937**

note: The other borrowings were fully repaid during the year ended December 31, 2020.

44. RETIREMENT BENEFITS PLANS

a) Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The workers under subcontracting agreements and employees of the Company's subsidiaries in the PRC are subject to retirement benefit schemes established in the PRC. Specified percentages of their payroll are contributed to retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the contributions at rate specified under the schemes. No forfeited contributions are available to reduce the contribution payable in the future years.

The employees employed in Vietnam are members of the state-managed retirement benefit schemes operated by the Vietnamese government. The subsidiaries incorporated in Vietnam are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The Group has no further payment obligations once the contributions have been paid.

b) Defined benefit plan – Indonesia

The Group provides defined benefit plan for the employees in Indonesia as required under Indonesian Labor Law.

The plan exposes the Group to the following actuarial risks:

Interest rate risk	A decrease in the bond interest rate will increase the present value of the defined benefit obligation.
Longevity risk	The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the present value of the defined benefit obligation.
Salary risk	The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

44. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan – Indonesia (continued)

No other post-retirement benefits are provided to these employees in Indonesia.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at December 31, 2021 by PT. Padma Radya Aktuaria and PT. Konsul Penata Manfaat Sejahtera, Fellows of the Institute of Actuaries in Indonesia. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at December 31, 2021	Valuation at December 31, 2020
Normal pension age	55 – 57	55 – 57
Discount rates	7.40% – 7.60%	7.10% – 7.80%
Expected rates of salary increase	5% – 8%	5% – 8%
Mortality rates	100% Tabel Mortality Indonesia ("TMI")4	100% TMI4
Disability rate	5% TMI4	5% TMI4
Early resignation rate	N/A – 1%	N/A
Resignation rates	2.5% – 10% until age 30 – 40 then decreasing linearly into 0% at age 51 – 56	2.5% – 15% until age 25 – 40 then decreasing linearly into 0% at age 51 – 56

44. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan - Indonesia (continued)

Amounts recognized in comprehensive income in respect of the defined benefit plan are as follows:

	2021 US$'000	2020 US$'000
Service cost:		
Current service cost	**10,768**	11,280
Past service cost and loss (gain) from settlements	**6,593**	(15,230)
Net interest expense	**7,964**	8,348
Others	**–**	(270)
Components of defined benefit costs recognized in profit or loss	**25,325**	4,128
Remeasurement of the net defined benefit liabilities:		
Actuarial losses arising from experience adjustments	**3,313**	7,189
Actuarial (gains) losses arising from changes in financial assumptions	**(2,411)**	8,409
Actuarial losses arising from changes in demographic assumptions	**932**	2,192
Foreign exchange (gains) losses	**(402)**	130
Components of defined benefit costs recognized in other comprehensive income	**1,432**	17,920
Total	**26,757**	22,048

The service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss.

The remeasurement of the net defined benefit liabilities is included in other comprehensive income.

44. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan - Indonesia (continued)

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2021 US$'000	2020 US$'000
Balance at January 1	**113,066**	107,436
Current service cost	**10,768**	11,280
Interest cost	**7,964**	8,348
Others	**–**	(270)
Past service cost and loss (gain) from settlements	**6,593**	(15,230)
Remeasurement:		
Actuarial losses arising from experience adjustments	**3,313**	7,189
Actuarial (gains) losses arising from changes in financial assumptions	**(2,411)**	8,409
Actuarial losses arising from changes in demographic assumptions	**932**	2,192
Exchange differences on foreign plans	**(1,300)**	(3,142)
Benefits paid	**(6,660)**	(13,146)
Balance at December 31	**132,265**	113,066

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rates and expected salary growth. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rates increase (decrease) by 1%, the defined benefit obligation would decrease by US$14,222,000 (increase by US$16,813,000) (2020: decrease by US$12,087,000 (increase by US$14,326,000)).

- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by US$17,536,000 (decrease by US$15,002,000) (2020: increase by US$15,052,000 (decrease by US$13,149,000)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

44. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan – Indonesia (continued)

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position.

The average duration of the benefit obligation at December 31, 2021 ranges from 15.56 to 33.85 years (2020: from 16.30 to 33.39 years).

The Group expects to make a contribution of US$1,196,000 (2020: US$3,873,000) to the defined benefit plan during the next financial year.

c) Defined benefit plan – Taiwan

The defined benefit plan adopted by the Group for the employees in Taiwan in accordance with the Labor Standards Law is operated by the government of the Republic of China. Pension benefits are calculated based on the years of service and average monthly salaries of the 6 months before retirement. The Group contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau") and the Group has no right to influence the investment policy and strategy.

The plan exposes the Group to the following actuarial risks:

Interest rate risk	A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
Investment risk	The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
Salary risk	The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

44. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

The most recent actuarial valuations of the plan assets and present value of the defined benefit obligation were carried out at December 31, 2021 by Professional Actuary Management Consulting Co., Ltd, a qualified actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The principle assumptions used for the purposes of the actuarial valuations were as follows:

	2021	2020
Discount rate	0.50%	0.50%
Expected rate of salary increase	2.00% – 3.25%	2.00% – 3.25%

The net amounts included in the consolidated statement of financial position in respect of the Group's net defined benefit liabilities and fair value of plan assets are as follows:

	2021 US$'000	2020 US$'000
Present value of defined benefit obligation	21,876	21,371
Fair value of plan assets	(12,653)	(12,245)
Net defined benefit liabilities	9,223	9,126

44. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

Amounts recognized in comprehensive income in respect of the defined benefit plan are as follows:

	2021 US$'000	2020 US$'000
Service cost:		
Current service cost	72	84
Past service cost	21	255
Net interest expense	51	82
Other	(237)	(278)
Components of defined benefit costs recognized in profit or loss	(93)	143
Remeasurement of the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest)	(211)	(597)
Actuarial losses (gains) arising from experience adjustments	722	(1,071)
Actuarial losses arising from changes in financial assumptions	–	582
Actuarial losses arising from changes in demographic assumptions	676	4
Exchange differences on foreign plans	–	5
Components of defined benefit costs recognized in other comprehensive income	1,187	(1,077)
Total	1,094	(934)

The service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss.

The remeasurement of the net defined benefit liabilities is included in other comprehensive income.

44. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

Movements in net defined benefit liabilities (assets) are as follows:

	Present value of defined benefit obligation US$'000	Fair value of plan assets US$'000	Net defined benefit liability US$'000
Balance at January 1, 2020	26,284	(16,127)	10,157
Current service cost	84	–	84
Past service cost	255	–	255
Net interest expense	216	(134)	82
Other	(278)	–	(278)
Remeasurement:			
Return on plan assets (excluding amounts included in net interest)	–	(597)	(597)
Actuarial gain arising from experience adjustments	(1,071)	–	(1,071)
Actuarial loss arising from changes in financial assumptions	582	–	582
Actuarial loss arising from changes in demographic assumptions	4	–	4
Contributions from the employer	–	(185)	(185)
Benefits paid	(5,035)	5,035	–
Exchange differences on foreign plans	330	(237)	93
Balance at December 31, 2020	21,371	(12,245)	9,126
Current service cost	72	–	72
Past service cost	21	–	21
Net interest expense	120	(69)	51
Other	(237)	–	(237)
Remeasurement:			
Return on plan assets (excluding amounts included in net interest)	–	(211)	(211)
Actuarial loss arising from experience adjustments	722	–	722
Actuarial loss arising from changes in demographic assumptions	676	–	676
Contributions from the employer	–	(1,104)	(1,104)
Benefits paid	(1,108)	1,108	–
Exchange differences on foreign plans	239	(132)	107
Balance at December 31, 2021	**21,876**	**(12,653)**	**9,223**

44. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rates and expected salary growth. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rates increase (decrease) by 0.25%, the defined benefit obligation would decrease by US$592,000 (increase by US$613,000) (2020: decrease by US$601,000 (increase by US$624,000)).

- If the expected salary growth increases (decreases) by 0.25%, the defined benefit obligation would increase by US$593,000 (decrease by US$575,000) (2020: increase by US$603,000 (decrease by US$584,000)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position.

The average duration of the benefit obligation at December 31, 2021 is 9.5 to 13.2 years (2020: 10.0 to 13.9 years).

The Group expects to make a contribution of US$1,039,000 (2020: US$845,000) to the defined benefit plan during the next financial year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules.

The transactions with these parties during the year, and balances with them at the end of the reporting period, are as follows:

(I) CONNECTED AND RELATED PARTIES

Name of connected and related party	Nature of transactions/balances	2021 US$'000	2020 US$'000
Substantial shareholder of the Company:			
PCC and its subsidiaries, other than members of the Group (collectively the "PCC Group")	Purchase of raw materials, shoe-related products and manufacturing equipment and tools by the Group (note a)	**1,915**	1,383
	Merchandise costs reimbursed to the PCC Group under the Services Agreements by the Group (note b)	**140,796**	151,481
	Expenses reimbursed to the PCC Group under the Services Agreements by the Group (note b)	**128,661**	104,544
	Service fees paid to the PCC Group under the Services Agreements by the Group (note b)	**14,272**	13,011
	Repayment of lease liabilities including related interests under the Tenancy Agreements by the Group	**875**	1,025
	Interest expenses paid by the Group	**–**	1,551
	Sales of leather, moulds, production tools, finished and semi-finished shoe products by the Group (note a)	**2,574**	3,121
	Management services income received by the Group (note a)	**1,897**	1,314
	Management fees paid by the Group	**309**	310
	Balance due from/to as at year end and included in:		
	– trade receivables	**322**	497
	– trade payables	**40,166**	38,202
	– other receivables (note d)	**6,161**	6,237
	– other payables (note d)	**14,847**	14,602
	– lease liabilities	**1,684**	–

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED AND RELATED PARTIES (continued)

Name of connected and related party	Nature of transactions/balances	2021 US$'000	2020 US$'000
Companies owned by a trust set up for the benefits of the family members of a director of the Company and the director is one of the ultimate beneficiaries of the trust:			
Godalming Industries Limited ("Godalming")	Rental charges on land and buildings paid by the Group (note c)	**914**	–
	Repayment of lease liabilities including related interests and variable lease on land and buildings by the Group (note c)	**–**	1,977
	Balance due from/to as at year end and included in:		
	– other receivables (note d)	**15**	53
	– other payables (note d)	**55**	69

All the transactions on the table above falls under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) under the Listing Rules.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) OTHER RELATED PARTIES

Name of related party	Nature of transactions/balances	2021 US$'000	2020 US$'000
Joint ventures	Purchase of raw materials by the Group	122,814	123,255
	Purchase of sportswear products by the Group	36,500	56,718
	Sales of shoe-related products by the Group	7,574	8,652
	Sales of sportswear products by the Group	251,682	403,009
	Sales of property, plant and equipment by the Group	–	18,239
	Management and other service income received by the Group	29,477	5,143
	Logistic service income received by the Group	5,666	4,657
	Interest income received by the Group	1,663	815
	Rental income received by the Group	2,809	1,158
	Management and other service fee charged by the Group	65,412	36,424
	Interest expense charged by the Group	75	102
	Balance due from/to as at year end and included in:		
	– trade receivables	369	65,964
	– trade payables	35,204	33,899
	– other receivables (note d)	1,917	43,505
	– other payables (note d)	109	6,433
Associates	Purchase of raw materials by the Group	82,270	85,184
	Sales of shoe-related products by the Group	4,439	3,732
	Management service income received by the Group	467	362
	Rental income received by the Group	1,426	1,027
	Service fee charged by the Group	957	3,951
	Balance due from/to as at year end and included in:		
	– trade receivables	783	608
	– trade payables	19,213	19,825
	– other receivables (note d)	664	632
	– other payables (note d)	7	193

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(III) COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2021 US$'000	2020 US$'000
Short term benefits	3,197	1,945
Post-employment benefits	2	4
	3,199	1,949

The remuneration of key management personnel is determined having regard to the performance of the individuals.

notes:

(a) During the year, the Group sold leather, moulds, production equipment and tools, finished and semi-finished shoe products and quality control inspection tools and provide consultancy and guidance services to the PCC Group. In addition, the Group purchased raw materials, moulds, shoe-related products and manufacturing equipment and production tools for production needs from the PCC Group. The extent of these connected sales and purchases did not exceed the limit approved by the shareholders of the Company on November 26, 2020. PCC is a substantial shareholder of the Company owning 824,143,835 ordinary shares of the Company of which 773,156,303 ordinary shares were held by Wealthplus Holdings Limited and 50,987,532 ordinary shares were held by Win Fortune Investments Limited. Both Wealthplus Holdings Limited and Win Fortune Investments Limited are wholly-owned subsidiaries of PCC.

(b) Pursuant to services agreement dated February 22, 1997, first supplemental services agreement dated January 9, 2007, second supplemental services agreement dated November 20, 2008, third supplemental services agreement dated August 25, 2011, fourth supplemental services agreement dated September 15, 2014, fifth supplemental services agreement dated October 21, 2014 and sixth supplemental services agreement dated October 13, 2017 and seventh supplemental services agreement dated October 8, 2020 for a term of 3 years commencing from January 1, 2021 entered into between the Company and PCC (collectively the "Services Agreements"), the Company has engaged PCC to provide research and development, know-how, technical, marketing and consultancy services, source raw materials, materials, components, machinery and other goods, recruit staff in relation to the production and sale of the Group's products and provide general administration support services. The services to be provided by PCC may be provided by or through members of the PCC Group, but PCC will remain fully liable for the provision of these services. In consideration of the services provided by the PCC Group under the Services Agreements, the Company is obligated to reimburse the costs and expenses incurred by PCC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

45. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

notes: (continued)

(b) (continued)

In addition, the Company shall also pay to PCC the following service fees:

(i) in respect of the products developed through the research and development, know-how and technical services provided by the PCC Group and sold by the Group, not more than 0.5% of the net invoiced amount of such products paid according to the payment term set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date) and if no payment term is specified, payment shall be made within 30 days after the end of relevant month of the invoice date;

(ii) in respect of raw materials, materials, components, machinery and other goods purchased by shipment arranged for and inspected by the PCC Group on behalf of the Group from within Taiwan, not more than 1% of the merchandise cost invoiced to the PCC Group paid according to the payment term set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date) and if no payment term is specified, payment shall be made within 45 days after the end of relevant month of the invoice date; and

(iii) in respect of raw materials, materials, components, machinery and other goods sourced by the PCC Group on behalf of the Group in Taiwan or overseas whereby purchases are directly handled by the Group, not more than 0.5% of the cost of merchandise invoiced to the Group paid according to the payment term set out in the individual contract/order (in general, within 30 days to 45 days after the end of relevant month of the invoice date) and if no payment term is specified, payment shall be made within 45 days after the end of relevant month of the invoice date.

(c) Based on information available to the Company, Godalming is owned as to approximately 85.45% by a discretionary trust and its sub-funds for the benefits of Tsai's family (including Ms. Tsai Pei Chun, Patty, a director of the Company). The rentals on premises paid to Godalming were based on a tenancy agreement dated June 8, 1992, together with supplemental tenancy agreements dated August 25, 2011, September 15, 2014, October 21, 2014, October 13, 2017 and October 8, 2020 for a term of 3 years commencing from January 1, 2021 entered into between members of the Group and a joint venture of the Company as tenants and wholly-owned subsidiaries of Godalming as landlords.

The rentals were based on the open market rates which are referenced to valuation performed by an independent professional valuer.

(d) Except for amount due from a joint venture as disclosed in Note 25, which has been fully settled during year ended December 31, 2021 as detailed in Note 48(i), the amounts due from/to are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. NON-CONTROLLING INTERESTS

	Interests attributable to shares held in subsidiaries US$'000	Share-based compensation reserve of a listed subsidiary US$'000	Shares held under share award scheme of a listed subsidiary US$'000	Share award reserve of a listed subsidiary US$'000	Total US$'000
At January 1, 2020	445,810	1,023	(16,042)	3,594	434,385
Profit for the year	18,430	–	–	–	18,430
Fair value gain on an equity instrument at FVTOCI	45	–	–	–	45
Remeasurement of defined benefit obligations, net of tax	(145)	–	–	–	(145)
Exchange difference arising on the translation of foreign operations	29,755	–	–	–	29,755
Share of other comprehensive income of joint ventures	1,945	–	–	–	1,945
Total comprehensive income for the year	50,030	–	–	–	50,030
Recognition of equity-settled share-based payments, net of amounts lapsed relating to share options and share awards not yet vested	–	(710)	–	429	(281)
Share award vested under share award scheme of a listed subsidiary	(162)	–	2,158	(1,996)	–
Share option lapsed under share option scheme of a listed subsidiary	46	(122)	–	–	(76)
Exercise of a listed subsidiary's share options	147	(23)	–	–	124
Capital contribution from a non-controlling interest of a subsidiary	16,762	–	–	–	16,762
Dividends paid to non-controlling interests of subsidiaries	(505)	–	–	–	(505)
Acquisition of additional interests in subsidiaries	(1,270)	–	–	–	(1,270)
Purchase of shares under share award scheme of a listed subsidiary	–	–	(20,881)	–	(20,881)
At December 31, 2020	510,858	168	(34,765)	2,027	478,288
Profit for the year	26,874	–	–	–	26,874
Fair value loss on an equity instrument at FVTOCI	(6)	–	–	–	(6)
Remeasurement of defined benefit obligations, net of tax	(76)	–	–	–	(76)
Exchange difference arising on the translation of foreign operations	10,544	–	–	–	10,544
Share of other comprehensive income of joint ventures	497	–	–	–	497
Total comprehensive income for the year	37,833	–	–	–	37,833
Recognition of equity-settled share-based payments, net of amounts lapsed relating to share awards not yet vested	–	–	–	853	853
Share award vested under share award scheme of a listed subsidiary	(950)	–	2,577	(1,627)	–
Repurchase of ordinary shares of a listed subsidiary	(6,466)	–	–	–	(6,466)
Share option lapsed under share option scheme of a listed subsidiary	63	(168)	–	–	(105)
Capital contribution from a non-controlling interest of a subsidiary	1,139	–	–	–	1,139
Dividends paid to non-controlling interests of subsidiaries	(5,549)	–	–	–	(5,549)
At December 31, 2021	**536,928**	**–**	**(32,188)**	**1,253**	**505,993**

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. NON-CONTROLLING INTERESTS (continued)

The table below shows details of the Pou Sheng Group, the Company's non-wholly-owned subsidiary that has material non-controlling interests at the end of the reporting period:

Name of subsidiary	Principal place of operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2021	2020	2021 US$'000	2020 US$'000	2021 US$'000	2020 US$'000
Pou Sheng Group	PRC	37.45%	37.81%	20,898	16,583	456,672	431,326
Individually immaterial subsidiaries with non-controlling interests				5,976	1,847	49,321	46,962
Total				26,874	18,430	505,993	478,288

46. NON-CONTROLLING INTERESTS (continued)

Summarized financial information in respect of the Pou Sheng Group that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations and the effect of acquisition of subsidiaries using merger accounting.

	2021 US$'000	2020 US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income		
Revenue	**3,619,294**	3,709,231
Gross profit	**1,286,391**	1,133,475
Profit before taxation	**88,989**	62,719
Profit for the year	**58,242**	45,572
Profit for the year attributable to owners of Pou Sheng	**55,271**	43,860
Profit for the year attributable to owners of Pou Sheng		
– owners of the Company	**34,373**	27,277
– non-controlling interests of Pou Sheng	**20,898**	16,583
	55,271	43,860
Other comprehensive income, attributable to		
– owners of the Company	**15,756**	49,296
– non-controlling interests of Pou Sheng	**10,530**	30,117
	26,286	79,413
Total comprehensive income, attributable to		
– owners of the Company	**50,129**	76,573
– non-controlling interests of Pou Sheng	**31,428**	46,700
	81,557	123,273
Dividends paid to non-controlling interests of Pou Sheng	**–**	–

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

46. NON-CONTROLLING INTERESTS (continued)

	2021 US$'000	2020 US$'000
Financial information of consolidated statement of financial position		
Non-current assets	**780,226**	927,395
Current assets	**1,836,956**	1,690,678
Current liabilities	**(1,034,925)**	(1,076,647)
Non-current liabilities	**(293,630)**	(330,033)
Non-controlling interests	**(16,767)**	(16,276)
	1,271,860	1,195,117
Equity attributable to owners of Pou Sheng, attributable to		
– owners of the Company	**815,188**	763,791
– non-controlling interests of Pou Sheng	**456,672**	431,326
	1,271,860	1,195,117
Financial information of consolidated statement of cash flows		
Net cash from operating activities	**284,775**	741,429
Net cash used in investing activities	**(62,624)**	(133,756)
Net cash used in financing activities	**(300,900)**	(442,621)
Effect of foreign exchange rate changes	**4,613**	14,799
Net cash (outflow) inflow	**(74,136)**	179,851

47. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2021 and 2020 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital attributable to the Group 2021	2020	Principal activities
Bangladesh Pou Hung Industrial Ltd.	Bangladesh	US$4,800,000	100%	100%	Manufacture and sales of footwear
Bao Sheng Dao Ji (Beijing) Trading Company Ltd.	PRC**	US$65,000,000	62.55%+	62.19%+	Retailing of sportswear
Guangzhou Baoyuen Trading Company Limited	PRC**	US$23,310,000	62.55%+	62.19%+	Retailing of sportswear
Harbin Baosheng Sports Goods Company Limited	PRC**	RMB22,000,000	62.55%+	62.19%+	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited	PRC***	RMB1,000,000	62.55%+	62.19%+	Retailing of sportswear
Kunshan Baowei#	PRC***	RMB600,000,000	62.55%+	N/A	Retailing of sportswear
Idea (Macao Commercial Offshore) Limited	Macau	MOP100,000	100%	100%	Manufacturing and sales of footwear
Mega International Trading Limited	Macau	MOP25,000	75%	75%	Trading of footwear
Myanmar Pou Chen Company Limited	Myanmar	US$130,000,000	100%	100%	Manufacture and processing of footwear
PT. Glostar Indonesia	Indonesia	US$162,000,000	100%	100%	Manufacture and sales of footwear
PT. Nikomas Gemilang	Indonesia	US$125,904,520	100%	100%	Manufacture and sales of footwear
PT. Pou Chen Indonesia	Indonesia	US$64,000,000	100%	100%	Manufacture and sales of footwear

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

47. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital attributable to the Group 2021	2020	Principal activities
PT. Pou Yuen Indonesia	Indonesia	US$122,500,000	100%	100%	Manufacture and sales of footwear
Pou Chen (Cambodia) Co., Ltd.	Cambodia	US$88,040,000	100%	100%	Manufacture and sales of footwear
Pou Chen Vietnam Enterprise Ltd.	Vietnam	US$36,389,900	100%	100%	Manufacture and sales of footwear
Pou Hung Vietnam Company Limited	Vietnam	US$100,000,000	100%	100%	Manufacture and sales of footwear
Pou Li Vietnam Company Limited	Vietnam	US$46,000,000	100%	100%	Manufacture and sales of footwear
Pou Sheng	Bermuda*	HK$53,261,796	62.55%	62.19%	Investment holding
Pou Sung Vietnam Co., Ltd.	Vietnam	US$117,000,000	100%	100%	Manufacture and sales of footwear
Pouyuen Vietnam Company Limited	Vietnam	US$146,406,000	100%	100%	Manufacture and sales of footwear
Prime Asia (Vietnam) Co., Ltd.	Vietnam	US$24,400,000	100%	100%	Manufacture and sales of leather
Shanghai Pouyuen Sports Goods Company Limited	PRC**	US$50,000,000	62.55%+	62.19%+	Retailing of sportswear
Shaanxi Pousheng Trading Company Ltd	PRC**	US$66,000,000	62.55%+	62.19%+	Retailing of sportswear
Shang Gao Yisen Industry Co., Ltd.	PRC**	US$30,390,000	100%	100%	Manufacture and sales of footwear
Shengdao (Chengdu) Trading Co., Ltd.	PRC**	US$22,400,000	62.55%+	62.19%+	Retailing of sportswear

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

47. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/ registered capital attributable to the Group 2021	2020	Principal activities
The Look (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	100%	100%	Trading of footwear
Wuxi Pouyuen Sports Goods Trading Company Limited	PRC***	RMB1,000,000	62.55%+	62.19%+	Retailing of sportswear
Yue Yuen Industrial Limited	BVI	US$625,000	100%	100%	Trading of footwear
Yue De Vietnam Company Limited	Vietnam	US$44,500,000	100%	100%	Manufacture and sales of footwear

* Pou Sheng is a company whose shares listed on the Stock Exchange.

** These companies are wholly-foreign owned enterprises established in the PRC.

*** These companies are wholly-domestic owned enterprises established in the PRC.

The Group acquired additional interest of Kunshan Baowei, which was a joint venture as at December 31, 2020, during the year. Details of the acquisition are set out in Note 39.

\+ These companies were wholly-owned subsidiaries of Pou Sheng as at the end of the reporting period.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The majority of these subsidiaries operate in Myanmar, BVI, Hong Kong, PRC, Vietnam, Indonesia and Cambodia. The principal activities of these subsidiaries are either manufacturing and sales of footwear, property investment, investment holding, retailing of sportswear or inactive.

48. MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2021:

(i) amount due from a joint venture of RMB264,000,000 (equivalent to US$41,474,000) has been settled by transfer of inventories with fair value of US$41,474,000 from Kunshan Baowei; and

(ii) as detailed in Note 39, the Group acquired 45% equity interest of Kunshan Baowei, the Consideration shall be funded and settled by way of transfer of inventories.

Financial Summary

	For the year ended December 31,				
	2017 US$'000	2018 US$'000	2019 US$'000	2020 US$'000	**2021** **US$'000**
RESULTS					
Revenue	9,121,426	9,695,282	10,105,387	8,444,935	**8,533,337**
Profit (loss) before taxation	635,300	439,564	448,438	(51,399)	**175,431**
Income tax expense	(85,967)	(98,448)	(95,438)	(20,962)	**(33,485)**
Profit (loss) for the year	549,333	341,116	353,000	(72,361)	**141,946**
Attributable to:					
Owners of the Company	519,226	307,116	300,546	(90,791)	**115,072**
Non-controlling interests	30,107	34,000	52,454	18,430	**26,874**
	549,333	341,116	353,000	(72,361)	**141,946**

	As at December 31,				
	2017 US$'000	2018 US$'000	2019 US$'000	2020 US$'000	**2021** **US$'000**
ASSETS AND LIABILITIES					
Total assets	8,277,039	8,315,992	8,789,391	8,522,870	**8,638,084**
Total liabilities	(3,606,993)	(3,769,956)	(4,256,300)	(4,148,728)	**(4,033,633)**
Net Assets	4,670,046	4,546,036	4,533,091	4,374,142	**4,604,451**
Equity attributable to:					
Owners of the Company	4,278,660	4,127,500	4,098,706	3,895,854	**4,098,458**
Non-controlling interests	391,386	418,536	434,385	478,288	**505,993**
Total Equity	4,670,046	4,546,036	4,533,091	4,374,142	**4,604,451**

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