2021 Annual Report

Esprit Holdings Limited
Financial Year Ended 31 December 2021

Hong Kong Stock Code 00330
(Incorporated in Bermuda with Limited Liability)

ESPRIT

Corporate Information

Executive Directors
- Ms. CHIU Christin Su Yi
  (Chairman)
  (re-designated as Chairman with effect from 30 August 2021)
- Mr. PAK William Eui Won
  (Chief Executive Officer and Chief Operating Officer)
  (appointed as Executive Director and Chief Operating Officer with effect from 23 September 2021, and became Interim Chief Executive Officer with effect from 26 October 2021 until re-designated as Chief Executive Officer with effect from 1 March 2022)
- Mr. SCHLANGMANN Wolfgang Paul Josef
  (appointed with effect from 28 October 2021)
- Mr. WRIGHT Bradley Stephen
  (appointed with effect from 14 December 2021)
- Dr. WAN Yung Ting
  (Chief Product Development Officer)
  (resigned with effect from 30 November 2021)
- Mr. DALEY Mark David
  (President and Chief Executive Officer)
  (resigned with effect from 26 October 2021)
- Mr. TSCHIRNER Marc Andreas
  (Group Chief Operating Officer)
  (resigned with effect from 8 January 2021)

Independent Non-executive Directors
- Mr. CHUNG Kwok Pan
- Mr. GILES William Nicholas
- Mr. HA Kee Choy Eugene
  (appointed with effect from 13 December 2021)
- Ms. LIU Hang-so
  (appointed with effect from 8 January 2021)
- Mr. LO Kin Ching Joseph

Chief Financial Officer
- Mr. WONG Brian Shek Kae

Company Secretary
- Ms. FONG Yee Mei

Principal bankers
- Hang Seng Bank Limited
- The Hongkong and Shanghai Banking Corporation Limited
- Deutsche Bank AG

Auditor
- PricewaterhouseCoopers
  Certified Public Accountants
  Registered Public Interest Entity Auditor

Principal legal advisor
- Dechert

Principal share registrar
MUFG Fund Services (Bermuda) Limited
4th Floor North, Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

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

Registered office
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Share listing
Listing on The Stock Exchange of Hong Kong Limited since 1993
Stock Code: 00330

Level 1 sponsored American Depository
Receipt program since 2015
Stock Code: ESPGY

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Introduction

"With the current management team in place and dedication from our staff, I am confident that we can and will re-establish ESPRIT as a market leader worldwide."

William Pak

Executive Director, Chief Executive Officer and Chief Operating Officer

Dear Readers,

2021 was a positive year for ESPRIT Holdings Limited and its subsidiaries. We increased our revenue to HK$8,316 million, with net profit attributable to shareholders recording a turnaround to HK$381 million. This is the first financial year recording a profit since the financial year ended 30 June 2017.

We achieved these results because of our hardworking staff at ESPRIT empowered by our new infrastructure and strategies instituted by the current management team, which include:

- Strengthening organizational balance and workplace synergy by migrating selected strategic functions from Germany back to Hong Kong, the company's new international headquarters;

- Efficient cost control;

- Improved inventory and sourcing management;

- Prioritizing E-commerce channels to increase sales and acquire and retain online consumers.

Following the success of these measures, we are making investments to build upon the strong foundation of ESPRIT, including but not limited to:

- Digital Infrastructure: to further grow the E-commerce business, enhance the B2B platform, increase personalized customer experiences, and make ESPRIT a truly omni-present brand;

- Logistics and Supply Chain: to ensure products are delivered to the selected markets with optimized efficiency;

- Marketing: to maximize international awareness of ESPRIT from brand to product and retail experiences, such as limited-edition capsule collections and strategic partnerships;

- Product: to broaden and elevate the brand's product offerings to increase revenue from our loyal core customers and attract new consumer segments.

There are many exciting initiatives that have already taken place in 2021 and will be further developed in 2022. With the current management team in place and dedication from our staff, I am confident that we can and will re-establish ESPRIT as a market leader worldwide. I encourage you to learn more about our collective achievements in the pages that follow and continue to support us.

Sincerely,

William Pak
Executive Director, Chief Executive Officer and Chief Operating Officer

April 2022

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Environmental, Social and Governance

Environmental, Social and Governance

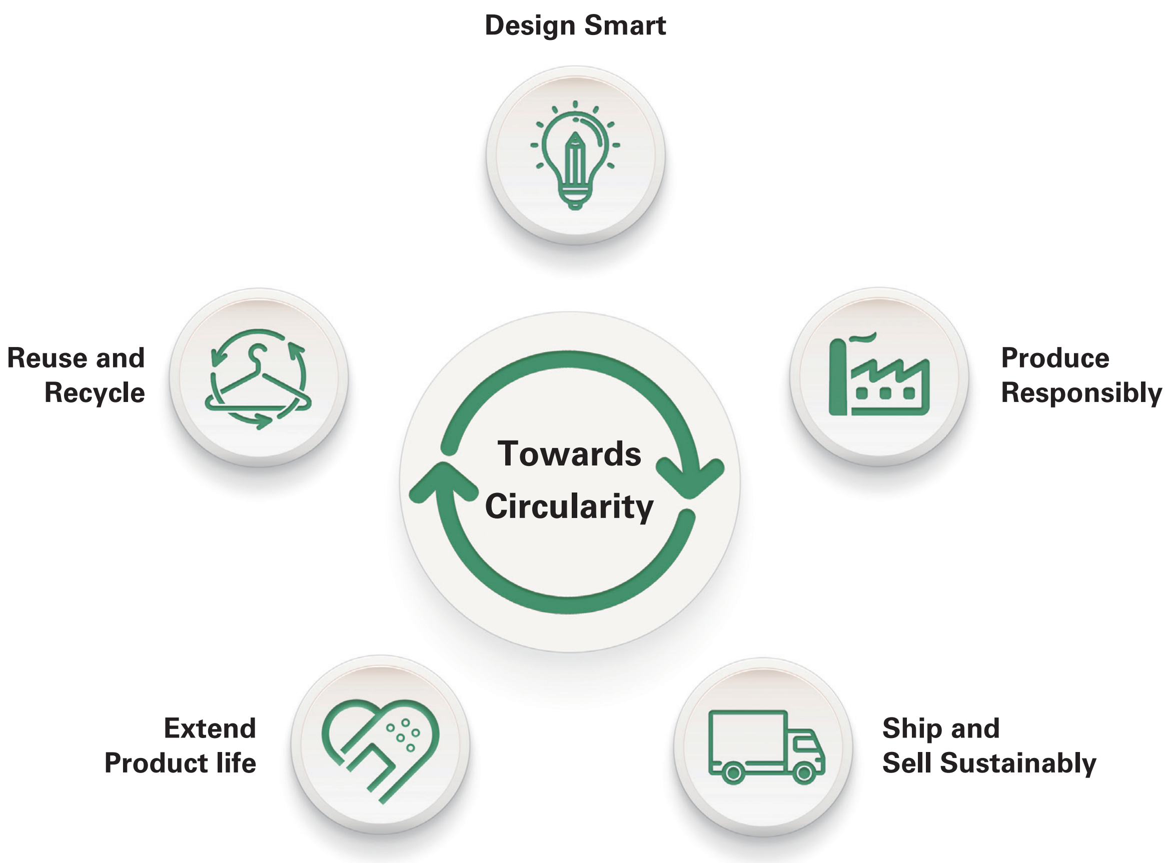
TOWARDS SUSTAINABILITY[1]

The Company's approach to business and to product creation is deeply rooted in its values of environmental sustainability and corporate social responsibility. This has been part of the Company's heritage and culture since its founding in San Francisco in the 1960s and remains as its ethos today. The goal is to continue to be a leader in pushing these ideas to the forefront of the fashion industry.

Since 2018, circularity is the guiding principle behind ESPRIT's strategy. The Company is making progress every year, trying to provide all employees proper trainings on a regular basis.

Looking beyond the current "take, make and dispose" extractive industrial model, the circular concept encompasses how the Company design and create products, which materials are chosen and why, how natural resources are managed, how the Company value human resources, how the Company educate and empower its consumers, and how the Company ensures that ESPRIT products are being used and reused responsibly and effectively for as long as possible in their most valuable form, and hereafter return safely to the biosphere.

The Company is becoming more sustainable and is reaffirming its commitment to supporting the health and safety of the people who create and sell ESPRIT products throughout the value chain. The Company is proud of its achievements in increasing the use of sustainable materials and reducing waste. Over 78% of the garments are made with sustainable materials, in the financial year ended 31 December 2021 (the "Current Year") compared to 60% in 2020 and the Company has started to replace single-use plastic polybags with plastic banderoles made with 30% recycled content wherever possible.



1 More details to be found in the ESPRIT Environmental, Social, and Governance Report 2021.

TRANSPARENCY

The basis for a sustainable supply chain is knowing your partners. Therefore, ESPRIT has been publishing its supplier list since 2016 and takes part in the transparency ranking of run by Fashion Revolution, a non-profit organization. The latest Fashion Revolution Transparency Index was released in July 2021. The Company is proud to announce that ESPRIT ranks amongst the Index's top 10 global brands for the fifth time in a row. This Index is a global fashion activism movement, which campaigns for greater transparency in fashion industry supply chains and has been publishing data since 2017. It analyses and ranks 250 of the world's largest fashion brands and retailers based on their public disclosure of human rights and environmental policies, practices, and impacts, in their operations and supply chains. This is certainly a great achievement, one that reflects ESPRIT's effort in sustainability matters across all business areas and proves that ESPRIT is an ethical and sustainable brand from its inception.

SUSTAINABLE PRODUCTS

Smart design lays the foundation for a truly responsible product. When the Company thinks about responsible products, it focuses on the full lifecycle – from the initial concept, to the farm where the cotton is grown, to the hands that spin and sew, and to the systems that clean, sort, and transport the items.

The focus is on material selection and using more sustainable fibers. The Company aims to increase the use of sustainable materials. It is proud to have already reached the 78% mark in the Current Year. Within this report, the focus is on the main fiber groups that make up approximately 94% of fiber share: cotton, synthetics and man-made cellulosic fibers.

Policies

The Company believes in measuring impact and has created a set of policies, which is the foundation of all its work. The Policy on Raw Materials & Animal Welfare defines the key requirements for materials, fiber bans and background information on animal welfare.

Share of Sustainable Fibers

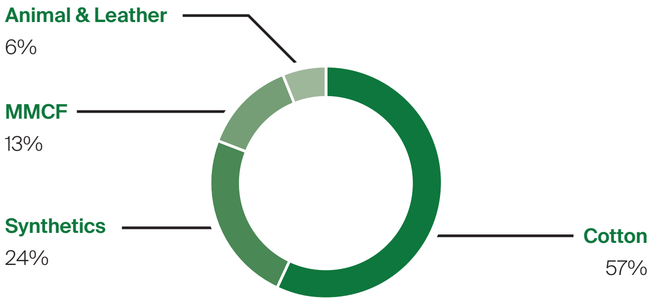
78%	22%
Sustainable Fibers	Conventional Fibers

What is a Sustainable Material?

The Company has a set of materials it considers as sustainable, such as:

- Organic cotton, cotton in conversion and recycled cotton
- Recycled and bio-based synthetics
- Approved man-made cellulosic fibers (MMCFs) based on production methods and feedstock source, with an emphasis on recycled inputs
- Animal-derived fibers that are certified organic, recycled, or responsible (e.g. Responsible Wool)
- Linen and hemp

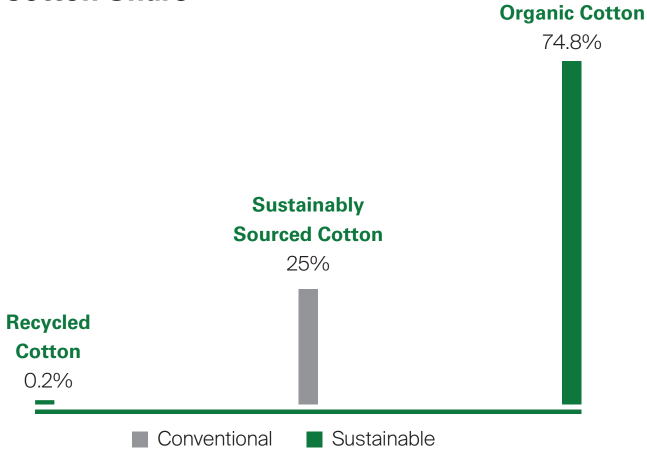
Fiber Share Based on Shell Fabric



COTTON

Cotton makes up more than half of the Company's total fiber usage. Of this cotton, 74.8% is organically grown. Another 25% is sourced through programs aiming for more sustainability in the cotton farming. ESPRIT also aims to fulfil its circularity commitment by incorporating and increasing the use of recycled cotton. The biggest challenge for recycled cotton is the limited availability and the lower level of quality due to a shorter staple fiber. Although the Company foresees quality improvement of recycled cotton in the future, the percentage of recycled cotton available in the market is still comparatively low.

Cotton Share



Organic Cotton

- Organic cotton is grown without synthetic fertilizers and pesticides
- Organic farming practices maintain soil fertility and expand biologically diverse agriculture
- Organic cotton used in ESPRIT products are certified to either the Organic Content Standard (OCS) or Global Organic Textile Standard (GOTS)

Recycled Cotton

- Cotton is collected from pre-consumer waste, such as cutting scraps, or post-consumer waste, such as garment donations
- Production of recycled cotton yarn requires very little water, and saves the water that would otherwise be required to grow new cotton
- Using recycled cotton keeps waste out of landfill and supports the development of a circular economy

Cotton in Conversion

- This is organically grown cotton which has yet to be officially certified according to organic legislation frameworks. The cotton is already grown according to the organic standards of the respective country
- The legislation on organic farming often requires a 2-3 year transition period. During this time, the organically grown cotton is often sold as conventional cotton
- As ESPRIT uses the Organic Content Standard and the Global Organic Textile Standard, both acknowledging the efforts of farmers during the difficult transition time, ESPRIT incorporated cotton in conversion fibers as a preferred material

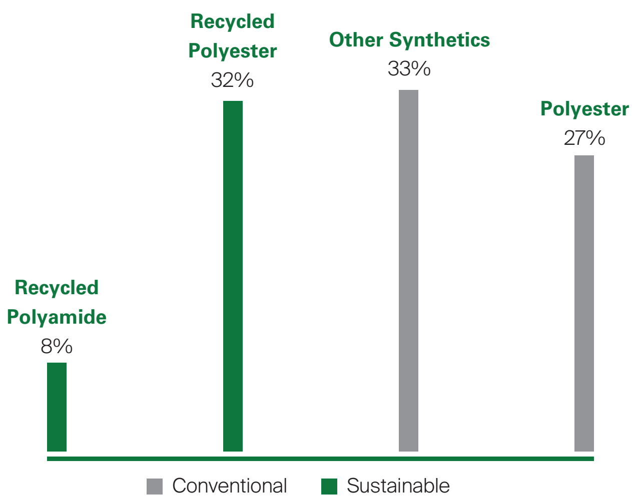
Synthetics

Polyester, polyamide and acrylic are the most used synthetic fibers in ESPRIT products. Synthetic fibers have the advantages of being quick drying, and ideal for very cold and for very warm conditions. However, these fibers are usually derived from petroleum, which is not a renewable resource. Additionally, synthetic fibers do not decompose like natural fibers do. Therefore, the Company keeps the consumption of synthetic fibers at the lowest possible level. The goal is to select more sustainable options such as recycled polyester and recycled polyamide. In the Current Year, the Company overachieved its milestone of 30% sustainable synthetics by 2021 by 10%.

Recycled Synthetics

- Recycled polyester is often made with old PET bottles, and sometimes from old garments
- Recycled polyamide is generally made from old fishing nets, carpet scraps and industrial plastic waste
- ESPRIT products are made with certified recycled synthetic fibers to either the Global Recycling Standard (GRS) or Recycled Claim Standard (RCS)

Synthetic Fiber Share



The Company used more than 11 million old PET bottles in its garments in 2021.

Man-made Cellulosic Fibers

At the end of May 2018, the Company committed to the Roadmap Towards Responsible Viscose as outlined by the Changing Markets Foundation. The Company also defined steps to further promote and improve the sustainable production of viscose and modal fibers. The goal towards this commitment is two-fold. First is to push the wider industry to adopt a closed-loop manufacturing process to minimize the use of harmful chemicals. Second is to promote transparency by mapping the viscose and modal supply chain down to the raw material level. In order to responsibly source cellulosic fabrics, the cellulose needs to come from properly managed forests, as opposed to endangered or old-growth forests.

In September 2015, the Company partnered with Canopy, an environmental non-profit organization that ensures all feedstock for cellulose fibers, such as viscose, lyocell and modal, are not sourced from at-risk or old growth forests. The Company has therefore set up a policy together with Canopy and rely on audits for cellulose fiber producers. The goal is to only use preferred man-made cellulosics by 2023, such as those mentioned here. In the Current Year, the Company used 62% sustainable man-made cellulosics from a responsible wood source with sound manufacturing processes.

MAN-MADE CELLULOSIC FIBERS

LYOCELL

- Lyocell is a cellulose fiber mainly made from eucalyptus trees, which are fast growing and require minimal pesticides and no irrigation
- Lyocell is manufactured in a modern closed loop process that captures and reuses processing solvents
- Lyocell fibers are biodegradable

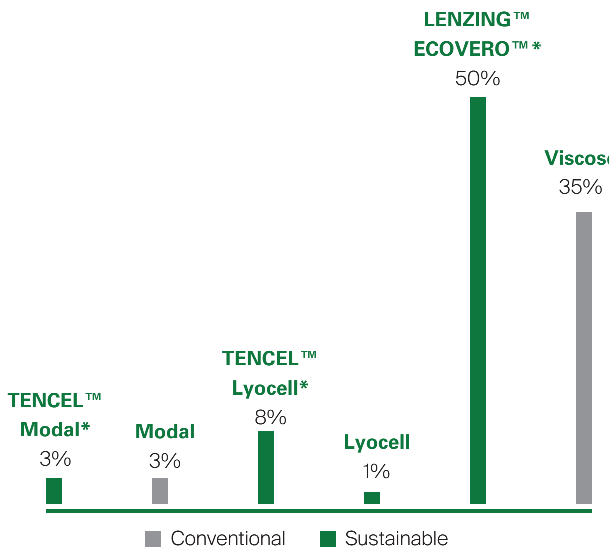
TENCEL™ Lyocell

- TENCEL™ is a trademark of Lenzing AG and comprises lyocell and modal fibers
- Cellulose feedstock is sourced only from sustainable wood sources (no use of wood from endangered forests)

LENZING™ ECOVERO™

- LENZING™ ECOVERO™ viscose has up to a 50% smaller footprint in terms of emissions and water use compared to generic viscose
- Cellulose feedstock is sourced from trees that are grown in certified, responsibly managed forests
- LENZING™ ECOVERO™ fibers are certified with the EU Ecolabel
- LENZING™ and ECOVERO™ are trademarks of Lenzing AG

Man-made Cellulose Fiber Share



* Sourced from companies with sound wood sourcing strategy and policy in place

Due Diligence

Topic	Target by July 2022	Current Year
Transparency	Map and publish Tier 1 and Tier 2 suppliers every six months (ongoing)	100%
	Map and publish key Tier 3 suppliers every six months	33%

Supply chain transparency means more than knowing the manufacturing location. It is also about knowing who the production partners are, how they work, and how to best support them to work in a clean, responsible, and efficient way. The Company's network of suppliers spans across fifteen countries and includes hundreds of globally interlinked partners. Transparency is the foundation for a sound due diligence process.

Esprit has always been welcoming to changes or movements to supply chain legislations. The Company decided to perform an assessment to keep itself prepared as much as possible. In May 2021, ESPRIT achieved a certification with the German government-run "Green Button" standard. This standard is developed by the Federal Ministry for Economic Cooperation and Development. In order to identify risks, the Company performs its due diligence in a systematic way. Since 2021, ESPRIT conducts risk assessment aligned with the Green Button certification and the OECD Due Diligence Guidelines. Segments covered include social, environmental and governance. The Company identifies occurring risks within its supply chain for every country it sources from. Things to consider include certain product types, production processes, and raw materials used. The Company puts focus on the most salient risks to workers, farmers, and related stakeholders. All listed aspects from the OECD Due Diligence Guidelines, including child labour, forced labour, harassment and gender-based violence, greenhouse gas emissions and waste are covered.

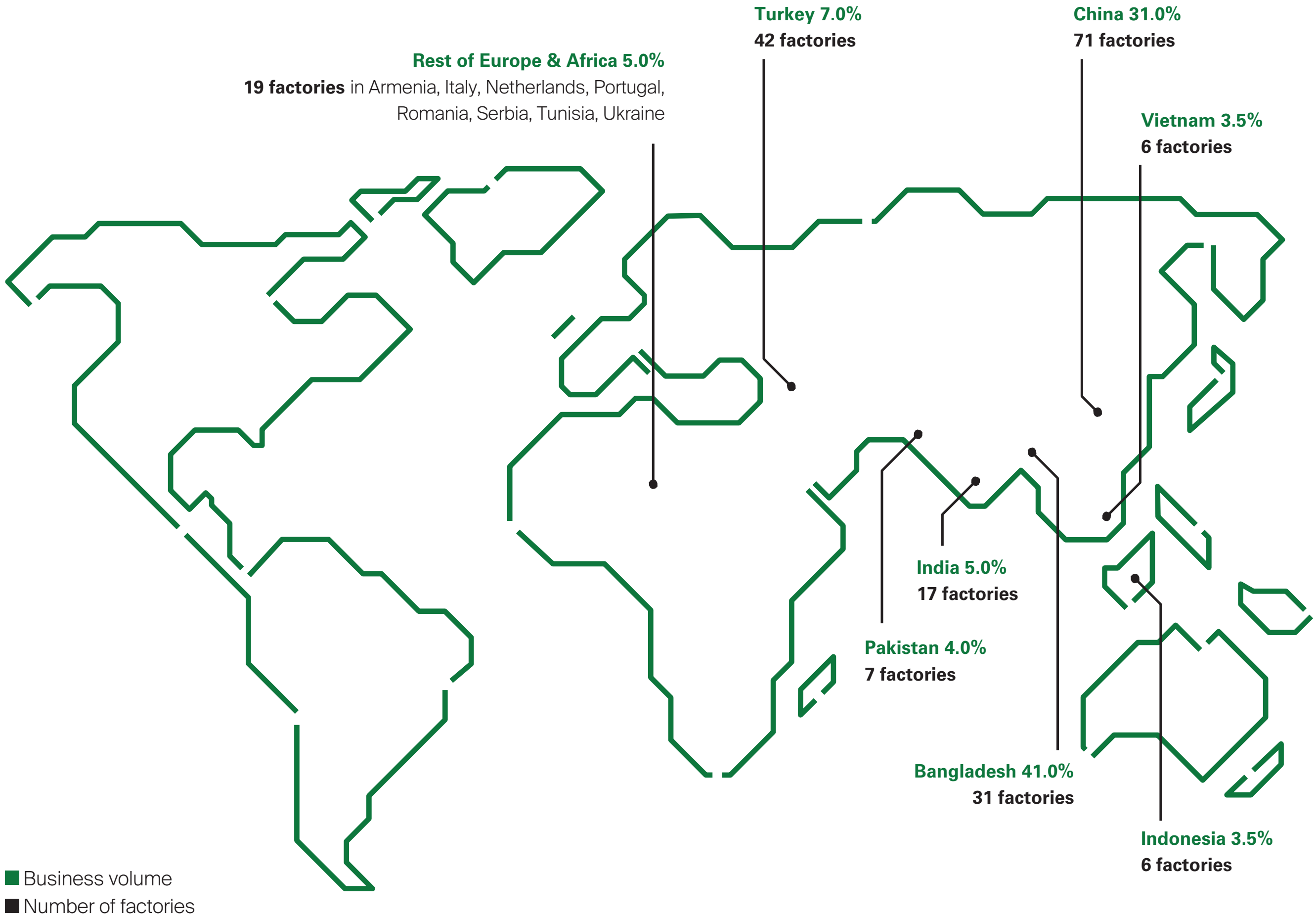
The first step of this process involves monitoring various public and reputable resources such as media outlets, reports from non-profit organizations or institutions, and information gathered from on-going stakeholder consultations. The stakeholder engagement process includes constant dialog with non-profit organizations, unions and other civil society organizations. ESPRIT also collaborated with its suppliers to understand their perception on the risks to ensure the mitigation process includes necessary awareness raising or other activities. The Company added mitigation actions to reduce specific risks after country-regional and product-specific risks were identified. Examples of identified risks include:

- Homeworking across all regions, especially for highly embellished garments
- Unregistered migrant workers or people under special protection, especially in countries with a higher rate of migrants
- Forced and child labour in cotton farming
- Exposure to hazardous chemicals especially from viscose production plants, which can impact workers' health and nearby communities

Furthermore, ESPRIT has a publicly available supplier list, including suppliers of Tier 1, Tier 2 and Tier 3 level. The Company began publishing its supply chain partners on the ESPRIT website in 2016.

ESPRIT will continue to monitor the development process of supply chain law in Germany, ensuring all obligations to legislative updates are planned and actioned for implementation.

Where ESPRIT is Made



PEOPLE

The Company wants its garments to be produced ethically and according to national and international legislation. The Supplier Code of Conduct is the foundation to ensure safe and fair working conditions in the factories where ESPRIT products are made.

Specific to the Company, all suppliers and subcontractors must fulfil strict requirements prior to production. As part of the Company's onboarding procedure, all potential new suppliers are checked according to their social compliance, safety, and quality performance.

The Company has policies and partnerships to facilitate this alignment as well as audits to support and confirm it.

Policies

The Company is convinced that a strong policy framework is the basis for a sustainability program. Therefore, it has several policies in place.

Policy on Human Rights

All of the Company's Social Standards are based on the October 2019 Policy on Human Rights, which clearly defines the ethical requirements in writing.

Supplier Code of Conduct

All factories producing ESPRIT garments must comply with the Company's Supplier Code of Conduct which is part of the basic supplier agreement that all suppliers must sign when they begin working with the ESPRIT brand. Detailed guidelines have been developed to help the suppliers to implement the ESPRIT Supplier Code of Conduct. These guidelines describe the internal processes that the suppliers must establish to meet the Company's social standards. The guidelines also include remediation measures that suppliers must immediately implement in the event of failure to meet the Company's standards.

Sourcing Policy

The Company's policy on Sourcing Practices sets forth its expectations on suppliers related to transparency, legal compliance, waste, greenhouse gas emissions GHGs, water, and chemical management, as well as minimum requirements.

Partners

The working conditions at suppliers' factories is a serious matter and having solid partnerships is the best way to achieve a positive impact. The Company is a member of several industry initiatives which helps working with other companies and stakeholders to align strategic approaches and build collective momentum toward shared goals.

The Company works with the following multi-stakeholders and industry initiatives to achieve industry-wide improvements:

- Fair Labor Association
- ACT on Living Wage
- ACCORD on Fire and Building Safety
- German Partnership for Sustainable Textiles

Social Compliance Audit

Topic	Target	Current Year	
Social compliance	All factories (Tier 1) have at least a C-rating (acceptable) in their social compliance audit (ongoing)	99%	

Worker Code of Conduct

At the beginning of 2020, the Company began to implement a Worker Code of Conduct, according to the requirements of the Fair Labour Association. The Worker Code of Conduct is a shorter and simpler version of the Supplier Code of Conduct, aimed at informing workers of their rights. Due to the Pandemic, the Company could not fully implement this Code in factories as intended. However, this process will continue as soon as travel restriction policies are lifted. Currently, the Worker Code of Conduct is available in these languages: Bengali, Chinese, Hindi, Romanian, Turkish, Urdu and Vietnamese.

Grievance Mechanism

The Company also developed a grievance mechanism for key sourcing countries – Bangladesh, China and Turkey. The goal is to have direct and open communication channels with the workers should they need to address concerns. Local-language posters are placed on factory walls with multiple contact points to reach the local Sustainability Team.

Living Wages

A living wage should cover a decent standard of living for the worker and their family. It is ESPRIT's minimum requirement that workers in its partner factories are paid according to the law with regards to minimum wage, overtime payment and statutory benefits. The Company is aware that those wages are often not enough to afford a decent standard of living.

As part of the Company's living wage efforts, ESPRIT is a signatory of ACT (Action, Collaboration, Transformation), which is a ground-breaking agreement between global brands, retailers and trade unions to transform the garment and textile industry and achieve living wages for workers through industry-wide collective bargaining linked to purchasing practices. ACT members developed an interactive engagement tool with the aim to assess their own purchasing practices internally and for suppliers to assess brands' purchasing practices so ACT members can take action for improvement. Responses were collected from February to May 2021. The Purchasing Practices Self-Assessment asked employees from all ACT brand members to assess the purchasing practices of their organisation. Respondents came from key product supply chain functions, from designers to merchandisers to buyers.

In parallel, suppliers were asked to complete the Purchasing Practices Supplier Assessment to evaluate the purchasing practices of individual brands they supply product to. The surveys were implemented across all key garment manufacturing countries including the four countries where ACT directly operates in: Bangladesh, Cambodia, Myanmar and Turkey. With 1,831 responses in the brand survey and 2,268 in the supplier survey, the ACT Purchasing Practices Surveys 2021 was the largest survey ever undertaken by both suppliers and brand employees on purchasing practices.

The results provide important insights to complex business relationships between ACT brand members and their suppliers. The report found that the focus areas of the ACT Global Purchasing Practices Commitments remain the most relevant areas, affecting not only the entire supply chain but also requiring the most attention. These include price quotations and negotiations, terms of payments, sourcing practices, planning and forecasting, as well as training and awareness. According to the suppliers, purchasing practices that are most relevant to create conditions required to pay a living wage to workers are price negotiations (57%), order placement (49%) and prices quotations (48%).

Purchasing Practices Evaluation

In total, 27 employees from ESPRIT took part in the Purchasing Practices Self-Assessment and 74 suppliers from ESPRIT responded to the Purchasing Practices Supplier Assessment. These assessments gave suppliers the opportunity to give direct and anonymous feedback to the Company's purchasing practices.

Out of 16 sections, the Company completed a detailed analysis of its status. ESPRIT scored above average in most sections and saw clear outcomes in areas such as incentives, compliance scoring, and order placement.

Measuring wages

Next to ESPRIT'S approach in ACT, the Company started to monitor wage data to get a better overview on workers' actual salaries and identify urgent areas for improvement. As a member of the Fair Labor Association (FLA), ESPRIT used the FLA dashboard to monitor workers' wages. The Fair Compensation Dashboard stores workers' wage data from suppliers of participating brands across the globe. The suppliers enter the wage data which is then reviewed and verified by brands and the FLA. The Fair Compensation Dashboard makes it easier for the Company to find differences between living wages and existing wages in specific factories, as well as to effectively closing those gaps.

Roll-out

In 2019, the Company piloted the Fair Compensation Dashboard to five strategic suppliers. During the pilot, the Company focused on gathering correct and accurate data to ensure it has solid data starting from 2020. This data was gathered before the COVID-19 pandemic ("Pandemic") and therefore reflects a significantly different economic reality for those workers and factories.

Since 2020, ESPRIT rolled out the Fair Compensation Dashboard in three countries: Bangladesh, India and Turkey and gathered wage data from 67 factories. As a next step, the Company analyzed the data, especially on plausibility which is now finalized for 30 factories. Due to the Pandemic, the roll-out program and data gathering process has been very challenging and slow, as in-person training and visits were limited.

Fire and Building Safety

The Company was one of the first fashion brands to sign the ACCORD on Fire and Building Safety, which was launched following the collapse of the Rana Plaza complex in 2013. The ACCORD is a broad coalition of brands, trade unions, civil society and factories. It addresses fire and building safety in the ready-made-garment industry first in Bangladesh, and now internationally, through a legally binding agreement with a five-year term.

The Company made a commitment to responsibly source from Bangladesh. There are still improvements that need to be made regarding fire and building safety in Bangladesh. As a consequence, the textile industry in Bangladesh is experiencing a substantial transformation in terms of fire safety and is improving its safety standards. This makes the ACCORD an essential part of the work in Bangladesh. The Company is committed to such cooperation in the future. Therefore, ESPRIT became a signatory of the new Accord agreement in September 2021. This means that brands will keep monitoring factories' progress on remediation of Fire, Electrical & Structural issues, and that a system has been established among member brands to ensure resolution of grievances is raised through the Accord's grievance mechanism.

The Pandemic has limited the ability of the Company's partners to conduct third party audits in factories in person. Therefore, the remediation efforts currently stand at 95%.

PLANET

The Company's goal to create a positive impact on the planet is by ensuring responsible management of resources (such as water), responsible selection and safe use of all production inputs (such as chemicals), and the control of all production outputs and emissions (such as wastewater, greenhouse gas emissions, and eventually the product itself).

Calculating carbon footprint is not an easy task, especially for a company that does not own its production units. In the Current Year, the company has therefore rolled out its data system to retrieve carbon footprint data from its suppliers, based on ESPRIT's production volume. These-so-called Scope 3 emissions are by far the majority of the brand's footprint. However, there is currently not one systematic approach to calculate these emissions. Together with ESPRIT's suppliers and partners, the Company is currently working on solutions and are proud to show for the second consecutive year a much more comprehensive carbon footprint. As data gathering is a key aspect to calculate the status quo, the next step requires the need to consider reduction targets. This will be one of ESPRIT's biggest challenges in the coming years, but the Company is confident that it can embrace new processes.

Detox Commitment

In December 2012, the Company signed the Greenpeace Detox Commitment, starting with the effort to phase out eleven groups of hazardous chemicals from its supply chain by 2020. To achieve zero discharge of hazardous chemicals by 2020, the Company launched a major detox program within its supply chain. The program is based on building awareness and knowledge among wet processing suppliers about chemical and environmental management, process control and wastewater testing.

In support of this goal, the Company was among the first members of the Zero Discharge of Hazardous Chemicals Group ("ZDHC"). This group consisting of industry-leading brands and stakeholders has come together to develop tools and protocols to empower the entire supply chain and move the industry forward. The Company is proud to be part of this pioneering initiative, and to have a leadership role in the work to eliminate the discharge of hazardous chemicals in fashion manufacturing.

Company Standards

The Company has two important documents setting boundaries for the use of chemicals. While the Restricted Substances List (RSL) focuses on the amount of restricted chemicals in the final ESPRIT product and its packaging, the Manufacturing Restricted Substances List (MRSL), developed together with other brands within the ZDHC, focuses on hazardous chemicals that must be phased out from chemical formulations used in production. This includes chemical restrictions and limits for wastewater.

Audits During the Pandemic

Topic	Target	Current Year
Environmental assessments	100% of key wet process mills have been audited based on our audit protocol	 26% (due to COVID -19 travel restrictions)

The Company has developed its own in-house assessment to cover environmental management and to make sure final garments as well as fabrics are made in a responsible way. These assessments allow the Company to understand the performance level of the suppliers in the supply chain and forms the baseline for continuous improvement. The audit protocol involves visiting factories to review processes and documents, observe activities, and talk with workers. Due to government-imposed travel restrictions, only a fraction of the suppliers were audited in person. Once travel restrictions are lifted, the Company expects to continue its progress toward the 100% target. Results show that it is still important to verify data and support suppliers at the factory-level.

Wastewater Testing

Topic	Target	Current Year	
Wastewater testing	100% of wet processing mills test their wastewater according to the ZDHC Wastewater Guidelines	 74%	

In theory, suppliers utilizing the ZDHC Manufacturing Restricted Substances List can be confident that wastewater emitted after production is free of hazardous chemicals. However, it is not always that simple. Therefore, the Company has a wastewater testing program according to the ZDHC Wastewater Guidelines to ensure the water leaving each wet processing factory meets its requirements, and is safe for the environment and the community.

In the Current Year, 74% of key wet processing mills tested their wastewater according to the ZDHC Wastewater Guidelines. The industry still has work to do in this area, and the Company cannot change the industry in a sustainable way alone. To build off of the progress made so far, the Company will continue to apply learnings to the broader goal of eliminating the discharge of hazardous chemicals, and will continue monitoring its factories with its own audit protocol.

SHIP AND SELL SUSTAINABLY

When thinking about how to ship and sell sustainably, the Company considers issues such as waste and carbon footprint. Addressing each of these areas require partnerships with the suppliers and vendors, creative problem-solving, innovative materials, and detailed monitoring and measurement.

Waste

Given the large quantity of plastic waste in the world, the Company created a plan to reduce usage of polybag and to find new innovative packaging solutions. Tackling waste also requires a study on packaging since this is the main source of generating garbage, including cardboard and single-use plastics. At some point during its lifecycle, nearly every garment is folded into a plastic polybag for the purpose of protection. While it is important to safeguard products when they are transported from the factory to the warehouse, and from the warehouse to the customer, all these packaging materials ultimately create more waste.

The Company has found an innovative method to reduce plastic waste by folding garments in a different way, allowing staff to replace the polybag with a small strap. Although the strap is currently made of plastic, the Company has plans to replace it with decomposable materials in the near future.

In Spring 2020, the Company introduced plastic banderoles which includes 30% recycled content for non-crease sensitive pants. The use of these roll-packs for denim products has achieved a 55% – 86% reduction of plastic packaging per item (depending on the product). For delicate products that require a polybag for the sake of product protection during logistic handling, the Company has introduced a smaller and lighter polybag that is made with 30% recycled content.

Moving forward, the Company plans to expand green innovation to other product categories to further reduce unnecessary plastic use.

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Management Discussion and Analysis

Management Discussion and Analysis

BUSINESS OVERVIEW

The results in this annual report are testament to the Company's collective efforts by devoted staff across ESPRIT offices and operations. It is also a clear reflection that the current management team (the "Management") has instituted the correct infrastructure and strategy to re-establish ESPRIT as a market leader.

The financial year ended 31 December 2021 (the "Current Year") was challenging for the Group and the Management. However, the Company has been showing signs of improvement and the Management is pleased to announce that the consolidated net profit before tax of the Group for the Current Year was approximately HK$386 million as compared to the consolidated net loss before tax of HK$396 million for the six months ended 31 December 2020 (the "Corresponding Period"). The improvement in financial results can be attributed to:

1) The improvement in sales with higher gross profit margin for the Current Year as compared to the Corresponding Period;

2) The positive results of the implementation of efficient cost control measures by the Group;

3) Improved inventory management; and

4) Growth in E-commerce.

Starting in late 2020, the Group has begun migrating selected strategic functions from Germany back to Hong Kong, the Company's new international headquarters. This decision was made to create a stronger organizational balance and workplace synergy between the two offices. The migration exercise was undertaken when the present leadership team took over the reins of the Group under unfavourable circumstances:

1) The Group had just completed major restructuring activities resulted by the Protective Shield Proceedings (the "PSP");

2) Prior to the current Management, the Group had endured many years of unprofitable operations due to poor decision-making. Up until the Current Year, the Group had suffered four consecutive years of financial loss, beginning with the financial year ended 30 June 2018. During those four consecutive financial years, the Group recorded total losses attributable to shareholders of the Company of approximately HK$9.1 billion; and

3) The COVID-19 pandemic (the "Pandemic") disrupted the world's economy and supply chains. The retail brick and mortar stores have been suffering since 2020, with the Pandemic reshaping consumer buying behaviour and disruptions to shopping habits due to government enforced social distancing policies and lockdowns.

When the Management came on board, they immediately carried out rigorous and effective cost cutting measures such as:

1) Closing unprofitable retail shops, optimizing rental agreements, and focusing on strategically important locations;

2) Terminating unprofitable product lines;

3) Instigating stringent inventory control measurements to ensure that inventory is kept at an optimal level.

The above measures greatly reduced operating costs and as a result, freed up resources to allow for the expansion of other profitable opportunities elsewhere. Furthermore, the Group's businesses have been restructured to contract non-remunerating segments while resources have been allocated to rewarding ones. To ensure there are enough resources to capture profitable opportunities and to grow businesses with good prospects, the Company undertook a 1-for-2 Rights Issue, raising approximately HK$689 million net cash proceeds as new equity.

Regarding the brand, the Management is determined to revive ESPRIT's former glory by sharpening its brand identity by placing more commitment to be eco-friendly and sustainable, improving customer experience, raising the quality and intrinsic value of its merchandise, and enhancing its product portfolio to fit with the Company's mission of making its customers "feel good to look good".

ESPRIT's avowed mission and long-standing commitment to sustainability is well known in the apparel industry. The Group has always been working to develop cutting-edge materials that set new standards towards the betterment of the environment. The Company further advanced its ESG strategies to establish ESPRIT as the pioneer in the industry through increasing the use of sustainable fibers and researching new innovative product options to support the circular fashion approach to ensure environmental awareness as a key message in its projects.

To achieve the above, the Management has identified 4 key pillars of growth for ESPRIT that are paramount to retaining loyalty of existing ESPRIT patrons and to attract new customers:

1. Sourcing and Procurement

The Company established new procedures for supplier selection with the aim to enhance ESPRIT's business growth in a sustainable manner. The Management decided to only select suppliers who are reputable and financially sound, possess a proven solid track record, and are willing to offer favourable terms.

Further tightening of quality control measures throughout the sourcing and procurement process help ensure that ESPRIT products represent consistent stellar quality.

The Management made substantial improvement to revamp ESPRIT's global logistics solution and is therefore able to minimize channel inventory, while boosting speed-to-market by streamlining and stamping out any current logistical inefficiencies. Embedded in the integrated solutions for global relaunch, the Company has ensured that its new logistics partners are capable of not only delivering the shortest path from factories to customers, but also able to offer an efficient aftersale service network.

2. Marketing and Product

The Company actively put extra attention and effort to revitalize the notion of spontaneity and joie-de-vivre back into ESPRIT's iconic brand image. These efforts are now visible in its store design, product offering, packaging, advertising look and feel, and outreach on social media. The Company is working on a new and enhanced digital brand platform to retain current customers and attract new customers – one that connects the audience closer to the ESPRIT brand through a common dialog.

The Company will continue to invest in proof of concept such as capsule collections and crossover collaborations to convey a more focused message on the brand's promise, which is to create joy in everything it does.

3. IT, Internet, and E-commerce

The Company has successfully achieved digital expansion through working with E-commerce Partners' Marketplaces. These partners have been carefully selected and are reputable, financially stable, and have excellent track records. Utilizing this approach, the Company further expanded into other markets through its partners' existing online presence. This brings convenience to customers by offering additional sales channels and enables ESPRIT to become a true omni-channel fashion brand.

ESPRIT came in first place in the E-fashion loading speed ranking. This was announced by TextilWirtschaft and Bagend, an E-commerce service provider based in Hamburg, who examined the 50 top-selling online stores in the fashion industry. Based on customer centric design and process flow, the entire shopping and purchasing experience is currently being revamped, and customer touch points will be reconfigured and elevated. The global E-shop will be optimized to provide customers with a unique shopping experience, while increasing conversion rate and the number of items purchased per transaction. The purchasing system for wholesale partners will be integrated to ensure a seamless merchandising experience and smooth delivery of products.

A global E-commerce expansion plan has been meticulously prepared with the aim to relaunch in previously exited markets and expand into various untapped regions of the world in order to unlock the full potential of the brand. Each individual E-shop website will be localized to match the local consumers' habits and preferences and the demographics in the target markets. Logistics arrangements are also being created with the goal of achieving a hassle-free shopping experience for the consumer.

4. The ESPRIT Brand Story

Rediscovering ESPRIT's prestigious and longstanding brand heritage is a cornerstone to the revival of the Company. By delving deeply into its roots, the Company has been re-engineering its DNA and placing it at the center of the ESPRIT name once again, as well as in its product and design. The brand's core product philosophy going forward is "comfort wear with a twist". The Company continues to put extra focus and emphasis on circular fashion – making sustainable clothing that is of high-quality and using innovative fabrics that is also good for the environment. It is also striving to achieve a perfect balance between design and technology – one that provides comfortable, versatile wardrobe pieces that makes people feel happy and joyful for many years to come.

Some notable events for the Current Year included:

- Developed plans for ESPRIT's first fast-to-market product capsules;

- Successfully launched three globally exclusive capsule collections with a leading digital media company through its E-commerce platform;

- Refined its vendor base to ensure better product costing and quality as well as faster speed to market;

- Consolidated key vendor partners by reviewing the supplier base and refocusing them on their core capabilities. This also included engagement of new potential experts who have capabilities for innovations and in new countries of origins;

- Realigned marketing functions and created a new organizational structure to become internationally focused, in preparation for accelerated growth in 2022. These efforts included merging the digital and marketing departments for a more centralized and cohesive direction and execution;

- Adaptive and fast responses taken by the Company's Europe operations to challenges posed by government imposed social restrictions due to the Pandemic. Programs and promotions were undertaken to enable flexible and immediate adjustments to continuously changing social COVID-19 restrictions;

- Achieved healthy inventory levels despite another year of unpredictable developments due to the Pandemic. This was made possible by improvement on the tracking and forecasting of merchandise, quicker call-to-action to the ever-changing market restrictions such as disruptions to global supply chain;

- Accomplished digital transformation for key milestones (such as digital customer loyalty, digital sell-in, digital customer meetings, digital product meetings) and achieved efficiency gains resulting in significant savings in operating expenses;

- Tightened focus on creative design and storytelling. More specifically, the brand elevated the aesthetic and creative direction of its visual brand content across all channels by restoring ESPRIT's well-perceived iconic visuals with the introduction of a more understated, timeless yet modern brand images interlaced with a new and improved logo;

- Revised ESPRIT's GoToMarket strategy and created inspiring brand assets, available to wholesale customers first and later to the consumer and ad campaign level. The improved aesthetics created a coherent look and feel which is evident on ESPRIT social media channels resulting in increased engagement;

- Achieved high rate of conversions across channels;

- Successfully relaunched and rolled-out new E-shops in 29 countries throughout Europe, which builds a strong and sustainable foundation for future global expansion. Personalization of the digital customer journey has now been initiated and will prove to be the next milestone in customer acquisition and retention;

- Introduced live shopping events. This initiative was well accepted in Germany and has great potential to grow as a new and fast-growing sales channel in Germany and beyond; and

- Focused on a digital-first approach by increasing online orders via the new E2B wholesale platform. The Company's omnichannel services allowed partners to have better access to the brand's E-commerce stock pool and notification of their bestsellers.

FINANCIAL REVIEW

The financial year end date of the Company has been changed from 30 June to 31 December commencing from the financial period ended 31 December 2020. Due to the change of the fiscal year end date, the Corresponding Period covered a period of six months from 1 July 2020 to 31 December 2020. The comparative figures hence are not directly comparable.

Due to the insolvency proceedings that took place by the Düsseldorf District Court of Germany, six German subsidiaries and their fourteen subsidiaries (together the "G20 Companies") had to be deconsolidated from 1 July 2020 to 30 November 2020 (the "Deconsolidation"). During the period of Deconsolidation, the G20 Companies have been recognized in the Group's consolidated statement of profit or loss as share of results from associates.

Results of Operations

The following table summarizes the results of the Group for the financial year ended 31 December 2021 and the six months ended 31 December 2020.

Consolidated Statement of Profit or Loss

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Revenue	**8,316**	**886**
Cost of purchases	(4,274)	(517)
Gross profit	**4,042**	**369**
Gross profit margin	**48.6%**	**41.6%**
Staff costs	(1,146)	(251)
Occupancy costs	(255)	(49)
Logistics expenses	(538)	(54)
Marketing and advertising expenses	(446)	(18)
Depreciation of property, plant and equipment	(135)	(22)
Depreciation of right-of-use assets	(542)	(99)
Impairment loss on property, plant and equipment	–	(7)
Write-back of provision/(provision) for inventories, net	140	(180)
Provision for impairment of trade debtors, net	(35)	(37)
Impairment loss on right-of-use assets	(15)	(6)
Loss on deconsolidation	–	(1,664)
Other operating costs	(654)	(235)
Operating profit/(loss) (EBIT/(LBIT))	**416**	**(2,253)**
Share of results from associates	–	1,939
Loss on remeasurement	–	(69)
Interest income	2	2
Finance costs	(32)	(15)
Profit/(loss) before taxation	**386**	**(396)**
Income tax expense	(5)	(18)
Profit/(loss) attributable to shareholders of the Company	**381**	**(414)**

Note: This table summarizes the results of the Group including both continuing and discontinued operations.

Revenue Analysis

The Group is principally engaged in the retail (including E-shop) and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally renowned ESPRIT brand name. For the financial year ended 31 December 2021, the Group recorded revenue of HK$8,316 million (for six months ended 31 December 2020: HK$886 million).

Due to the Deconsolidation, the revenue for six months ended 31 December 2020 only contains the figures of the G20 Companies from December 2020 in which all operating businesses were consolidated in full. For the period from 1 July 2020 to 30 November 2020, only the operating subsidiaries in America, Netherlands, Switzerland, Spain and Luxembourg were included in the revenue of the Group.

The revenue of the Current Year was in the same level with that of 2020, when comparing against a like for like 12-month period and after removing impact of the Deconsolidation. Revenue in 2021 was again disrupted from lockdowns in the Company's major European markets during the first quarter and from increased restrictions on entry requirements into stores during the fourth quarter. In many retail stores, customers were legally required to provide proof of COVID-19 vaccination to gain entry.

Group Revenue Channel Mix

Group revenue is divided into 3 main channels: E-commerce, wholesale, and owned retail stores. In the Current Year, which was heavily affected by the Pandemic, each channel accounted for the Group's revenue in the ratio of 44:35:21 respectively.

E-commerce

As the ESPRIT brand website and third party E-commerce partners continued to trade during lockdowns, a large portion of sales were generated online. This business model allowed the Company to mitigate some of the negative impacts of the Pandemic in the retail segment.

Revenue in the E-commerce channel increased from HK$197 million to HK$3,621 million in the Current Year. Due to the short fiscal year in 2020 and the Deconsolidation, only one month of E-commerce sales was included in the Corresponding Period. In actual terms, E-commerce was the best performing channel, having a low double-digit growth versus a like for like in 2020. The growth can be attributed to a natural customer shift to making purchases online due to entry restrictions to brick and mortar stores, a strategic increase in digital marketing efforts, and less number of returned purchases during the lockdown period. The Group remains confident that the Company will see further future growth in the E-commerce channel.

Wholesale Business

Wholesale revenue increased from HK$291 million to HK$2,853 million in the Current Year. This was due to the short fiscal year in 2020 and the Deconsolidation. On a like for like basis, wholesale channel revenue saw single digit growth in the Current Year, and to a larger extent compared to the Company's retail operations. This can be attributed to a partial mix of wholesale customers in the online market, and partially due to the location of physical franchise stores compared to retail stores. The Pandemic has accelerated the future of work trends where many people work from home or remotely, which contributed to a decline in footfall in major cities, and increased traffic to local high streets. ESPRIT's franchise network has a larger mix of stores in local high street locations than in its portfolio of retail locations. The effects of the Pandemic also hampered revenues in ESPRIT's wholesale channel; however, the Company expects growth in 2022 as Pandemic related social restrictions gradually ease.

Retail Business

Retail revenue increased from HK$375 million to HK$1,730 million in the Current Year. This was due to the short fiscal year in 2020 and the Deconsolidation. On a like for like basis, comparing the same number of retail locations year on year, retail revenues for the Current Year saw a small increase. The government-imposed restrictions placed on European retail stores in 2021 were of a similar magnitude to those in 2020. The retail business industry is expected to improve significantly in 2022 as pandemic related restrictions become more relaxed.

Gross Profit Margin

For the Current Year, gross profit margin was 48.6%, which is 7.0% points higher than the Corresponding Period. The primary reason for growth was having a smaller number of discounted products in the Company's retail business compared to the Corresponding Period. The lockdown in April 2020 and subsequent decline in foot traffic to retail stores generated excess stock levels. Several retail stores closed during the Insolvency Proceedings, and the amount of markdown stock was substantially increased in those respective stores during the last months of property lease. Sales generated from markdown products enabled some excess stock to be cleared, but profit margin was lower as a result. The gross profit margin was comparatively higher in the Current Year despite a second lockdown in Europe, which occurred from December 2020 through February 2021. The inventories ordered for the months impacted by the second lockdown was purchased at a lower volume, hence there was less excess stock and in turn, this generated a higher retail margin.

Operating Expenses

Although operating expenses increased 38% in the Current Year compared to the Corresponding Year, this was not a like for like comparable figure due to a short fiscal year, the Deconsolidation, and insolvency gains in the Corresponding Period. In actual terms, the Company saw a significant reduction in operating expenses compared to a like for like twelve month fiscal year 2020. This can be attributed to reasons such as reduction in headcount following the structuring activities during the Insolvency Proceedings, closures of unprofitable retail stores, government contribution to personnel costs during lockdown, government subsidies for loss of earnings during lockdown, reduction in stock write-off provision, and a reduction in professional fees incurred during the Insolvency Proceedings. The Group continues to maintain a tight control of all costs and expenditures, and the stricter cost approval process that was introduced during the Insolvency Proceedings continues to remain in place.

Retail Restrictions in European Markets

Retail stores in Germany were forced to close from 16 December 2020 to 7 March 2021, where the majority of the re-openings were on an appointment-only basis and for one customer per appointment. Even with strict retail policies, consumers still had an appetite for spending. There were lockdowns in Switzerland, Poland, Austria and France, and the Group's outlets encountered lower demand in markets which were allowed to open. In the second half of 2021, Europe had minor full-store lockdowns and local governments applied stricter entry restrictions to retail businesses. In the fourth quarter of 2021, Germany required people to present proof of vaccination to enter stores. Although these restrictions had a direct impact to turnover in-store, it consequently provided a positive boost to E-commerce.

Working Capital Management

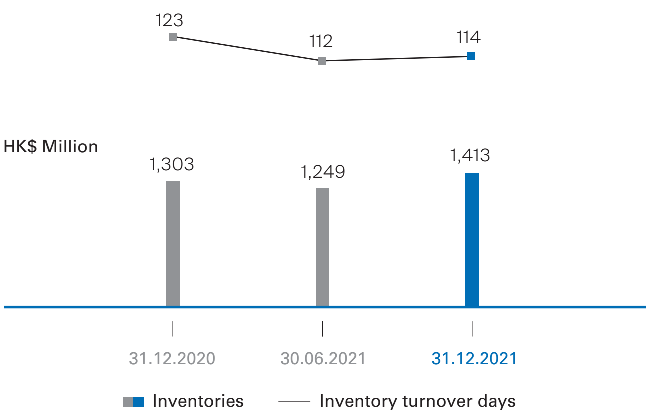
Retail restrictions imposed by many governments as part of the necessary countermeasures against the Pandemic have challenged the Company to further optimise its working capital management, particularly with respect to inventories and trade debtors.

Inventories

As at 31 December 2021, the inventory balance amounted to HK$1,413 million (31 December 2020: HK$1,303 million), representing an increase of HK$110 million (8% year on year). The increase was mainly due to the reduction of special stock provisions related to the Pandemic. The inventory balance before write downs increased by 2.8% and this was due to new merchandise for the Spring 2022 season.

The inventory turnover days was 114 days as at 31 December 2021 and 112 days as at 30 June 2021, which was a notable achievement as compared to 123 days as at 31 December 2020.

Inventories

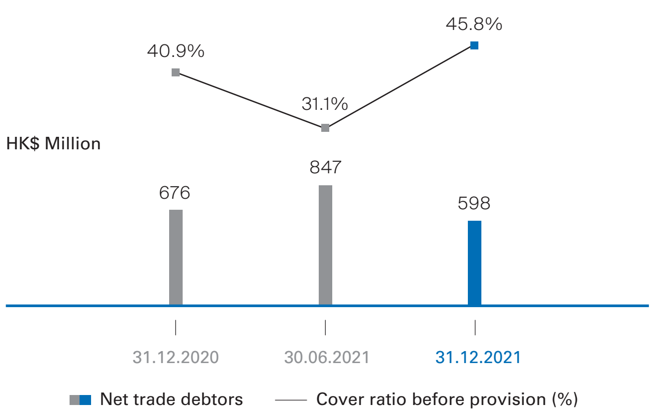


Net Trade Debtors

As at 31 December 2021, net trade debtors amounted to HK$598 million (31 December 2020: HK$676 million), representing a decrease of HK$78 million (12% year on year). The provision for impairment of trade debtors amounted to HK$194 million (31 December 2020: HK$254 million). In December 2020, trade debtors were unusually high due to the lockdown which occurred at the end of 2020.

The cover ratio of insured and guaranteed trade debtors (over gross trade debtors) as at 31 December 2021 increased to 45.8% (31 December 2020: 40.9%).

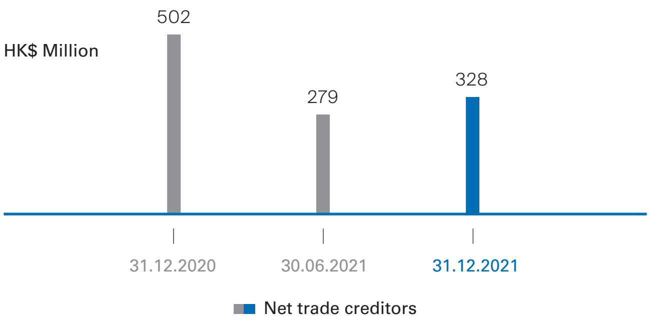
Net trade debtors



Net Trade Creditors

As at 31 December 2021, trade creditors was recorded at HK$328 million, which is a decrease of HK$174 million (or 35%) as compared to HK$502 million as at 31 December 2020.

Net trade creditors



LIQUIDITY AND FINANCIAL RESOURCES ANALYSIS

Net Cash

As at 31 December 2021, the Group recorded cash, bank balances and cash equivalents totalling HK$2,649 million (31 December 2020: HK$2,271 million), representing a net cash increase of HK$378 million.

The cash position was mainly affected by the following items:

1) Good operating performance of the business resulted in a net cash inflow of HK$569 million including working capital changes.

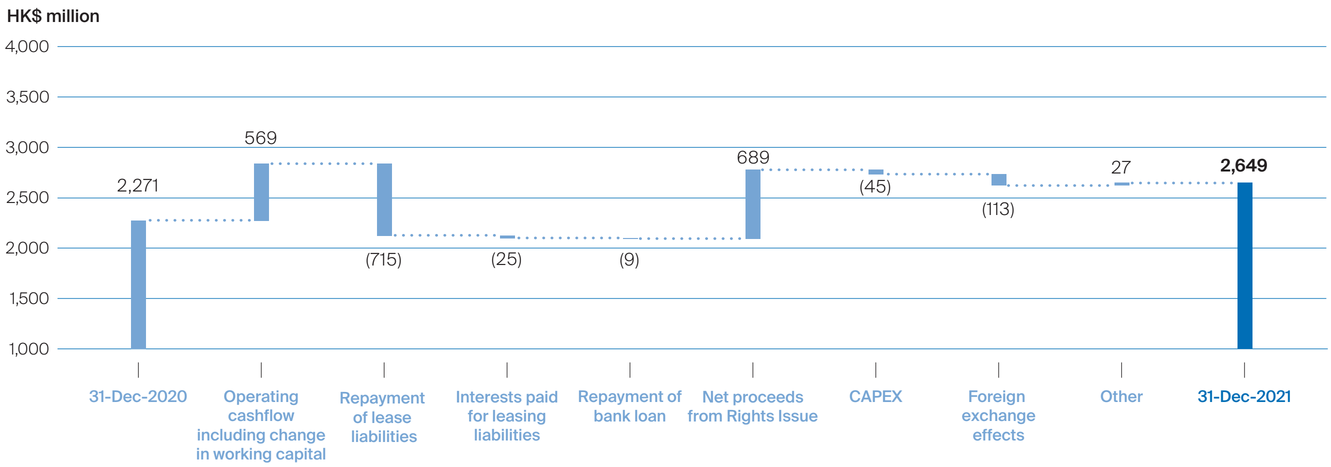
2) Repayment of leasing liabilities of HK$715 million and interests paid for leasing liabilities of HK$25 million resulted in total cash outflow of HK$740 million.

3) As at 31 December 2020, the Group had Pandemic related interest-free borrowings of HK$9 million (CHF 1 million) in Switzerland. After repayment of the bank loans by the subsidiaries in 2021, the Group is now debt free.

4) Proceeds from the Rights Issue has increased the cash balance by HK$689 million.

5) The Group invested HK$45 million in capital expenditure ("CAPEX") for the Current Year, as compared to HK$8 million in the Corresponding Period. The biggest part of investments were software, IT and warehouse equipment.

Cash Flow Bridge for the Year Ended 31 December 2021



Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange ("FX") risk arising from various currency exposures, primarily with respect to the Euro and US Dollar. FX risk primarily arises from future commercial transactions and to a lesser extent from recognized monetary assets and liabilities that are denominated in currencies that are not the functional currencies of the Group's entities.

To minimize the Group's Foreign Exchange exposure on costs for merchandise produced for Europe in Asia, majority of the suppliers in Asia were asked to quote and settle in US dollar. In addition, to manage the FX risk arising from future commercial transactions, the Group in the past entered into forward FX contracts with reputable financial institutions to hedge the FX risk.

Starting in March 2020, all credit lines was canceled due to the PSP and since then, no further forward FX contracts have been entered. Therefore, currency fluctuations could affect its margins and profitability. The Group has been continuously preparing for the resumption of hedging activities due to newly established credit lines.

Treasury Policy

Group Treasury's core task is to ensure the Group's solvency by managing its liquidity and banking relationships. Excess liquidity is managed by keeping it highly available. Other than adopting an in-house banking concept to fund the Group, there are currently no further funding initiatives with banks. Nevertheless, various options are being evaluated to cover future needs.

Human Resources

As at 31 December 2021, the Group employed approximately 2,260 full-time equivalent staff ("FTE") (31 December 2020: approximately 2,500 FTE).

Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. All employees of the Group around the world are connected through the Group's global intranet.

Dividends

As the Group recorded losses for an extensive period in the Group's recent past and this is the first financial year recording a profit since the financial year ended 30 June 2017, the Board does not recommend the distribution of a dividend for the year ended 31 December 2021 (for the six months ended 31 December 2020: Nil). The Board will constantly monitor and review the situation in the coming future.

Rights Issue

On 27 January 2021, the Company announced a proposed rights issue on the basis of one rights share for every two shares in issue at a subscription price of HK$0.75 per rights share to raise not less than HK$707.7 million before expenses by way of issuing not less than 943,605,781 rights shares (the "Rights Issue"). Details of the Rights Issue is mentioned in the announcements of the Company dated 27 January 2021 and 2 March 2021 and the prospectus of the Company dated 26 March 2021 (the "Prospectus").

The Rights Issue was over-subscribed and the rights shares were allotted and issued on 21 April 2021. The issued share capital of the Company was then increased from 1,887,211,562 shares to 2,830,817,343 shares. The net proceeds of the Rights Issue, after deducting the related expenses, was HK$689 million.

The details of the intended use of net proceeds as stated in the Prospectus, the actual use of net proceeds up to 31 December 2021 and the remaining balance of unutilized net proceeds are as follows:

	Intended use of net proceeds as stated in the Prospectus	Actual use of net proceeds up to 31 December 2021	Remaining balance of unutilized net proceeds
	HK$ million	HK$ million	HK$ million
Information technology and transformation expenses:			
a. Systems upgrade and data migration	70	22	48
b. Development of new internal information technology resources	45	16	29
c. Development of new overarching E-commerce sales channel	185	74	111
Administrative and other expenses:			
a. Rental expenses	110	110	–
b. Marketing and logistics expenses	90	90	–
c. Utilities and maintenance expenses	19	19	–
d. Salaries and remuneration	150	150	–
e. Legal and professional expenses	20	20	–
Total	**689**	**501**	**188**

The remaining balance of unutilized net proceeds will be applied in accordance with the intended uses and is expected to be utilized as disclosed in the Prospectus.

IMPORTANT EVENTS OCCURRING AFTER THE PERIOD

Change of Management

Mr. PAK William Eui Won has been re-designated from Interim Chief Executive Officer of the Company to Chief Executive Officer of the Company with effect from 1 March 2022. His appointment as an Executive Director and Chief Operating Officer of the Company remains unchanged.

Russian Conflict in Ukraine

Developments due to the conflict in Ukraine caused by the Russian invasion in February 2022 does not have a material impact on ESPRIT's Financial Statements as of 31 December 2021 because the Company does not have a material risk exposure such as assets and/or cash in these respective countries. Furthermore, business in these countries is not significant to the Group. The range of potential consequences including, not limited to sanctions and countermeasures is currently unclear and cannot be forecasted in full by the Company at this current stage.

OUTLOOK

The Group believes that under the current Management and with the support from a team of dedicated staff, the Company is on the right track for continued profitable growth.

With mass vaccination programs well underway and the notion of "living with COVID" accepted in various countries around the world, the outlook for an economic rebound, particularly for the fashion retail industry, has generally changed to cautiously positive for the medium term.

Much like the Pandemic, there will always be external factors that may affect business which are largely out of the Company's control. One recent unsettling factor that may haunt the European economy is the recent conflict in Ukraine. The consequence and duration of this destabilizing event is difficult to predict and will very possibly add vulnerability to the general global economy.

The Group anticipates that the European economy will continue to be negatively affected by the lingering Pandemic through at least the first half of 2022. Negative effects on the already unstable logistics industry and supply chain is very likely, on top of increasing logistic service costs. There are also clear signs that the world economy may be further impacted by the war in Ukraine with increasing energy and commodity prices, Russia being a major and important supplier to the world, especially to Europe. The benchmark Brent crude already exceeded US$110 per barrel and is forecasted to go higher very soon.

As a result, the overall assumption for the general global economy in the short term is that higher energy and food prices would wear down consumer confidence and weaken household purchasing power. Investments would also be hit quickly afterwards. Consumer spending will focus significantly more on essentials and less on luxury, with an added regard on sustainability, quality and value.

Although there are major uncertainties in the short term, the Group will stay connected and agile to react promptly to unexpected challenges. The Company has already begun focusing on revitalizing the ESPRIT brand and capitalizing on the Company's 2021 performance for further expansion and greater profitability in 2022. The Management will continue to apply its four-pillar principle approach in its business practices to ensure that the Company remains on the road map of success.

Notable initiatives that have taken place in the Current Year and will be developed further in 2022 includes:

1) Improvement in sourcing, product design and quality – to ensure that products receive good reception from consumers across all business segments and channels. This will in turn be reflected in greater revenue generation and improving margins;

2) Improvement in logistics and supply chain management – to ensure products are delivered to the right markets at the right time and with greater efficiency which then translates to lower costs;

3) Strategic investments and enhancements to the Company's IT and other digital areas – to allow ESPRIT to tap into the endless potential of E-commerce. The Group's new digital development will cover areas including product design to customer experience;

4) Renewal of ESPRIT's brand identity, product improvement, user friendly apps, stronger marketing and merchandising will enable the Company to retain customer loyalty and gain recognition from new customers;

5) Launching of numerous capsule collections across the world. The first of this launch was already introduced via online media and social platforms in late December 2021, called ARCHIVE RE-ISSUE. It features ESPRIT's archival silhouettes inspired from the 1980s with the intention to revive the brand's nostalgic style while paying tribute to ESPRIT's core philosophy in creating joy through laid-back, sustainable, and fashion-forward pieces;

6) Completing ESPRIT's full global E-commerce overhaul, inclusive of website function, design, logistics, and packaging – to adapt to a new generation of shoppers, ensuring omni-channel efficiency starting in Asia;

7) Building strategic partnerships with other leading E-retailers to expand footprint, wholesale revenue, and brand equity. It will also reposition ESPRIT to move away from fast fashion and migrate into the premium lifestyle brand category. ESPRIT will be investing in the use of innovative technology to enhance customer experience.

In Europe, the Group has substantial operations in its main areas of distribution and believes that there are untapped opportunities to consider. Examples of such opportunities include store design, merchandising, and marketing. Through continued efforts in cost controls and enhanced efficiencies, the Group is confident that it can deliver greater profitability in its European retail stores, E-commerce, and wholesale business.

The Company is on the right track in establishing distribution centers in Hong Kong and South Korea, which is currently targeted in the first half of 2022. The Group also plans to re-enter key markets in Asia and enter new markets such as South America and Middle America. Refining market-entry strategies throughout Asia and the United States is already underway. Completion of merchandising product planning to be launched in Hong Kong, Taiwan and Korean E-commerce websites is targeted for 2022. The Company is also reviewing opportunities to open a limited number of physical stores, outlets, and pop-up stores in these countries.

The ESPRIT brand is powerful and revered. The Management is committed to revive the brand's heritage, which has remained strong even with major setbacks in the recent decade. The prospects for the Group are bright and the Company has a solid financial foundation to capture opportunities as they arise. The Group sees itself in a good position to benefit from an eventual revival of the global economy despite glitches that may occur in the near term.

4

Corporate Governance

CORPORATE GOVERNANCE REPORT

Esprit is committed to achieving high standards of corporate governance. The Esprit Corporate Governance Code adopted by the board of directors (the "Board" or the "Director(s)") of the Company sets out a range of governance principles and practices to direct and guide the business conduct and affairs of the Company and its subsidiaries (the "Group"). It aims at providing greater transparency, quality of disclosure as well as more effective risk management and internal control. The execution and enforcement of the Company's corporate governance system is monitored by the Board. The Board will review the current practices at least annually, and make appropriate changes where considered necessary. We believe our commitment in high standard practices will translate into long-term value and ultimately maximizing returns to shareholders. Management pledges to building long-term interests for shareholders, for example, via conducting business in a socially responsible and professional manner.

The Board has reviewed the corporate governance practices of the Company. The Company has applied the principles of, and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), as in effect from time to time, during the financial year ended 31 December 2021 (the "Current Year"), except for certain deviations as specified with considered reasons for such deviations as explained below.

BOARD OF DIRECTORS

Composition of the Board

The Directors of the Company during the Current Year and up to the date of this report are:

Executive Directors

- Ms. CHIU Christin Su Yi
  (Chairman)
  (appointed as Acting Executive Chairman of the Board with effect from 1 January 2021 and re-designated as Chairman of the Board with effect from 30 August 2021)

- Mr. PAK William Eui Won
  (Chief Executive Officer and Chief Operating Officer)
  (appointed as Executive Director and Chief Operating Officer with effect from 23 September 2021, and became Interim Chief Executive Officer with effect from 26 October 2021 until re-designated as Chief Executive Officer with effect from 1 March 2022)

- Mr. SCHLANGMANN Wolfgang Paul Josef
  (appointed with effect from 28 October 2021)

- Mr. WRIGHT Bradley Stephen
  (appointed with effect from 14 December 2021)

- Dr. WAN Yung Ting
  (Chief Product Development Officer)
  (resigned with effect from 30 November 2021)

- Mr. DALEY Mark David
  (President and Chief Executive Officer)
  (resigned with effect from 26 October 2021)

- Mr. TSCHIRNER Marc Andreas
  (Group Chief Operating Officer)
  (Resigned with effect from 8 January 2021)

Independent Non-executive Directors

- Mr. CHUNG Kwok Pan

- Mr. GILES William Nicholas

- Mr. HA Kee Choy Eugene
  (appointed with effect from 13 December 2021)

- Ms. LIU Hang-so
  (appointed with effect from 8 January 2021)

- Mr. LO Kin Ching Joseph

Meetings attended/held

The Board conducts at least four regular Board meetings a year and additional meetings are held as and when required to discuss significant events or important issues. Sufficient notice is given for regular Board meetings to all Directors enabling them to attend and reasonable notice will be given in case of special Board meetings. The Group ensures that appropriate and sufficient information is provided to Board members in a timely manner to keep them abreast of the Group's latest developments, thereby assisting them in the discharge of their duties.

The individual attendance records of each Director at the Board meetings, Board Committees meetings and general meetings of the Company during the Current Year is set out in the table below:

	Board	Independent Non-executive Directors	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee	General Committee	Annual General Meeting
Executive Directors *								
CHIU Christin Su Yi	4/4	1/1		5/5	1/1		2/2	1/1
PAK William Eui Won (appointed with effect from 23 September 2021)	1/1			2/2	0/0		2/2	0/0
SCHLANGMANN Wolfgang Paul Josef (appointed with effect from 28 October 2021)	1/1						0/0	0/0
WRIGHT Bradley Stephen (appointed with effect from 14 December 2021)	0/0					0/0	0/0	0/0
WAN Yung Ting (resigned with effect from 30 November 2021)	3/3					1/1	0/0	1/1
DALEY Mark David (resigned with effect from 26 October 2021)	3/3						0/0	1/1
TSCHIRNER Marc Andreas (resigned with effect from 8 January 2021)	0/0						0/0	
Independent Non-executive Directors *								
CHUNG Kwok Pan	4/4	1/1	4/4		1/1	2/2		1/1
GILES William Nicholas	4/4	1/1	4/4	5/5	1/1	2/2		1/1
HA Kee Choy Eugene (appointed with effect from 13 December 2021)	0/0	0/0	0/0			0/0		0/0
LIU Hang-so (appointed with effect from 8 January 2021)	3/4	1/1		4/5	1/1			1/1
LO Kin Ching Joseph	4/4	1/1	4/4	5/5				1/1

* None of the Directors attended the meetings by his/her alternate.

Board meetings and minutes

The Board conducts meetings on a regular and on ad hoc basis of at least four times a year to discuss the overall strategy as well as the operational and financial performance of the Group, and to review and approve the Group's annual and interim results. The Board members are served with notice of at least fourteen days for a regular Board meeting and provided with all agendas and adequate information for their review at least three days before the meetings. For all other Board meetings, reasonable notice should be given.

Minutes of the Board meetings and Board Committees meetings have been recorded in sufficient detail including any matters considered in the meetings, decisions reached and concerns or queries raised by the Directors or dissenting views expressed. Draft and final versions of minutes of meetings of the Board and Board Committees are sent to the Directors or Board Committee members for comments and records respectively within a reasonable time after the meeting. Minutes of meetings of the Board and Board Committees are kept by the Company Secretary, which are open for inspection following reasonable notice by any Director.

Clear distinction between the responsibilities of the Board and management

The Board oversees the overall management of the Group, including oversight of the Group's operations, whilst allowing management substantial autonomy to run and develop the business.

The management of the Group is responsible for making decisions relating to daily operations of the Group. Decisions reserved for the Board are mainly related to:

- the long-term objectives and strategy of the Group;
- monitoring the performance of management;
- ensuring that appropriate and effective risk management and internal control systems are established and maintained to enable risks to be assessed and managed;
- monitoring the quality and timeliness of external reporting;
- monitoring the policies and practices on compliance with applicable laws and regulations; and
- approving the Company's policies and practices on corporate governance.

Board independence

The Company currently has five Independent Non-executive Directors, representing more than one-third of the Board. At least one of the Independent Non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Company has received confirmation of independence from each Independent Non-executive Director as set out in Rule 3.13 of the Listing Rules and continues to consider each of them to be independent. In addition, no controlling shareholder is present on the Board ensuring decisions are made fairly and without conflicts of interest.

In assessing the independence of the Independent Non-executive Directors, the Nomination Committee and the Board would consider the character and the judgment demonstrated by the Director's contribution to the Board during the years of services, the relationship with the Group other than being a Director, the past and present directorships and important appointments of the Director outside the Group.

Board effectiveness

The Directors come from diverse business and professional backgrounds appropriate to the requirements of the business of the Company. The Board endeavours to support the expansion of the Board membership by identifying appropriate candidates who will bring further skills, insights and value to the business so that we have a well-balanced composition of Executive Directors and Non-executive Directors.

Gender		Male (78%)
		Female (22%)
Ethnicity		Asian (67%)
		Non-Asian (33%)
Age		41 to 60 years old (67%)
		Over 60 years old (33%)
Length of service		More than 1 year (56%)
		Below 1 year (44%)

Note: ( ) denotes relevant percentage out of the total number of Directors

Continuous professional development

Each newly appointed Director receives a comprehensive, formal and tailored induction program to ensure that he/she has an overview of the business and operations of the Group and a proper understanding of the Esprit Corporate Governance Code, his/her responsibilities and obligations under the Listing Rules and applicable laws and regulatory requirements.

Continuous professional development programs are provided for Directors to develop and refresh their knowledge, skills and understanding of the business and markets in which the Group operates. All Directors were provided with Esprit and industry news, monthly updates, research reports and other reading materials of the Group's business and the industry and regulatory environments in which the Group operates.

Participation in the Directors' continuous professional development program during the Current Year under review is summarised as follows:

	Attended seminar(s)/ conference(s)/ forum(s)	Read journal(s)/ update(s)/ article(s)/ material(s)
Executive Directors		
CHIU Christin Su Yi	✓	✓
PAK William Eui Won *(appointed with effect from 23 September 2021)*	✓	✓
SCHLANGMANN Wolfgang Paul Josef *(appointed with effect from 28 October 2021)*		✓
WRIGHT Bradley Stephen *(appointed with effect from 14 December 2021)*	✓	✓
WAN Yung Ting *(resigned with effect from 30 November 2021)*	✓	
DALEY Mark David *(resigned with effect from 26 October 2021)*	✓	
TSCHIRNER Marc Andreas *(resigned with effect from 8 January 2021)*	✓	
Independent Non-executive Directors		
CHUNG Kwok Pan	✓	
GILES William Nicholas	✓	✓
HA Kee Choy Eugene *(appointed with effect from 13 December 2021)*	✓	✓
LIU Hang-so *(appointed with effect from 8 January 2021)*	✓	
LO Kin Ching Joseph	✓	✓
Company Secretary		
FONG Yee Mei *(appointed with effect from 19 November 2021)*	✓	✓

Chairman and Chief Executive Officer

Ms. CHIU Christin Su Yi was appointed as Acting Executive Chairman of the Board with effect from 1 January 2021 and she was re-designated to Chairman of the Board with effect from 30 August 2021. Mr. DALEY Mark David was the President and Chief Executive Officer until 26 October 2021. After his resignation on 26 October 2021, Mr. PAK William Eui Won was appointed as Interim Chief Executive Officer with effect from 26 October 2021 and was re-designated as Chief Executive Officer with effect from 1 March 2022. The role of the Board's Chairman is to provide leadership in order to enable the Board to discharge its function effectively while the Chief Executive Officer focuses on managing and controlling the business of the Group. The roles of the Board's Chairman and Chief Executive Officer are clearly outlined to ensure there is a key distinction between the two positions and are exercised by different individuals.

Non-executive Directors

During the Current Year, the Non-executive Directors (all of whom are independent) provided the Group with a wide range of expertise and experience. Their active participation in the Board meetings and Board Committee meetings brought independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders of the Company.

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. However, the Independent Non-executive Directors of the Company do not have specific term of appointment. Under bye-law 87 of the Company's Bye-laws, all Directors, including Independent Non-executive Directors, are subject to retirement by rotation and re-election in the annual general meeting (the "AGM") of the Company and each Director is effectively appointed under an average term of not more than three years.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible for overseeing the preparation of the consolidated financial statements for the Current Year, to ensure that they give a true and fair view of the state of affairs of the Group and of its earnings and cash flows for that financial year. In respect of the consolidated financial statements for the Current Year, the Directors are satisfied that management have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The Directors are responsible for ensuring the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's responsibilities for the consolidated financial statements

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 66 to 69 of this report.

Directors' securities transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the Current Year.

Board committees

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established five board committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the General Committee. Terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are available on the respective websites of the Company and HKExnews. The terms of reference are updated from time to time with reference to best corporate governance practices in the market and the Listing Rules. A summary of the membership and responsibilities and duties of each Board Committee performed during the Current Year under review is included below.

Audit Committee

Members:

- Mr. LO Kin Ching Joseph (Chairman)
  (Independent Non-executive Director)
- Mr. CHUNG Kwok Pan
  (Independent Non-executive Director)
- Mr. GILES William Nicholas
  (Independent Non-executive Director)
- Mr. HA Kee Choy Eugene
  (Independent Non-executive Director, appointed with effect from 13 December 2021)

Responsibilities include, amongst other things, the following:

- provide an independent review of the effectiveness of the financial reporting process including the adequacy of the resources, qualifications, experience of staff of the accounting, internal audit and financial reporting function, and their training programs and budget;
- review of the internal control system, including whistleblowing arrangements;
- review of financial information of the Company;
- oversee the audit process and the Company's relations with the auditors; and
- perform other duties as assigned by the Board.

The Audit Committee currently comprises four Independent Non-executive Directors. The Audit Committee met four times during the Current Year. The attendance record of the Audit Committee members is recorded in the "Meetings attended/held" section above. The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with management, internal auditors and external auditors and reviews their reports. The Audit Committee also has established a whistleblowing policy and system. The Chief Financial Officer, external auditors, internal auditors and senior management are invited to attend the meetings to answer questions raised by the Audit Committee.

Duties performed during the Current Year include, amongst other things, the following:

- reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control, and financial reporting matters including the review of the audited results of the Group for the Current Year;
- reviewed the nature, scope and findings of internal and external audits, and the Company's treasury activities, tax issues and liquidity; and
- reviewed the fees for audit and non-audit services to the external auditors.

The Board did not deviate from the recommendations of the Audit Committee on the selection, appointment, resignation or dismissal of external auditors.

Auditor's remuneration

The Audit Committee has reviewed the fees for audit and non-audit services to the external auditors for the Current Year. A summary of which is as follows:

HK$million	For the financial year ended 31 December 2021	For the six months ended 31 December 2020
Nature of the services		
Audit services	21	21
Non-audit services[1]	5	1
Total	**26**	**22**

Note
1. The non-audit services include liquidation advisory, tax advisory and other services.

Internal audit

The Company's internal audit team (the "Internal Audit") reports directly to the Audit Committee. Internal Audit is responsible for performing regular and systematic reviews of the risk management and internal control systems. The reviews provide reasonable assurance that the risk management and internal control systems continue to operate satisfactorily and effectively within the Group and the Company. Where specialist skills are required, Internal Audit engages an outside professional firm to assist them in their reviews. The attainment of such objectives involves the following activities being carried out by Internal Audit:

- reviewing and appraising the soundness, adequacy and application of operational, financial, compliance and other controls and promoting effective internal controls in the Group and the Company;
- appraise the risk management system to ensure the full compliance with the requirements under the risk management policy (the "Risk Management Policy") adopted by the Board;
- ascertaining the extent of compliance with established policies, procedures and statutory requirements;
- ascertaining the extent to which the Group's and the Company's assets are accounted for, managed, and safeguarded from losses of all kinds;
- appraising the reliability and usefulness of information for reporting to management;
- recommending improvements to the existing systems of risk management and internal control; and
- carrying out investigations and special reviews requested by management and/or the Audit Committee of the Board.

Nomination Committee

Members:

- Ms. CHIU Christin Su Yi (Chairman)
  (Executive Director)
- Mr. PAK William Eui Won
  (Executive Director, appointed with effect from 23 September 2021)
- Mr. GILES William Nicholas
  (Independent Non-executive Director)
- Ms. LIU Hang-so
  (Independent Non-executive Director, appointed with effect from 8 January 2021)
- Mr. LO Kin Ching Joseph
  (Independent Non-executive Director)

Responsibilities include, amongst other things, the following:

- review and recommend the structure, size and composition of the Board;
- review and monitor the implementation of the board diversity policy (the "Board Diversity Policy") to ensure its effectiveness (more information on the diversity of the Board is set out in the "Board diversity policy" section below);

- identify and recommend individuals suitably qualified to become Board member(s), selection of candidates for nomination to the Board will be based on merit and contributions the candidate will bring to the Board with due regard to the Board Diversity Policy;
- assess the independence of Independent Non-executive Directors;
- make recommendations to the Board on relevant matters relating to the appointment or re-election of Directors and succession planning for Directors;
- keep under review the leadership needs of the organization with a view to ensuring the Company can compete effectively in the marketplace; and
- make recommendations concerning membership of the Board Committees, including the Audit Committee, the Nomination Committee, the Remuneration Committee, the Risk Management Committee and the General Committee.

The Nomination Committee is chaired by the Chairman of the Board. It currently comprises three Independent Non-executive Directors and two Executive Directors. The Nomination Committee met five times during the Current Year. The attendance record of the Nomination Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the Current Year:

- reviewed the structure, size and composition of the Board;
- assessed the independence of the Independent Non-executive Directors;
- reviewed the implementation of the Board Diversity Policy;
- provided recommendation to the Board on the re-election of Directors standing for re-election at the 2021 AGM; and
- considered and recommended potential candidates to the Board for the appointment as Executive Directors and Independent Non-executive Directors of the Company.

Board diversity policy

The Board has adopted a Board Diversity Policy setting out the approach to achieve diversity on the Board with the aims of enhancing the quality of its performance and ensuring orderly succession for appointments. The Company considers aspects of board diversity including but not limited to gender, ethnicity, age, professional experience, skills and knowledge. The ultimate decision will be based on merit and contributions that the individual will bring to the Board. The implementation of the Board Diversity Policy has been reviewed and monitored regularly by the Nomination Committee to ensure its effectiveness. Any required revisions of the Board Diversity Policy will be recommended by the Nomination Committee to the Board for consideration and approval.

Nomination policy

The Board has adopted a nomination policy (the "Nomination Policy") for setting out the key nomination criteria and principles of the Company for nomination of Directors. The Nomination Committee is responsible to review the structure, size and composition (including gender, balance of skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. It shall identify individuals suitably qualified to become Board member(s) and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Nomination Committee shall consider the candidates on merit and contributions the candidate will bring to the Board with due regard to the Board Diversity Policy. It has to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer. The Nomination Committee shall take into account the challenges and opportunities facing the Company and therefore, what skills and expertise are needed on the Board in the future.

Nomination procedures

The Nomination Committee is delegated by the Board to identify suitable candidates and evaluate potential candidates based on the Board Diversity Policy.

Once opportunity for Board appointment is identified, there will be scheduled interviews with the suitable candidate. Results of the interviews will be put forward to the Nomination Committee for consideration. The recommendation of the Nomination Committee will be put forward to the Board for consideration and approval.

In case of re-appointments of members of the Board at the AGM, the Nomination Committee will review the profile of the members of the Board who have offered themselves for re-appointment to consider their suitability in light of the strategy of the Company as well as the structure, size and composition of the Board at that time. The Nomination Committee will then make recommendations for the Board's consideration and the Board will, at its discretion, make recommendations to the shareholders.

Remuneration Committee

Members:

- Mr. GILES William Nicholas (Chairman)
  (Independent Non-executive Director)
- Ms. CHIU Christin Su Yi
  (Executive Director)
- Mr. PAK William Eui Won
  (Executive Director, appointed with effect from 23 September 2021)
- Mr. CHUNG Kwok Pan
  (Independent Non-executive Director)
- Ms. LIU Hang-so
  (Independent Non-executive Director, appointed with effect from 8 January 2021)

Responsibilities include, amongst other things, the following:

- make recommendations to the Board on the Group's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- determine specific remuneration packages of all individual Executive Directors and senior management;
- review and approve the compensation payable to Executive Directors and senior management for any loss or termination of their office or appointment;
- make recommendations to the Board on the remuneration for Non-executive Directors;
- review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives;
- review the design of share incentive schemes for approval by the Board and shareholders; and
- ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee currently comprises three Independent Non-executive Directors and two Executive Directors. The Remuneration Committee met one time during the Current Year. The attendance record of the Remuneration Committee members is set out in the "Meetings attended/held" section above.

During the Current Year, the Remuneration Committee reviewed the director's fees of Independent Non-executive Directors.

Remuneration policy

The fundamental policy of the Group's remuneration and incentive scheme is to link total compensation of Executive Directors, senior management and employees with reference to the corporate goals and objectives set by the Board. Remuneration package is performance-based and takes into account business performance, market practice and competitive market conditions in order to attract, motivate and retain talent. The Remuneration Committee should consult the Chairman of the Board and/or the Chief Executive Officer about the remuneration proposals for other Executive Directors. The recommended remuneration package comprises salaries, bonus opportunity and long-term incentive plans.

Non-executive Directors are compensated with the aim to fairly represent their efforts and time dedicated to the Board and Board Committee matters and reference is made to the level of remuneration for Non-executive Directors of listed companies with global operations.

Risk Management Committee

Members:

- Mr. GILES William Nicholas *(Chairman)* *(Independent Non-executive Director)*
- Mr. WRIGHT Bradley Stephen *(Executive Director, appointed with effect from 14 December 2021)*
- Mr. CHUNG Kwok Pan *(Independent Non-executive Director)*
- Mr. HA Kee Choy Eugene *(Independent Non-executive Director, appointed with effect from 13 December 2021)*
- Dr. WAN Yung Ting *(Executive Director, resigned with effect from 30 November 2021)*

Responsibilities include, amongst other things, the following:

- review the effectiveness of the Group's risk management function;
- review and assess the Group's risk appetite annually;
- review and monitor the Group's risk profiles and ensure an appropriate risk control environment is enforced and maintained;
- review and assess the methodologies employed by management to identify, measure, manage and/or control risks that may have an impact on the business in accordance with the Group's risk appetite and the Risk Management Policy;
- review risk management report, which shall include, amongst other things, a confirmation from management on the effectiveness of the risk management system;
- review and assess the Risk Management Policy; and
- review and assess the Company's Environmental, Social and Governance strategy and reporting.

The Risk Management Committee currently comprises three Independent Non-executive Directors and one Executive Director. The Risk Management Committee met two times during the year under review. The attendance record of the Risk Management Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the Current Year:

- reviewed the risk management report; and
- reviewed the environmental, social and governance report.

The Board has adopted the Risk Management Policy with key objective of ensuring a consistent basis for measuring, controlling, monitoring and reporting risks across the Group at all levels to support the achievement of the organization's strategic objectives. It ensures the implementation of a structured risk management framework across the Group, where the responsibilities for identifying, assessing, and managing risks will be shared with frontline staff or business unit owners on an ongoing basis.

More information about risk management practices of the Group may be found in the "Risk Management and Internal Control" section below.

General Committee

Members:

- Ms. CHIU Christin Su Yi *(Executive Director)*
- Mr. PAK William Eui Won *(Executive Director, appointed with effect from 23 September 2021)*
- Mr. SCHLANGMANN Wolfgang Paul Josef *(Executive Director, appointed with effect from 28 October 2021)*
- Mr. WRIGHT Bradley Stephen *(Executive Director, appointed with effect from 14 December 2021)*
- Dr. WAN Yung Ting *(Executive Director, resigned with effect from 30 November 2021)*
- Mr. DALEY Mark David *(Executive Director, resigned with effect from 26 October 2021)*

Responsibilities include, amongst other things, the following:

Discuss, consider and approve routine corporate administrative matters of the Company such as:

- routine administration of the share option schemes of the Company;
- issuance of new shares upon exercise of share options granted under the share option schemes adopted by the Company;
- implement share repurchase strategy upon approval by the Board in accordance with the delegated authority;
- determine at the request of management any person or persons who may be regarded as "relevant employees" pursuant to the Guidelines Regarding Securities Transactions by Employees of the Company;
- respond to routine enquiries from the Stock Exchange relating to the continuing obligations of the Company under the Listing Rules;
- issue statements regarding unusual movements in price and/or trading volume of the shares of the Company; and
- other administrative matters.

The General Committee currently comprises four Executive Directors. During the Current Year, the General Committee met two times. The attendance record of the General Committee members is set out in the "Meetings attended/held" section above.

Duties performed during the Current Year:

- approved the appointment of directors of European subsidiaries; and
- approved the change of authorized person for e-Submission of publication of documents on HKEXnews.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing corporate governance duties. The duties of the Board in respect of the corporate governance functions include:

- determining and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements; and
- reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Current Year, the Board has performed the corporate governance duties in accordance with the CG Code.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems. Risk management is an existing practice of Esprit. Previously, annual High Level Risk Assessment exercises were conducted to evaluate Esprit's risks. Esprit implemented the Risk Management Policy to formally outline its risk management and internal control systems in form of a "Three Lines of Defense Model".

First line of defense

The systems begin with management, made up of business unit owners who identify, assess, mitigate and monitor risks as an integral part of Esprit's day-to-day operations. Documentation and reporting of the individual risks and their respective risk ratings and controls is done in the form of Risk Registers which are updated regularly. Members of the senior management whom the business unit owners report into review the Risk Registers and escalate key risks under their purview to the Risk Manager.

In addition, management confirms that they have:

(i) reviewed the Risk Registers of relevant business units across the Group;

(ii) assessed and documented risks in the Risk Registers based on the methodologies and the risk parameters stated in the Risk Management Policy; and

(iii) completed the Risk Registers, established relevant controls, and considered the risk appetite to be appropriate for the Group based on their best knowledge.

Thus, management collectively own, manage and oversee a magnitude of risks, which represent the first line of defense in the "Three Lines of Defense Model".

Second line of defense

The Risk Manager is responsible for the implementation and maintenance of risk management processes across the Group. The Risk Manager should provide training to management on risk assessment methodologies, reviews the Risk Management Policy, and facilitates a regular risk assessment process and timely communication to the Risk Management Committee. Based on management's assessments, the Risk Manager selects the top ten risks of the Group in consultation with the Chief Executive Officer, and reports it to the Risk Management Committee. This is the second line of defense in the "Three Lines of Defense Model".

Third line of defense

Internal Audit independently appraises the risk management and internal control systems and reports the results and its opinion to the Audit Committee. This process represents the third line of defense in the "Three Lines of Defense Model".

Governing bodies

The Risk Management Committee in turn reports to the Board, which determines Esprit's risk appetite, evaluates the level of risk Esprit should take and monitors and addresses top risks regularly.

Based on the report from the Audit Committee, the Board considers the risk management and internal control systems to be satisfactory for the Current Year and operating effectively according to the Risk Management Policy.

COMPANY SECRETARY

The Company Secretary is responsible for, among other things, ensuring that Board procedures are observed, and that the Company's Bye-laws, applicable laws, relevant rules and regulations are complied with. She assists the Chairman of the Board and the Board in implementing and strengthening corporate governance practices and processes of the Company. All Directors have access to the advice and services of the Company Secretary.

The Company Secretary assists the Chairman of the Board in ensuring efficient information flow within the Board and Board Committees and between Directors and senior management. She is responsible for facilitating the induction programs of new Directors and the continuous professional development of existing Directors. She assists the Chairman of the Board and Chairmen of the Board Committees in the development of the agendas for the Board meetings and Board Committee meetings. She also attends and prepares minutes for Board meetings and Board Committee meetings.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") for the Company. The Dividend Policy aims at providing reasonable and sustainable returns to the shareholders of the Company whilst maintaining a position of financial stability which allows the Company to take advantage of any investment and expansion opportunities that may arise from time to time. The Board maintains the dividend payout ratio of 60% of basic earnings per share. In deciding whether to propose a dividend and in determining the dividend amount, the Board will take into account the Company's earnings performance, financial position, investment and funding requirements, and future prospects. The Board will regularly review the Dividend Policy and will amend and/or modify the Dividend Policy if necessary.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

Shareholders communication policy

The Company has adopted a shareholders communication policy to ensure that shareholders, and in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Enquiries of shareholders

Enquiries of shareholders can be sent to the Company either by email at esprit-ir@esprit.com or by post to the Company's principal place of business in Hong Kong at 27th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong. Shareholders can also make enquiries to the Board directly at the general meetings of the Company.

How shareholders can convene a special general meeting

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 can at all times submit a signed written requisition, specifying the purpose, to the Board or the Company Secretary to require the convening of a special general meeting ("SGM") and deposit the requisition at the Company's principal place of business in Hong Kong at 27th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong; and such meeting shall be held within two months after the deposit of such requisition. Upon receiving a valid request from shareholder(s), the Board shall within twenty-one days of such deposit proceed to convene a SGM. If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, themselves may convene a SGM, but any SGM so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

Procedures for putting forward proposals at a general meeting

Shareholders representing not less than one-twentieth of the total voting rights of all shareholders having a right to vote at the AGM at the date of the requisition or who are no less than 100 shareholders can submit a written requisition to the Board or the Company Secretary to propose a resolution at the AGM. The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the AGM and contain the signatures of all the requisitionist(s) (which may be contained in one document or in several documents in like form). Such requisition must be deposited at the Company's principal place of business in Hong Kong at 27th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the AGM in the case of any other requisition and be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionists to all shareholders in accordance with the requirements under the applicable laws and rules. Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the Company's principal place of business in Hong Kong, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

Shareholders who wish to put forward proposals at SGMs may achieve so by means of convening a SGM following the procedures as set out in the paragraph above.

If a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, the shareholder should follow the "Procedures for Shareholders to Propose a Person for Election as a Director", which is posted on the website of the Company.

Voting by poll

The Company's shareholders are adequately informed of their rights and the procedures to demand voting by poll in general meetings at which their approvals are sought through disclosure in the Company's circulars to shareholders.

At the 2021 AGM, the Chairman of the meeting demanded voting by poll on all resolutions put forth at the meeting. The detailed procedures for conducting a poll were explained to the shareholders on commencement of the 2021 AGM. Tricor Secretaries Limited, the Company's branch share registrar in Hong Kong, was appointed as the scrutineer for voting by poll at the 2021 AGM to ensure the votes were properly counted.

While it was only since 2009 that Rule 13.39(4) of the Listing Rules has become effective which sets out that any vote of shareholders at a general meeting must be taken by poll, we have been voting by poll on all resolutions put forth to the shareholders since 2003.

Transparency and disclosure

The Company recognizes the importance of timely interim and non-selective disclosure of information. Latest information of the Company including annual and interim reports, announcements and press releases, constitutional documents, presentations, and webcasts are updated on Esprit's Investor Relations website (www.espritholdings.com) in a timely manner.

Esprit actively distributes information on the annual and interim results, and through email alerts. In addition, a results briefing is organized to ensure that members of the public have access to first-hand information on the results announcement. Since 2004, Esprit has adopted the International Financial Reporting Standards in order for the financial results to be comprehended by international audiences in a consistent manner. Another illustration of the Company's efforts in enhancing shareholders' understanding in its operation is the inclusion of a glossary of the terms commonly used within Esprit since Annual Report FY08/09.

Maintaining two-way communications with shareholders is one of the main goals of Esprit and the Company's AGM is one platform for shareholders to exchange views directly with the Board. Poll results are made publicly available on the same day of the meeting, typically in the space of a few hours, again to ensure the timely disclosure of information.

Proactive investor relations

To ensure our investors have a better understanding of the Company, our management engages in a pro-active investor relations program. Our Investor Relations Department communicate with research analysts and institutional investors in an on-going manner. In addition, our Executive Director(s) meet with research analysts and the press after our results announcements, attend major investors' conferences, participate in international non-deal roadshows, and host Investor Relations Day and Analysts Day to communicate the Company's financial performance and strategic priorities.

AMERICAN DEPOSITARY RECEIPT PROGRAM

The Company has established a Level 1 sponsored American Depositary Receipt program with details as stated hereunder.

Symbol	ESPGY
CUSIP	29666V204
ISIN	US29666V2043
Ratio	2 ordinary shares: 1 ADR
Country	Hong Kong
Effective Date	05 January 2015
Depositary	Deutsche Bank Trust Company Americas

OTHER STAKEHOLDERS

In addition to its investors, the Company is concerned about other stakeholders and for years has factored in corporate social responsibility into every business decision. In an effort to provide more clarity on the Company's corporate social responsibility efforts, a summary of Environmental, Social and Governance Report of the Company has been incorporated into this report in the section headed "Environmental, Social and Governance". The Environmental, Social and Governance Report will be available on the Company's website at www.esprit.com/sustainability.

PROFESSIONAL ADVICE

The Company has established a policy enabling all Directors to seek independent professional advice in appropriate circumstances, at the Company's expense. The Board provides separate independent professional advice to Directors to assist the relevant Director or Directors to discharge their duties to the Company as and when requested or necessary.

REPORT OF THE DIRECTORS

The Directors present the annual report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2021 (the "Current Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are shown in note 7 to the consolidated financial statements. The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known Esprit brand name.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated statement of profit or loss on page 70 of this report and in the accompanying notes to the consolidated financial statements.

The Directors maintain the dividend payout ratio of 60% of basic earnings per share. As the Group recorded a loss for an extensive period in the Group's recent past and this is the first financial year recording a profit since the financial year ended 30 June 2017, the Board has not recommended the distribution of a final dividend for the financial year ended 31 December 2021 (for the six months ended 31 December 2020: Nil). The Board will constantly monitor and review the situation in the coming future. Relevant information is set out in note 3.3.2 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group and the Company during the Current Year are set out in the consolidated statement of changes in equity on page 73 of this report and in note 2.10.2 to the consolidated financial statements respectively.

BUSINESS REVIEW

A fair review of the business of the Group as required pursuant to Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), comprising an analysis of the Group performance using financial key performance indicators during the Current Year, description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year as well as indication of likely future development in the business of the Group are set out in the section headed "Management Discussion and Analysis" on pages 22 to 33 of this report.

ENVIRONMENT, SOCIAL AND GOVERNANCE ("ESG") PERFORMANCE

The Board is committed to achieving sustainable development and protection of the environment and engaging ESG considerations as an integral part of its business operations and investment of the Company. The Board reviewed its strategic priorities against ESG-related risks and ensured appropriate and effective ESG risk management and internal control systems are in place. The Group conducts regular reviews of all operating procedures. Raw materials are taken through risk assessment protocols to mitigate risks and the Group also implements targeted strategies when addressing them. The Company's strategy in ESG management is achieved by adopting eco-friendly management practices, making efficient use of resources, and promoting green awareness within the Group. The Company has stringent sourcing policies and in 2021, material from sustainable sources accounted for 78%, increasing from 60% in 2020. Animal welfare also has been a key concern for the Company. In 2021, the Company rolled out a data system to retrieve carbon footprint information from its suppliers, with the aim that such gathering of data will allow the Company to require carbon footprint reductions from its suppliers. Esprit has successfully accomplished the Green Button company assessment in May 2021. The Green Button is a government-run certification label for sustainable textiles, developed by the Federal Ministry for Economic Cooperation and Development.

The Board will continue to improve its management approach and implement strategies and processes to evaluate, prioritize and manage material ESG-related issues by continuously monitoring legislations and due diligence standards to create a transparent and sustainable supply chain. At Esprit, the Risk Management Committee of the Board is responsible for sustainability, environmental risks and governance. Details of the Group's ESG practice and performance can be found in the Company's ESG Report for the Current Year. The report is prepared in accordance to the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules, which will be available on the Company's website (www.esprit.com/sustainability) and the Stock Exchange's website (www.hkexnews.hk) in due course.

Compliance with laws and regulations

The Group recognizes the importance of compliance with legal and regulatory requirements and any non-compliance with such requirements could have an adverse impact on the Group's operation. The Group has been implemented system and staff resources to ensure ongoing compliance with laws and regulations. As at the date of this annual report, the Company has complied with all the relevant laws and regulations, including business ethics, health and safety, employees, customers, and environment, that have a significant impact on the operations of the Group in all material respects.

Key Relationships with Employees, Customers and Suppliers

The Group embraces human resources as one of its most valuable assets, and highly values the personal development of its employees. We help our employees identify and reach their professional goals and provide them skills and knowledges for discharging their duties at work through our technical and soft skills training programs. These programs are available to our team members regardless of where they are on their professional journey, whether they are in the early days of a first job, or established professionals. We want to give everyone the opportunity to continuously grow and develop their skills.

The Group values the views and opinions of all customers through various means and channels to understand customer trends and needs and regularly analyses and makes changes based on customer preference. The Group also conducts comprehensive tests and checks to ensure that only safe and quality products are enjoyed by the customers.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair, and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

Details on our relationships with various stakeholders will be disclosed in the ESG Report to be issued by the Company separately.

HUMAN RESOURCES PRACTICES

Our employees play a key role in our success and how we fulfill our responsibilities to shareholders, society, and the environment. The Group continues to invest in our people, ensuring that they are equipped with the right knowledge, skills and experiences to match the Company's needs. The Group's remuneration policy is to ensure fair and competitive packages based on business needs and industry practice. The Group provides incentives for Directors, senior management, employees and other eligible persons to recognise their contributions as well as to attract, retain and motivate the very best people.

Remuneration will be determined by taking into consideration factors such as market and economic situation, inflation, employment conditions elsewhere in the Group and salaries paid by comparable companies. In addition, performance-based assessment such as individual's potential and contribution to the Group, time commitment and responsibilities undertaken will all be considered.

The Group also provides other staff benefits including mandatory provident fund and medical insurance. The Company also operates a discretionary share option scheme and a discretionary share award scheme to motivate employees' performance and loyalty.

SHARE CAPITAL

During the Current Year, no ordinary share of the Company of HK$0.10 each was issued in relation to the share option scheme adopted on 10 December 2009 ("2009 Share Option Scheme") or the share option scheme adopted on 5 December 2018 ("2018 Share Option Scheme") or the Share Award Schemes as disclosed in the section of "Share Option Schemes" and "Share Award Schemes" below.

Details of movements in share capital of the Company are set out in note 2.10.1 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the consolidated results and the consolidated balance sheet of the Group for the last ten financial years is set out on pages 134 to 137 of this report respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Current Year are set out in note 2.6.2 to the consolidated financial statements.

PENSION SCHEMES

Particulars of pension schemes of the Group are set out in notes 2.3.2 and 2.9.3 to the consolidated financial statements.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2021 are set out in note 7 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the Current Year, less than 30% of the Group's sales were attributable to the five largest customers and 30.9% of the Group's purchases were attributable to the Group's five largest suppliers. The respective percentage of purchases from the Group's five largest suppliers are as follows:

Name of suppliers	% to total purchases
Fung Mou Enterprise Co. Limited	7.5%
Corsina Europe GmbH	7.2%
Jinnat Apparels Ltd	5.8%
Soorty Enterprises (Pvt.) Ltd.	5.3%
GG International Mfg. Co., Ltd	5.1%

Neither any Directors, their close associates or any shareholder who owns more than 5% of the number of issued shares of the Company has any interest in the Group's five largest suppliers.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the Current Year or subsisted at the end of the financial year, save for the 2009 Share Option Scheme, the 2018 Share Option Scheme and the Share Award Schemes as disclosed in sections of "Share option schemes" and "Share award schemes" below.

DIRECTORS

The Directors of the Company during the Current Year and up to the date of this report are:

Executive Directors

- Ms. CHIU Christin Su Yi
  (Chairman)
  (appointed as Acting Executive Chairman of the Board with effect from 1 January 2021 and re-designated as Chairman of the Board with effect from 30 August 2021)
- Mr. PAK William Eui Won
  (Chief Executive Officer and Chief Operating Officer)
  (appointed as Executive Director and Chief Operating Officer with effect from 23 September 2021 and Interim Chief Executive Officer with effect from 26 October 2021 and re-designated as Chief Executive Officer with effect from 1 March 2022)
- Mr. SCHLANGMANN Wolfgang Paul Josef
  (appointed with effect from 28 October 2021)

DIRECTORS (CONTINUED)

Executive Directors (Continued)

- Mr. WRIGHT Bradley Stephen
  (appointed with effect from 14 December 2021)
- Dr. WAN Yung Ting
  (Chief Product Development Officer)
  (resigned with effect from 30 November 2021)
- Mr. DALEY Mark David
  (President and Chief Executive Officer)
  (resigned with effect from 26 October 2021)
- Mr. TSCHIRNER Marc Andreas
  (Group Chief Operating Officer)
  (resigned with effect from 8 January 2021)

Independent Non-executive Directors

- Mr. CHUNG Kwok Pan
- Mr. GILES William Nicholas
- Mr. HA Kee Choy Eugene
  (appointed with effect from 13 December 2021)
- Ms. LIU Hang-so
  (appointed with effect from 8 January 2021)
- Mr. LO Kin Ching Joseph

Under bye-law 87(1) of the Company's Bye-laws, one-third of the Directors must retire, thus becoming eligible for re-election at each AGM. Furthermore, any Director who was not elected or re-elected at any of the preceding two AGMs must retire, thus becoming eligible for re-election at the AGM. Accordingly, Mr. LO Kin Ching Joseph will retire from office by rotation at the forthcoming AGM and being eligible, will offer himself for re-election at the forthcoming AGM. In addition, under bye-law 86(2) of the Company's Bye-laws, any Director appointed during the year to fill a casual vacancy or as an addition to the existing board should retire at the first general meeting after his/her appointment. Therefore, Mr. PAK William Eui Won, Mr. SCHLANGMANN Wolfgang Paul Josef, Mr. WRIGHT Bradley Stephen and Mr. HA Kee Choy Eugene shall hold office only until the forthcoming AGM and being eligible, will offer themselves for election at the forthcoming AGM. The biographical details of the retiring Directors will be set out in a circular to shareholders of the Company to assist shareholders in making an informed decision on their re-election/election. None of the Directors standing for re-election/election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

CHANGES IN DIRECTORSHIP AND OTHER CHANGES IN DIRECTORS INFORMATION

The changes of information of Directors, as notified to the Company, subsequent to the date of the Interim Report for the six months ended 30 June 2021 pursuant to Rule 13.51B(1) of the Listing Rules and change in directorship due to reasons relating Company's affairs are set out as follows:

Directors	Details of changes
Ms. CHIU Christin Su Yi	• re-designated from Acting Executive Chairman to Chairman of the Board with effect from 30 August 2021 • entitled to a salary of HK$2,400,000 per annum with effect from 30 August 2021
Mr. PAK William Eui Won	• appointed as Executive Director and Chief Operating Officer with effect from 23 September 2021 • appointed as member of the Nomination Committee, the Remuneration Committee and the General Committee with effect from 23 September 2021 • appointed as Interim Chief Executive Officer with effect from 26 October 2021 and re-designated as Chief Executive Officer with effect from 1 March 2021 • entitled to a salary of HK$1,800,000 per annum with effect from 23 September 2021
Mr. SCHLANGMANN Wolfgang Paul Josef	• appointed as Executive Director with effect from 28 October 2021 • appointed as member of the General Committee with effect from 28 October 2021 • entitled to a salary of HK$1,500,000 per annum with effect from 28 October 2021
Mr. WRIGHT Bradley Stephen	• appointed as Executive Director with effect from 14 December 2021 • appointed as member of the Risk Management Committee and the General Committee with effect from 14 December 2021 • entitled to a salary of HK$125,000 per month with effect from 14 December 2021
Mr. HA Kee Choy Eugene	• appointed as an Independent Non-executive Director and member of the Audit Committee and the Risk Management Committee with effect from 13 December 2021 • entitled to a director's fee of HK$480,000 per annum with effect from 13 December 2021
Dr. WAN Yung Ting	• resigned as Executive Director, the Chief Product Development Officer and member of the Risk Management Committee and the General Committee with effect from 30 November 2021
Mr. DALEY Mark David	• resigned as Executive Director, the President and Chief Executive Officer and member of the General Committee with effect from 26 October 2021

Save as disclosed above, there is no other information required to be disclosed herein pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' EMOLUMENTS

Particulars of the remuneration of the Directors and senior management for the Current Year disclosed pursuant to section 383 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 4.1 to the consolidated financial statements. In addition to offering competitive remuneration packages and discretionary bonuses to Directors, the Company also grants share options to Directors and eligible employees based on individual performance as an incentive. The emoluments of the Directors are determined based on the operating results of the Group, individual performance and/or prevailing market conditions. The interests of the Directors in share options and awarded shares are set out in sections of "Share option schemes" and "Share award schemes" below respectively. Information about the remuneration policy of the Group is set out in the section headed "Corporate Governance Report" on pages 36 to 48 of this report.

MATERIAL CONTRACTS

Save as disclosed in this report, no contract of significance has been entered into during the Current Year between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries.

LONG-TERM INCENTIVE SCHEMES

The Company has a share option scheme and a share award scheme at different times to recognize the contribution of certain employees and help to retain them for the Group's operations and further development. For details, please refer to the sections of "Share option schemes" and "Share award schemes" below.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement and contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Current Year save as disclosed in section of "Related Party Transactions" below.

SERVICE CONTRACTS

Ms. CHIU Christin Su Yi, Mr. PAK William Eui Won, Mr. SCHLANGMANN Wolfgang Paul Josef and Mr. WRIGHT Bradley Stephen have entered into respective directorship/service contract with the Company while the other Directors have not entered into any service contract with the Company or any member of the Group. No Director has an unexpired service contract which is not determinable by the Company within one year without payment of compensation other than normal statutory compensation.

PERMITTED INDEMNITY PROVISION

The Company's Bye-laws provide that the Directors, secretary and other officers of the Company for the time being shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty. Such provisions were in force during the course of the Current Year and remained in force as of the date of this report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed in the sections of "Share Option Schemes" and "Share Award Schemes") below, as at 31 December 2021, none of the Directors and chief executives of the Company or their respective associates had any interests or short positions, whether beneficial or non-beneficial, in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules.

SHARE OPTION SCHEMES

2009 Share Option Scheme

The Company adopted the 2009 Share Option Scheme on 10 December 2009 and the scheme was terminated on 5 December 2018. Notwithstanding its termination, the share options which have been granted and remained outstanding shall continue to be valid and exercisable subject to and in accordance with the terms on which the share options were granted, the provisions of the 2009 Share Option Scheme and the Listing Rules. Particulars of the 2009 Share Option Scheme are set out in note 4.2.1 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2009 Share Option Scheme during the Current Year is as follows:

						Number of share options							
	Date of Grant (dd/mm/yyyy)	Exercise Price (HK$)	Adjusted [1] Exercise Price (HK$)	Vesting Date (dd/mm/yyyy)	Exercise Period (dd/mm/yyyy)	As at 01/01/2021	Granted	Increased due to adjustment [1]	Transferred in	Exercised	Transferred out	Lapsed	As at 31/12/2021
Directors													
OR Ching Fai Raymond (resigned with effect from 1 January 2021)	30/06/2014	11.00	N/A	30/06/2015	30/06/2015 - 29/06/2024	450,000	–	–	–	–	450,000	–	–
	25/06/2018	2.66	N/A	25/06/2021	25/06/2021 - 24/06/2028	8,000,000	–	–	–	–	–	8,000,000	–
	In aggregate					8,450,000	–	–	–	–	450,000	8,000,000	–
LEE Ka Sze Carmelo (resigned with effect from 1 January 2021)	30/06/2014	11.00	N/A	30/06/2015	30/06/2015 - 29/06/2024	100,000	–	–	–	–	100,000	–	–
	28/09/2018	1.884	N/A	28/09/2019	28/09/2019 - 27/09/2028	500,000	–	–	–	–	500,000	–	–
	In aggregate					600,000	–	–	–	–	600,000	–	–
Employees	27/09/2011	8.76	8.33	27/09/2014	27/09/2014 - 26/09/2021	1,050,000	–	41,434	–	–	–	1,091,434	–
	12/12/2012	12.32	11.71	12/12/2015	12/12/2015 - 11/12/2022	890,000	–	25,896	–	–	–	442,589	473,307
	11/03/2013	10.04	9.55	11/03/2016	11/03/2016 - 10/03/2023	312,000	–	9,322	–	–	–	132,000	189,322
				11/03/2017	11/03/2017 - 10/03/2023	104,000	–	3,108	–	–	–	44,000	63,108
				11/03/2018	11/03/2018 - 10/03/2023	104,000	–	3,108	–	–	–	44,000	63,108
	04/11/2013	14.18	13.48	04/11/2016	04/11/2016 - 03/11/2023	1,345,000	–	48,943	–	–	–	557,768	836,175
				04/11/2017	04/11/2017 - 03/11/2023	40,000	–	2,072	–	–	–	–	42,072
				04/11/2018	04/11/2018 - 03/11/2023	40,000	–	2,072	–	–	–	–	42,072
	30/06/2014	11.00	10.46	30/06/2017	30/06/2017 - 29/06/2024	180,000	–	9,323	–	–	–	–	189,323
				30/06/2018	30/06/2018 - 29/06/2024	60,000	–	3,107	–	–	–	–	63,107
				30/06/2019	30/06/2019 - 29/06/2024	60,000	–	3,107	–	–	–	–	63,107
	31/10/2014	10.124	9.63	31/10/2017	31/10/2017 - 30/10/2024	2,300,000	–	85,458	–	–	–	886,654	1,498,804
	13/10/2015	6.55	6.23	13/10/2018	13/10/2018 - 12/10/2025	2,250,000	–	90,637	–	–	–	868,127	1,472,510
	31/10/2016	6.87	6.53	31/10/2019	31/10/2019 - 30/10/2026	2,500,000	–	93,227	–	–	–	1,068,127	1,525,100
	07/11/2017	4.65	4.42	07/11/2020	07/11/2020 - 06/11/2027	2,550,000	–	95,817	–	–	–	1,173,306	1,472,511
	25/06/2018	2.66	2.53	25/06/2021	25/06/2021 - 24/06/2028	2,750,000	–	106,175	–	–	–	962,948	1,893,227
	28/09/2018	1.884	1.79	28/09/2021	28/09/2021 - 27/09/2028	1,500,000	–	51,793	–	–	–	500,000	1,051,793
	In aggregate					18,035,000	–	674,599	–	–	–	7,770,953	10,938,646

SHARE OPTION SCHEMES (CONTINUED)

2009 Share Option Scheme (continued)

						Number of share options							
	Date of Grant (dd/mm/yyyy)	Exercise Price (HK$)	Adjusted [1] Exercise Price (HK$)	Vesting Date (dd/mm/yyyy)	Exercise Period (dd/mm/yyyy)	As at 01/01/2021	Granted	Increased due to adjustment [1]	Transferred in	Exercised	Transferred out	Lapsed	As at 31/12/2021
Others	27/09/2011	8.76	8.33	27/09/2014	27/09/2014 - 26/09/2021	300,000	–	15,538	–	–	–	315,538	–
	12/12/2012	12.32	11.71	12/12/2015	12/12/2015 - 11/12/2022	100,000	–	5,179	–	–	–	–	105,179
	11/03/2013	10.04	9.55	11/03/2016	11/03/2016 - 10/03/2023	4,530,000	–	234,621	–	–	–	–	4,764,621
				11/03/2017	11/03/2017 - 10/03/2023	1,410,000	–	73,028	–	–	–	–	1,483,028
				11/03/2018	11/03/2018 - 10/03/2023	1,410,000	–	73,028	–	–	–	–	1,483,028
	04/11/2013	14.18	13.48	04/11/2016	04/11/2016 - 03/11/2023	800,000	–	41,434	–	–	–	–	841,434
	30/06/2014	11.00	N/A	30/06/2015	30/06/2015 - 29/06/2024	110,000	–	–	550,000	–	–	660,000	–
	31/10/2014	10.124	9.63	23/03/2015	23/03/2015 - 30/10/2024	100,000	–	5,179	–	–	–	–	105,179
				31/10/2017	31/10/2017 - 30/10/2024	800,000	–	41,434	–	–	–	–	841,434
	13/10/2015	6.55	6.23	13/10/2018	13/10/2018 - 12/10/2025	100,000	–	5,179	–	–	–	–	105,179
	31/10/2016	6.87	6.53	31/10/2019	31/10/2019 - 30/10/2026	100,000	–	5,179	–	–	–	–	105,179
	07/11/2017	4.65	4.42	07/11/2020	07/11/2020 - 06/11/2027	100,000	–	5,179	–	–	–	–	105,179
	25/06/2018	2.66	2.53	25/06/2021	25/06/2021 - 24/06/2028	8,200,000	–	10,358	–	–	–	8,000,000	210,358
	28/09/2018	1.884	N/A	28/09/2019	28/09/2019 - 27/09/2028	500,000	–	–	500,000	–	–	1,000,000	–
			1.79	28/09/2021	28/09/2021 - 27/09/2028	2,500,000	–	129,481	–	–	–	–	2,629,481
	In aggregate					21,060,000	–	644,817	1,050,000	–	–	9,975,538	12,779,279
Total						**48,145,000**	**-**	**1,319,416**	**1,050,000**	**-**	**1,050,000**	**25,746,491**	**23,717,925**

Notes:

1. The exercise price per Share payable upon exercise of the outstanding share options granted under the 2009 Share Option Scheme was adjusted on 21 April 2021 as a result of the Rights Issue. Details of the adjustments were set out in the announcement of the Company dated 20 April 2021.

2. No share options were canceled under the 2009 Share Option Scheme during the Current Year.

3. No share option was granted to the suppliers of the Group during the Current Year.

SHARE OPTION SCHEMES (CONTINUED)

2018 Share Option Scheme

The Company adopted the 2018 Share Option Scheme on 5 December 2018. The option mandate limit of the 2018 Share Option Scheme has been refreshed upon the shareholders' approval at the special general meeting of the Company held on 6 July 2021. Particulars of the 2018 Share Option Scheme are set out in note 4.2.1 to the consolidated financial statements. A summary of the movements of the outstanding share options under the 2018 Share Option Scheme during the Current Year is as follows:

						Number of share options							
	Date of Grant (dd/mm/yyyy)	Exercise Price (HK$)	Adjusted [1] Exercise Price (HK$)	Vesting Date (dd/mm/yyyy)	Exercise Period (dd/mm/yyyy)	As at 01/01/2021	Granted	Increased due to adjustment [1]	Transferred in	Exercised	Transferred out	Lapsed	As at 31/12/2021
Director													
LEE Ka Sze Carmelo (resigned with effect from 1 January 2021)	10/12/2019	1.604	N/A	19/09/2020	19/09/2020 - 09/12/2029	500,000	–	–	–	–	500,000	–	–
Employees	10/12/2019	1.604	1.53	19/09/2022	19/09/2022 - 09/12/2029	5,800,000	–	227,888	–	–	–	2,977,689	3,050,199
			1.53	10/12/2022	10/12/2022 - 09/12/2029	300,000	–	15,538	–	–	–	–	315,538
	In aggregate					6,100,000	–	243,426	–	–	–	2,977,689	3,365,737
Others	10/12/2019	1.604	N/A	19/09/2020	19/09/2020 - 09/12/2029	500,000	–	–	500,000	–	–	1,000,000	–
			N/A	10/12/2020	10/12/2020 - 09/12/2029	500,000	–	–	–	–	–	500,000	–
			1.53	19/09/2022	19/09/2022 - 09/12/2029	4,500,000	–	25,896	–	–	–	4,000,000	525,896
			N/A	10/12/2022	10/12/2022 - 09/12/2029	2,000,000	–	–	–	–	–	2,000,000	–
	In aggregate					7,500,000	–	25,896	500,000	–	–	7,500,000	525,896
Total						**14,100,000**	**-**	**269,322**	**500,000**	**-**	**500,000**	**10,477,689**	**3,891,633**

Notes:
1. The exercise price per Share payable upon exercise of the outstanding share options granted under the 2018 Share Option Scheme was adjusted on 21 April 2021 as a result of the Rights Issue. Details of the adjustments were set out in the announcement of the Company dated 20 April 2021.
2. No share options were canceled under the 2018 Share Option Scheme during the Current Year.
3. No share option was granted to the suppliers of the Group during the Current Year.

SHARE AWARD SCHEMES

The Board has adopted an employees' share award scheme (the "Old Share Award Scheme") on 17 March 2016. On 23 April 2021, the Board has resolved to terminate the Old Share Award Scheme. A summary of the movements of the outstanding awarded shares under the Old Share Award Scheme during the Current Year is as follows:

			Number of awarded shares				
	Date of grant (dd/mm/yyyy)	**Vesting date (dd/mm/yyyy)**	**As at 01/01/2021**	**Granted**	**Vested**	**Lapsed**	**As at 31/12/2021**
Other	22/06/2018	22/06/2021	2,000,000	–	–	2,000,000	–
Total			**2,000,000**	**–**	**–**	**2,000,000**	**–**

The Company has adopted a new share award scheme (the "New Share Award Scheme") on 6 July 2021. During the Current Year, there was no movement for the New Share Award Scheme. Particulars of the Old Share Award Scheme and the New Share Award Scheme are set out in note 4.2.2 to the consolidated financial statements.

ACCOUNTING TREATMENT FOR SHARE OPTIONS AND AWARDED SHARES

Details of accounting treatment for share options and awarded shares are set out in note 4.2 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Current Year was the Company or its subsidiaries a party to any arrangement that enabled the Directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2021, the following shareholders (other than the Directors and chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company disclosed above) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity	Number of shares (Long position)	Approximate percentage of aggregate interest to total issued share capital
LO Ki Yan Karen ("Ms. LO") (Note 1)	Beneficial owner	425,614,200	27.92%
	Interest in a controlled corporation	364,782,600	
North Point Talent Limited (Note 1)	Beneficial owner	364,782,600	12.89%

Note:
1. Ms. LO is the sole shareholder of North Point Talent Limited. Therefore, Ms. LO was deemed to be interested in the 364,782,600 shares held by North Point Talent Limited.

Save as disclosed hereinabove and in section of "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 31 December 2021 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the Current Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws.

PUBLIC FLOAT

As at the date of this report and insofar as the Directors are aware, the Company maintained sufficient public float as required under the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Current Year.

CONNECTED TRANSACTIONS

(1) On 25 January 2021, certain transactions were entered into between the Group and the following connected persons of the Company (as defined under the Listing Rules):

(a) pursuant to a tenancy agreement dated 25 January 2021 in respect of the whole floor of 13th Floor of China United Centre, No. 28 Marble Road, North Point, Hong Kong ("13/F Premises") entered into between Filen Limited ("Filen") as the landlord and Esprit Regional Distribution Limited ("ERDL"), an indirectly wholly-owned subsidiary of the Company, as the tenant, Filen leased 13/F Premises to ERDL for a term of 2 years commencing from 1 February 2021 and expiring on 31 January 2023 (both days inclusive) at a monthly rental of HK$296,001.00; and

(b) pursuant to a tenancy agreement dated 25 January 2021 in respect of the whole floor of 27th Floor of China United Centre, No. 28 Marble Road, North Point, Hong Kong ("27/F Premises") entered into between CUCNP Holdings Limited ("CUCNP Holdings") as the landlord and ERDL as the tenant, CUCNP Holdings leased 27/F Premises to ERDL for a term of 2 years commencing from 1 February 2021 and expiring on 31 January 2023 (both days inclusive) at a monthly rental of HK$302,049.00.

CONNECTED TRANSACTIONS (CONTINUED)

As at the date of this report, each of Filen and CUCNP Holdings is an indirect subsidiary of Terra Firma Holdings Limited, a company held by the trustee of a discretionary trust of which the immediate family member of Ms. LO is a beneficiary. Ms. LO is a substantial shareholder of the Company, hence a connected person of the Company. Details of the above connected transactions were disclosed in the Company's announcement dated 25 January 2021.

(2) On 23 November 2021, certain transactions were entered into between the Group and the following connected persons of the Company (as defined under the Listing Rules):

(a) pursuant to a tenancy agreement dated 23 November 2021 in respect of the whole floor of 12th Floor of China United Centre, No. 28 Marble Road, North Point, Hong Kong ("12/F Premises") entered into between Hero Mode Limited ("Hero Mode") as the landlord and ERDL as the tenant, Hero Mode leased 12/F Premises to ERDL for a term of two years commencing from 1 December 2021 and expiring on 30 November 2023 (both days inclusive) at a monthly rental of HK$350,816.00; and

(b) pursuant to a tenancy agreement dated 23 November 2021 in respect of the whole floor of 9th Floor of E-Trade Plaza and car parking space nos. 222, 223 and 224 on the 2nd Floor of E-Trade Plaza, 24 Lee Chung Street, Chai Wan, Hong Kong ("E-Trade Plaza Premises") entered into between Golden Lake Property Limited ("Golden Lake Property") as the landlord and ERDL as the tenant, Golden Lake Property leased E-Trade Plaza Premises to ERDL for a term of two years commencing from 1 December 2021 and expiring on 30 November 2023 (both days inclusive) at a monthly rental of HK$190,000.00.

As at the date of this report, each of Hero Mode and Golden Lake Property is indirect wholly-owned by Ms. LO. Ms. Lo is a substantial shareholder of the Company. Therefore, each of Hero Mode and Golden Lake Property is an associate of Ms. LO and is a connected person of the Company. Details of the above connected transactions were disclosed in the Company's announcement dated 23 November 2021.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules and save as disclosed above, there were no other transactions which need to be disclosed as connected transaction in accordance with the requirements of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under note 4.1 to the consolidated financial statements. Save as disclosed in the announcements of the Company dated 25 January 2021 and 23 November 2021 regarding connected transactions in relation to tenancy agreements, none of these related party transactions constitutes a connected transaction as defined in the Listing Rules.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out on pages 36 to 48 of this report.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who are due to retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

There has been no change in the auditors of the Company for the preceding three years.

On behalf of the Board
ESPRIT HOLDINGS LIMITED

CHIU Christin Su Yi
Chairman

Hong Kong, 29 March 2022

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Ms. CHIU Christin Su Yi, aged 42, is the Chairman of the Board and Executive Director of the Company. She has been an Executive Director of the Company since July 2020. She became Acting Executive Chairman of the Board since January 2021 and was re-designated as Chairman of the Board with effect from 30 August 2021. She is Chairman of the Nomination Committee, a member of the Remuneration Committee and the General Committee of the Board, a director of certain subsidiaries of the Company and a trustee of a charitable trust of the Company. Ms. CHIU has extensive experience in corporate finance, securities law matters and regulatory issues. She advises financial institutions, both private and public corporations, hedge funds and private equity funds on securities trading and compliance matters. She is the spouse of Mr. PAK William Eui Won who is an Executive Director, Chief Executive Officer and Chief Operating Officer of the Company. She graduated from the University of Alberta with a Juris Doctor degree and from McMaster University with a Bachelor of Arts degree, *summa cum laude*. Ms. CHIU is admitted as an attorney at law in the State of New York in United States, and a barrister and solicitor in the Province of British Columbia in Canada.

Previously, Ms. CHIU worked at Hogan Lovells, a leading international firm with offices globally and Remedios and Company, a premier boutique law firm situated in Vancouver, Canada.

Mr. PAK William Eui Won, aged 42, has been appointed as an Executive Director and Chief Operating Officer of the Company since September 2021. He has become interim Chief Executive Officer of the Company with effect from 26 October 2021 until his re-designation as Chief Executive Officer of the Company with effect from 1 March 2022. He is a member of the Nomination Committee, the Remuneration Committee and the General Committee of the Board. He holds a Master of Laws degree in U.S. taxation from the University of Washington School of Law, a Juris Doctor degree from the University of British Columbia Faculty of Law, and an Economics and Commerce degree from the University of British Columbia Faculty of Arts. Mr. PAK is an attorney licensed by the New York State Bar. He is the spouse of Ms. CHIU Christin Su Yi who is an Executive Director of the Company and the Chairman of the Board. Mr. PAK is a seasoned executive with extensive operating and management experience. He has over a decade of experience and made a successful career in leading companies in the financial services and fund management industry. His industry expertise also includes technology, alternative energy, mining and real estate. He is experienced in identifying and revitalizing underperforming areas and driving favourable results while ensuring sustainable growth. Prior to embarking on a career in the financial industry, Mr. PAK was a lawyer in the investment funds practice at White & Case's New York and Hong Kong offices. He has substantive experience in the establishment and representation of both U.S. and international private investment funds. Before joining White & Case, Mr. PAK worked in the mergers & acquisitions department in the San Francisco office of a major international firm where he provided transactional tax advisory services for mergers and acquisitions, reorganisations and spin-offs.

Mr. SCHLANGMANN Wolfgang Paul Josef, aged 68, has been appointed as an Executive Director of the Company since October 2021. He is a member of the General Committee of the Board. He joined the Group as a consultant since December 2020 and is currently European Recovery Chairman and Senior Advisor to the Board. He holds a Master's Degree in Business Administration from Bochum University in Germany. Mr. SCHLANGMANN has over 40 years of experience in the fashion industry with an extensive history of successful brand revitalization strategies. He served as Chief Executive Officer of s.Oliver Asia and s.Oliver Turkey prior to founding his own garment and sourcing services business.

Mr. WRIGHT Bradley Stephen, aged 56, has been appointed as an Executive Director of the Company since December 2021. He is a member of the Risk Management Committee and the General Committee of the Board. He is a director of certain subsidiaries of the Company outside of Hong Kong, namely in Europe and United States. He has thirty-three years of experience serving in the Hong Kong Police Force. Mr. WRIGHT joined the then Royal Hong Kong Police Force in 1988 as an Inspector of Police and attained the rank of Chief Superintendent of Police when he reached the prescribed retirement age.

In the early years of his career, Mr. WRIGHT worked in a variety of uniform frontline policing roles such a Patrol Subunit Commander, Police Tactical Unit Platoon Officer, Assistant Divisional Commander, and a Senior Staff Inspector at Police Headquarters. In the late 1990s to early 2000s, Mr. WRIGHT worked in the field of training and professional development before moving to command the Kowloon Internal Investigation Office. In the last ten years of his career, Mr. WRIGHT took up a number of command posts, leading up to 1,200 officers, including District Commander Marine Outer Waters District, Chief Superintendent Support and District Commander, Mong Kok District from 2018 until retirement. Throughout his career, Mr. WRIGHT was frequently recognized and was awarded five Commanding Officer's Commendations, one Commissioners' Commendation and in the 2021 Hong Kong Special Administrative Region Government Honour's List was awarded the Police Meritorious Service Medal (PMSM).

Mr. WRIGHT graduated from the London University School of Oriental and African Studies in 1987 and obtained a Bachelor of Arts, *with honours* in History and Politics. Committed to lifelong learning, he has continued his learning and has not only completed but also excelled in various trainings including the HKUST Leadership and Public Policy Programme, Ivey Business School – Advanced Public Policy and Management, Stakeholders Engagement in a Volatile Environment and Public Sector Accountability, and University of Michigan – Strategic Innovation just to name a few.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHUNG Kwok Pan, aged 58, has been appointed as an Independent Non-executive Director of the Company since July 2020. He is a member of the Audit Committee, the Remuneration Committee and the Risk Management Committee of the Board. He has been responsible for the business management of Chungweiming Knitting Factory Limited since early 1988. Mr. CHUNG also has several social positions, including Leader of the Liberal Party, Honorary Life Chairman of Hong Kong Apparel Society Limited, a member of the Honorary General Committee of The Chinese Manufacturers' Association of Hong Kong, an advisor of New Territories General Chamber of Commerce, a director of Hong Kong Design Centre, Chairman of the Design Discipline Advisory Board of Vocational Training Council, Chairman of the Fashion Industry Training Advisory Committee, Education Bureau of the Hong Kong Special Administrative Region ("Hong Kong") and a member of the Advisory Group on Implementation of Fashion Initiatives, The Commerce and Economic Development Bureau of Hong Kong. He was also a member of the 5th and 6th Legislative Council of Hong Kong (Textile and Garment Sector), and a member of the 9th Guangdong Provincial Committee of the Chinese People's Political Consultative Conference in 2005.

Mr. CHUNG obtained a Bachelor's degree in Quantity Surveying from Robert Gordon's Institute of Technology, Scotland (currently known as Robert Gordon University, Aberdeen) in July 1986 and a Master's degree in Business Administration from the University of Stirling, Scotland, United Kingdom in May 1988.

He served as an independent non-executive director of SFund International Holdings Limited (previously known as Hanbo Enterprises Holdings Limited) (stock code: 1367) from June 2014 to November 2016. He has served as an independent non-executive director of High Fashion International Limited (stock code: 608) since July 2019, an independent non-executive director of Planetree International Development Limited (stock code: 613) since April 2020 and an independent non-executive director of Legendary Group Limited (formerly known as L & A International Holdings Limited) (stock code: 8195) since June 2021. These companies are listed on The Stock Exchange of Hong Kong Limited.

Mr. GILES William Nicholas, aged 59, has been appointed as an Independent Non-executive Director of the Company since December 2020. He is Chairman of the Remuneration Committee and the Risk Management Committee, and a member of the Audit Committee and the Nomination Committee of the Board. He is a partner of Hart Giles, Solicitors & Notaries. Mr. GILES has over thirty years of extensive experience in practising law as a specialist in large-scale commercial litigation, insolvency work, restructuring and regulatory investigations. Mr. GILES has acted in numerous cases in the High Court and Court of Appeal concerning civil fraud, white-collar crime, financial services, employment, commercial contracts and shareholder disputes. Mr. GILES has also acted as liquidator of more than 70 companies and has served as an independent non-executive director of Blue River Holdings Limited (formerly known as PYI Corporation Limited) (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 498) since February 2021.

Mr. GILES was admitted as a solicitor in England & Wales in 1987 and in Hong Kong in 1990. Prior to that, Mr. GILES had obtained a Bachelor of Laws degree (Hons) from The University of Sheffield in 1984.

Mr. HA Kee Choy Eugene, aged 65, has been appointed as an Independent Non-executive Director of the Company since December 2021. He is a member of the Audit Committee and the Risk Management Committee of the Board. Mr. HA holds a Master's Degree in Business Administration. He is a fellow member of the Association of Chartered Certified Accountants. He possesses over 30 years of experience in the finance and banking industries and acts or/and acted as director of a number of private and listed companies in Hong Kong. He is the director of a certified public accountants corporate practice in Hong Kong.

Mr. HA is currently an independent non-executive director of Touyun Biotech Group Limited (stock code: 1332), which is listed on The Stock Exchange of Hong Kong Limited. He was an independent non-executive director of several Hong Kong publicly listed companies, including International Entertainment Corporation (stock code: 1009) from May 2017 to March 2022, Planetree International Development Limited (stock code: 613) from April 2019 to December 2020 and Longhui International Holdings Limited (stock code: 1007) from January 2016 to August 2020.

Ms. LIU Hang-so, aged 57, has been appointed as an Independent Non-executive Director of the Company since January 2021. She is a member of the Nomination Committee and the Remuneration Committee of the Board. Ms. LIU is a veteran of the consumer goods sector with a specialty in luxury goods. In addition to her strong retail knowledge covering Greater China, Asia Pacific, USA, Japan, Europe and India, she has deep expertise in government affairs, policy and regulation. Ms. LIU is currently the first president for the strategically important China market of DFS (DFS Group Limited). She oversees all of DFS' operations in Mainland China, including the Times DF x DFS Haikou Mission Hills Duty-Free Complex (深圳免税x DFS海口觀瀾湖免税購物城), which was opened in January 2021 by DFS in partnership with Shenzhen Duty Free Group. Prior to joining DFS, she spent 13 years of her career in a leading luxury jeweler De Beers Forevermark, where she was Chief Execuitve Officer from 2019 to 2021, which was a global role based out of China. She also worked previously with the Boston Consulting Group in Hong Kong, as a Vice President for Merchandising for Louis Vuitton in Hong Kong, and as General Manager for LVMH Watches and Jewelry in Taiwan. Ms. LIU obtained a Bachelor of Arts Degree in Liberal Arts and Sciences from the University of Illinois at Chicago in 1986.

Mr. LO Kin Ching Joseph, aged 65, has been appointed as an Independent Non-executive Director of the Company since January 2020. He is Chairman of the Audit Committee and a member of the Nomination Committee of the Board. Mr. LO is a Chartered Certified Accountant, Fellow of the Association of Chartered Certified Accountants, United Kingdom, and a Certified Public Accountant, and fellow member of the Hong Kong Institute of Certified Public Accountants. He joined Deloitte Touche Tohmatsu ("Deloitte") in 1980 and was a partner since 1988 until his retirement in 2016. He was chairman of Deloitte Hong Kong from 2006 to 2014 and chairman of Deloitte China from 2008 to 2014. He has 40 years of professional experience in providing auditing, financial advisory, restructuring, insolvency, mergers and acquisitions and initial public offering services.

Mr. LO is a member of the Court of the Hong Kong Polytechnic University, a member of the Hospital Governing Committee of MacLehose Medical Rehabilitation Centre, a member of the College Council of Chu Hai College of Higher Education, Hong Kong, a committee member of the Hong Kong Arts Development Council Fund; a director of Hong Kong Design Centre Limited, and a member of the Finance Committee of M+ Museum. He is an independent non-executive director of ZA Bank Limited. He served as a member of the Standing Commission on Civil Service Salaries and Conditions of Service, Hong Kong from 2013 to 2019. He was a member of the Committee of Overseers of Wu Yee Sun College, the Chinese University of Hong Kong, a member of 10th and 11th of Hebei Provincial Committee of the Chinese People's Political Consultative Conference (CPPCC), an advisor to the China Accounting Standards Committee of the Ministry of Finance of China and a member of the Hospital Governing Committee of Queen Mary Hospital and Tsan Yuk Hospital, Hong Kong. Mr. LO was the chairman and executive director of Bisu Technology Group International Limited (currently known as China Carbon Neutral Development Group Limited) (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 1372) from March 2017 to June 2018. He was also an independent non-executive director of Radisson Hospitality AB (a company formerly listed on the stock exchange of Stockholm, Sweden) from May 2017 to March 2019.

SENIOR MANAGEMENT

Various businesses and functions of the Company are respectively under the direct responsibilities of the Executive Directors who are regarded as senior management of the Company.

5

Financial Section

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Esprit Holdings Limited
(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Esprit Holdings Limited (the "Company") and its subsidiaries (the "Group") which are set out on pages 70 to 131, comprise:

- the consolidated balance sheet as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 period. 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.

Key audit matters identified in our audit are summarised as follows:

- Trademarks impairment
- Impairment of right-of-use assets
- Valuation of inventories at net realizable value

Key Audit Matter	How our audit addressed the Key Audit Matter
Trademarks impairment	
Refer to note 2.6.1 "Intangible assets" and Accounting Policies note 6.7 and Critical Accounting Estimates and Judgments in note 3.1.1 to the consolidated financial statements. The Group has trademarks of HK$1,575 million in the consolidated balance sheet as at 31 December 2021. Trademark with an indefinite useful life is required to be assessed for impairment at least annually or when an impairment indicator exists. In determining the recoverable amount of trademarks arrived at the Relief-from-Royalty Method, certain assumptions such as budgeted sales, royalty rates, discount rates and terminal growth rate are required in the discounted cash flow calculations. Based on their assessment, management concluded that the trademarks were not impaired as at 31 December 2021. We focused on this area since the assessment for impairment of trademarks requires significant management judgment on the key assumptions used.	We obtained an understanding of management's assessment of carrying value of trademarks and our procedures in relation to this assessment included: ■ Evaluating management's assessment on whether any event or change in circumstances may indicate a change in the expected useful life of trademarks; ■ Involving our valuation expert to evaluate the appropriateness of the valuation methodology on trademarks; ■ Evaluating the process by which management's future cash flow forecasts were prepared; ■ Comparing historical actual results to those budgeted to assess the quality of management's forecasting; ■ Reconciling input data to the approved business plan; and ■ Evaluating the reasonableness of the key assumptions including budgeted sales, royalty rates, discount rates and terminal growth rate with reference to the historical financial data, available industry and market data and future business direction and business plan of management. We considered the estimates made by management in respect of the determination of the recoverable amount are supportable based on the available evidence.
Impairment of right-of-use assets	
Refer to note 2.6.3 "Right-of-use assets" and Accounting Policies note 6.8 and Critical Accounting Estimates and Judgements in note 3.1.2 to the consolidated financial statements. The Group has right-of-use assets of HK$2,033 million in the consolidated balance sheet as at 31 December 2021. Management performed an impairment assessment on the right-of-use assets as at 31 December 2021. Management considers each store to be a cash generating unit and has performed a review of the trading results of its stores for the year to assess whether there is a need for an impairment provision on right-of-use assets. The carrying amounts of the relevant cash-generating units are compared with the corresponding recoverable amounts in the context of the impairment test. The recoverable amounts are calculated on the basis of value in use by using discounted cash flow model. Based on results of the impairment test, an impairment loss on right-of-use assets of HK$15 million is recognised. We focused on this area because there are significant judgments and estimates made by management in determining the impairment provision on the right-of-use assets.	We obtained an understanding of management's assessment of the carrying value of the right-of-use assets and our procedures in relation to this assessment included: ■ Evaluating the process by which management's future cash flow forecasts were prepared; ■ Comparing historical actual results to those budgeted to assess the quality of management's forecasting; ■ Reconciling input data to the approved business plan, and ■ Evaluating the reasonableness of the key assumptions including budgeted sales, gross profit margin, discount rates and terminal growth rate with reference to the historical financial data, available industry and market data and future business direction and business plan of management. We considered the estimates made by management in respect of the impairment provisions on right-of-use assets are supportable based on the available evidence.
Valuation of inventories at net realizable value	
Refer to note 2.7.1 "Inventories" and Accounting Policies note 6.12 and Critical Accounting Estimates and Judgments in note 3.1.3 to the consolidated financial statements. The Group has net inventories balance of HK$1,413 million as at 31 December 2021. Inventories are carried in the consolidated financial statements at the lower of cost and net realizable value. The net realizable value of inventories in the fashion and apparel industry is difficult to estimate and could be impacted by changes in the economic condition of countries where the Group operates, as well as changes in customer tastes and competitor actions in response to changes in market conditions. We focused on this area due to the inherent complexity and judgment in estimating the amount of inventory provisions required.	We obtained an understanding of the key procedures implemented by management in estimating the net realizable value of inventories and periodic reviews of inventory obsolescence. We tested a sample of inventory items categorized into different seasons of the year to test whether the inventories were correctly categorized in terms of the ageing of inventories and recalculated the mathematical accuracy of the provision made. We examined the Group's historical trading patterns of inventories sold at full price, inventories marked down during sales periods and inventories for clearance sales in outlets. We assessed the reasonableness of the provisions by comparing management's projections on current trends and demands for the remaining inventories, with reference to historical sales experience and related margins in each of these channels. We considered the estimates made by management in respect of the inventories provisions are supportable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 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 IFRSs 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.

The directors 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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 ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 the directors 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 the directors 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.

From the matters communicated with the directors, 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 Ms Yee Shia Yuen.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2022

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HK$ million	Notes	For the year ended 31 December 2021	For the six months ended 31 December 2020
Continuing operations			
Revenue	2.2	**8,316**	**885**
Cost of purchases		(4,274)	(509)
Gross profit		**4,042**	**376**
Staff costs	2.3.2	(1,146)	(236)
Occupancy costs		(255)	(49)
Logistics expenses		(538)	(54)
Marketing and advertising expenses		(446)	(18)
Depreciation of property, plant and equipment	2.6.2	(135)	(22)
Depreciation of right-of-use assets	2.3.3	(542)	(97)
Impairment of property, plant and equipment	2.6.2	–	(7)
Write-back of provision/(provision) for inventories, net	2.3.1	140	(187)
Provision for impairment of trade debtors, net	2.7.2	(35)	(39)
Impairment loss on right-of-use assets	2.3.4	(15)	(6)
Loss on deconsolidation	1.2.2	–	(1,664)
Other operating costs	2.3.5	(654)	(708)
Operating profit/(loss) from continuing operations (EBIT/(LBIT))		**416**	**(2,711)**
Share of results from associates	1.2.2	–	1,939
Loss on remeasurement		–	(69)
Interest income		2	2
Finance costs	2.3.6	(32)	(15)
Profit/(loss) before taxation from continuing operations		**386**	**(854)**
Income tax expense	2.4	(5)	(18)
Profit/(loss) from continuing operations		**381**	**(872)**
Discontinued operations			
Profit from discontinued operations	1.2.3	–	458
Profit/(loss) attributable to shareholders of the Company		**381**	**(414)**

		For the year ended 31 December 2021	For the six months ended 31 December 2020
			(Adjusted)[1]
Basic and diluted profit/(loss) per share	4.3	**HK$0.15**	**HK$(0.20)**
– from continuing operations		HK$0.15	HK$(0.42)
– from discontinued operations		–	HK$0.22

1 Adjustment as a result of the rights issue with effect from 21 April 2021.

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

HK$ million	Notes	For the year ended 31 December 2021	For the six months ended 31 December 2020
Profit/(loss) from continuing operations		381	(872)
Profit from discontinued operations		–	458
Profit/(loss) attributable to shareholders of the Company		**381**	**(414)**
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Remeasurements of retirement defined benefit obligations, net of tax	2.9.3	10	(2)
		10	**(2)**
Items that may be reclassified subsequently to profit or loss:			
Exchange translation from continuing operations		(197)	251
Exchange translation from discontinued operations		–	(33)
Recycling of translation reserve		–	1,664
		(197)	1,882
Total comprehensive income for the year/period attributable to shareholders of the Company, net of tax		**194**	**1,466**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

HK$ million	**Notes**	**As at 31 December 2021**	**As at 31 December 2020**
Non-current assets			
Intangible assets	2.6.1	1,727	1,878
Property, plant and equipment	2.6.2	368	509
Right-of-use assets	2.6.3	2,033	2,262
Financial assets at fair value through profit or loss	2.6.4	4	11
Debtors, deposits and prepayments	2.6.5	416	392
Deferred tax assets	2.5.1	42	51
		4,590	**5,103**
Current assets			
Inventories	2.7.1	1,413	1,303
Debtors, deposits and prepayments	2.7.2	1,365	1,627
Tax receivable		30	45
Cash, bank balances and deposits	2.7.3	2,649	2,271
		5,457	**5,246**
TOTAL ASSETS		**10,047**	**10,349**
Current liabilities			
Creditors and accrued charges	2.8.1	1,497	2,074
Lease liabilities	2.8.2	566	1,046
Provisions	2.8.3	132	246
Tax payable		253	257
		2,448	3,623
Net current assets		**3,009**	**1,623**
Total assets less current liabilities		7,599	6,726
Equity			
Share capital	2.10.1	283	189
Reserves		4,834	4,050
		5,117	4,239
Non-current liabilities			
Bank loans	2.9.1	–	9
Lease liabilities	2.9.2	2,066	2,010
Retirement defined benefit obligations	2.9.3	18	31
Deferred tax liabilities	2.5.1	398	437
		2,482	**2,487**
TOTAL LIABILITIES		**4,930**	**6,110**
TOTAL EQUITY AND LIABILITIES		**10,047**	**10,349**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Approved by the Board of Directors on 29 March 2022:

CHIU Christin Su Yi
Executive Director

PAK William Eui Won
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

HK$ million	Share capital	Share premium	Employee share-based payment reserve	Shares held for Old Share Award Scheme	Hedging reserve	Remeasurements of retirement defined benefit obligations	Contributed surplus	Translation reserve	Capital reserve	Accumulated losses	Total Equity
At 31 December 2020	**189**	**7,988**	**913**	**(39)**	**-**	**(7)**	**7**	**881**	**1**	**(5,694)**	**4,239**
Exchange translation	–	–	–	–	–	–	–	(197)	–	–	(197)
Remeasurements of retirement defined benefit obligations (note 2.9.3)	–	–	–	–	–	10	–	–	–	–	10
Profit attributable to shareholders of the Company	–	–	–	–	–	–	–	–	–	381	381
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**	**10**	**-**	**(197)**	**-**	**381**	**194**
Transactions with owners											
Issue of rights issues	94	595	–	–	–	–	–	–	–	–	689
Employee share-based compensation benefits (note 4.2)	–	–	(11)	–	–	–	–	–	–	–	(11)
Disposal of shares held for Old Share Award Scheme (note)	–	–	–	39	–	–	–	–	–	(33)	6
Total transactions with owners	**94**	**595**	**(11)**	**39**	**-**	**-**	**-**	**-**	**-**	**(33)**	**684**
At 31 December 2021	**283**	**8,583**	**902**	**-**	**-**	**3**	**7**	**684**	**1**	**(5,346)**	**5,117**

Note: During the year ended 31 December 2021, the Board resolved to terminate the Old Share Award Scheme on 23 April 2021. A total of 7,818,589 shares of the Company were sold by the trustee. The net proceeds from disposal of shares held for Old Share Award Scheme was HK$6 million. HK$33 million was made from share held for Old Share Award Scheme to accumulated losses in respect of the shares whose selling prices were lower than the costs.

HK$ million	Share capital	Share premium	Employee share-based payment reserve	Shares held for Old Share Award Scheme	Hedging reserve	Remeasurements of retirement defined benefit obligations	Contributed surplus	Translation reserve	Capital reserve	Accumulated losses	Total Equity
At 30 June 2020	**189**	**7,988**	**910**	**(39)**	**-**	**(5)**	**7**	**(1,001)**	**1**	**(5,280)**	**2,770**
Exchange translation	–	–	–	–	–	–	–	218	–	–	218
Remeasurements of retirement defined benefit obligations (note 2.9.3)	–	–	–	–	–	(2)	–	–	–	–	(2)
Recycling of translation reserve	–	–	–	–	–	–	–	1,664	–	–	1,664
Loss attributable to shareholders of the Company	–	–	–	–	–	–	–	–	–	(414)	(414)
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**1,882**	**-**	**(414)**	**1,466**
Transactions with owners											
Employee share-based compensation benefits (note 4.2)	–	–	3	–	–	–	–	–	–	–	3
Total transactions with owners	**-**	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**
At 31 December 2020	**189**	**7,988**	**913**	**(39)**	**-**	**(7)**	**7**	**881**	**1**	**(5,694)**	**4,239**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

HK$ million	notes	For the year ended 31 December 2021	For the six months ended 31 December 2020
Cash flows from operating activities			
Cash generated from/(used in) operations	2.11	569	(105)
Overseas tax refund/(paid), net		16	(1)
Interest on lease liabilities paid	2.11	(25)	(14)
Net cash generated from/(used in) operating activities		**560**	**(120)**
Cash flows from investing activities			
Purchase of intangible assets, property, plant and equipment		(45)	(8)
Proceeds from disposal of plant and equipment	2.11	4	1
Net proceeds from disposal of club debenture		4	–
Net cash outflow for disposal of subsidiaries		–	(1,449)
Net cash inflow for acquisition of subsidiaries		–	1,533
Receipts of finance lease receivables		–	6
Interest received		1	2
Net decrease in bank deposits with maturities of more than three months	2.7.3	–	56
Net cash (used in)/generated from investing activities		**(36)**	**141**
Cash flows from financing activities			
Net proceeds from rights issue		689	–
Repayment of bank loan	2.11	(9)	–
Disposal of shares for Old Share Award Scheme		6	–
Repayment of lease liabilities	2.11	(715)	(152)
Interest paid		(3)	–
Net cash used in financing activities		**(32)**	**(152)**
Net increase/(decrease) in cash and cash equivalents		492	(131)
Cash and cash equivalents at beginning of year/period		2,270	2,231
Effect of change in exchange rates		(114)	170
Cash and cash equivalents at end of year/period		2,648	2,270
Analysis of balances of cash and cash equivalents			
Bank balances and cash		2,648	2,175
Bank deposits		1	96
Cash, bank balances and deposits	2.7.3	**2,649**	**2,271**
Less: bank deposits with maturities of more than three months		(1)	(1)
		2,648	**2,270**
Discontinued operations			
Net cash used in operating activities		–	(58)
Net cash generated from investing activities		–	1
Net cash used in financing activities		–	(7)

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1. Group structure

Esprit Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally renowned ESPRIT brand name. The Company is the ultimate parent of the Group.

The Company is a limited liability company incorporated in Bermuda. The registered address is Clarendon House, Church Street, Hamilton HM 11, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited (stock code: 00330).

These consolidated financial statements are presented in millions of Hong Kong Dollars, unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2022.

Please refer to note 7 for the principal subsidiaries.

1.2. Basis of the preparation

1.2.1. Going concern

During the year ended 31 December 2021, the Group recorded a net profit attributable to shareholders of HK$381 million and a net cash inflow of HK$492 million. The Group has net current assets of HK$3,009 million and no external borrowings as at 31 December 2021.

Given the continuing uncertainties around the COVID-19 pandemic (the "Pandemic"), the Group is closely monitoring the latest developments of the Pandemic and continuing to optimize its cost base and improve its product offering in order to generate sufficient cash from its operations. The Board has reviewed the cash flow forecast prepared by management covering a period of twelve months from 31 December 2021. The Directors are of the opinion that, after taking into consideration of the above measures and the available cash and bank balances, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2021. Accordingly, these financial statements have been prepared on a going concern basis.

1.2.2. Comparative figures

On 28 December 2020, the Board announced that the financial year end date of the Company has been changed from 30 June to 31 December commencing from the financial period ended 31 December 2020. Accordingly, the accompanying consolidated financial statements for the current financial period cover a period of twelve months from 1 January 2021 to 31 December 2021. The comparative figures, however, are for six months from 1 July 2020 to 31 December 2020, and hence are not directly comparable.

In addition, due to the Insolvency Proceedings took place by the Düsseldorf District Court of Germany (the "Insolvency Proceedings") in the period from 1 July 2020 to 30 November 2020, six Germany subsidiaries and their fourteen subsidiaries (together the "G20 Companies") were deconsolidated and accounted for as investments in associates during that period (the "Deconsolidation"), resulting in a loss on deconsolidation of HK$1,664 million due to recycling of the foreign exchange reserve in equity. Accordingly, during the period from 1 July 2020 to 30 November 2020, the results of the G20 Companies had been equity accounted for as share of results from associates in the Group's financial statements amounting to HK$1,939 million, which included the external debt relief from the Insolvency Proceedings of HK$1,365 million.

1. GENERAL INFORMATION (CONTINUED)

1.2. Basis of the preparation (Continued)

1.2.3. Discontinued operations

The Group has closed its business activities in Asia including China, Singapore, Malaysia, Taiwan, Hong Kong and Macau as part of its restructuring initiatives in 2020.

As at 31 December 2020, all business activities in Asia are closed and the Asia business is disclosed as discontinued operations.

The financial performance and cash flow information referring to the discontinued operation is presented in the following table:

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Revenue	–	1
Income	–	457
Profit before taxation	**–**	**458**
Income tax expense	–	–
Profit from discontinued operations, net of tax	**–**	**458**
Exchange translation from discontinued operations	–	(33)
		(Adjusted)[1]
Basic and diluted profit per share	**–**	**HK$0.22**

[1] Adjustment as a result of the rights issue on 21 April 2021 and refer to note 4.3 for basic and diluted profit/(loss) per share.

1.3. Compliance with IFRSs and HKCO

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and interpretations issued by the IFRSs Interpretations Committee applicable to companies reporting under IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance ("HKCO").

1.4. Historical cost convention

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities (including derivative instruments), and
- defined benefit pension plans – plan assets measured at fair value.

1.5. New and amended standards and interpretations adopted by the Group

During the year ended 31 December 2021, the Group has adopted the following standards and amendments effective for the Group's reporting period beginning 1 January 2021:

Adopted	Effective date	New standards or amendments
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 (Amendments)	1 January 2021	Interest rate benchmark reform (Phase 2)
IFRS 4 (Amendments)	1 January 2021	Insurance contracts deferral IFRS 9
IFRS 16 (Amendments)	1 January 2021	COVID-19-related rent concessions

The amendments listed above did not have any material impact on the Group's consolidated financial statements.

1. GENERAL INFORMATION (CONTINUED)

1.6. New standards and interpretations not yet adopted

Not early adopted	Effective for accounting periods beginning on or after	New standards or amendments
Annual Improvements to IFRS Standards 2018-2020	1 January 2022	Annual improvements
IAS 16 (Amendments)	1 January 2022	Property, plant and equipment: proceeds before intended use
IAS 37 (Amendments)	1 January 2022	Onerous contracts – costs of fulfilling a contract
IFRS 3 (Amendments)	1 January 2022	Reference to the conceptual framework
IFRS 9 (Amendments)	1 January 2022	Fees in the '10 per cent' test for derecognition of financial liabilities
IFRS 17	1 January 2023	Insurance contracts
IAS 1 (Amendments)	1 January 2023	Classification of liabilities as current or non-current
IAS 1 (Amendments)	1 January 2023	Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)
IAS 8 (Amendments)	1 January 2023	Definition of accounting estimates
IAS 12 (Amendments)	1 January 2023	Deferred tax related to assets and liabilities arising from a single transaction
IFRS 10 and IAS 28 (Amendments)	A date to be determined by IASB	Sale or contribution of assets between an investor and its associate or joint venture

The accounting standards and interpretations above have been published that are not mandatory for the year ended 31 December 2021 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions.

2. PERFORMANCE FOR THE YEAR

2.1. Segment information

The Group is principally engaged in retail and wholesale distribution and licensing of quality fashion and non-apparel products designed under its own internationally-known ESPRIT brand name in Europe, Asia, America and via E-shop platforms.

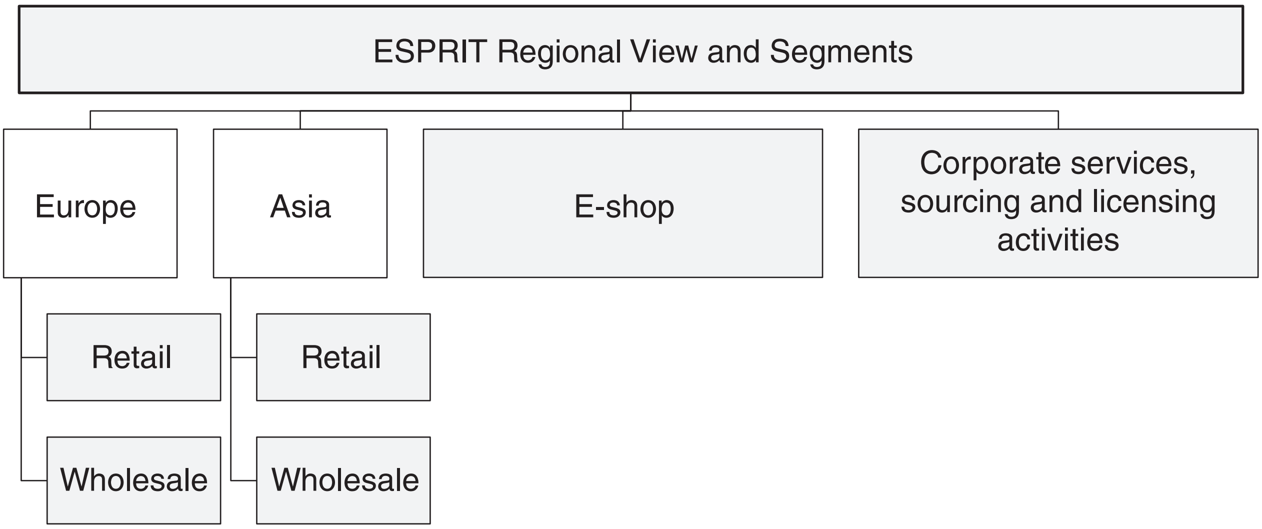
The Group has identified segments for internal and external reporting based on the regional structure of the Group and on the basis of the sales channel.

Operating segments are reported in a manner consistent with the internal management reports provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for assessing performance and allocating resources for the reporting segments has been identified as the Executive Directors of the Group. The Group has undergone transformation and reorganized their management and reporting. The operating segments Germany and Rest of Europe including America as reported previously have been aggregated to the segment Europe from 1 January 2021 onwards.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.1. Segment information (Continued)

The operating segments are on a regional level in Europe, Asia as well as E-shop and corporate services, sourcing and licensing activities on a global level. Furthermore, the regions have been separated into retail and wholesale channel.



Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The Group markets its products under two brands, namely "ESPRIT" and "edc", both of which offer apparel and lifestyle products for women, men and kids. Products are categorized into three major groups: Women (ESPRIT and edc), Men (ESPRIT and edc), and Lifestyle and others. All products are represented in the segments.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.1. Segment information (Continued)

For the year ended 31 December 2021

	Europe	Asia	E-shop	Corporate services, sourcing, licensing and others	Group	Continued operations	Discontinued operations
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Total revenue							
Retail	1,730	–	3,621	–	5,351		
Wholesale	2,853	–	–	–	2,853		
Licensing and others	–	–	–	4,004	4,004		
Total	**4,583**	**–**	**3,621**	**4,004**	**12,208**		
Inter-segment revenue	–	–	–	(3,892)	(3,892)		
Revenue from external customers							
Retail	1,730	–	3,621	–	5,351		
Wholesale	2,853	–	–	–	2,853		
Licensing and others	–	–	–	112	112		
Total	**4,583**	**–**	**3,621**	**112**	**8,316**	**8,316**	**–**
Segment results							
Retail	(209)	–	609	–	400		
Wholesale	285	–	–	–	285		
Licensing and others	–	–	–	(269)	(269)		
EBIT/(LBIT) of the Group	**76**	**–**	**609**	**(269)**	**416**	**416**	**–**
Interest income					2	2	–
Finance costs					(32)	(32)	–
Profit before taxation					**386**	**386**	**–**
Depreciation[1]							
Retail	(435)	–	(68)	–	(503)		
Wholesale	(27)	–	–	–	(27)		
Licensing and others	–	–	–	(147)	(147)		
Total	**(462)**	**–**	**(68)**	**(147)**	**(677)**	**(677)**	**–**
Impairment loss[2]							
Retail	(15)	–	–	–	(15)		
Total	**(15)**	**–**	**–**	**–**	**(15)**	**(15)**	**–**
Capital expenditure[3]							
Retail	(3)	–	(13)	–	(16)		
Wholesale	(3)	–	–	–	(3)		
Licensing and others	–	–	–	(26)	(26)		
Total	**(6)**	**–**	**(13)**	**(26)**	**(45)**	**(45)**	**–**

1 Depreciation includes depreciation of property, plant and equipment and right-of-use assets.

2 Impairment loss includes impairment loss on right-of-use assets.

3 Capital expenditure includes property, plant and equipment and intangible assets.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.1. Segment information (Continued)

For the six months ended 31 December 2020 (restated)

	Europe	Asia	E-shop	Corporate services, sourcing, licensing and others	Group	Continued operations	Discontinued operations
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Total revenue							
Retail	374	1	197	–	572		
Wholesale	291	–	–	–	291		
Licensing and others	–	–	–	187	187		
Total	**665**	**1**	**197**	**187**	**1,050**		
Inter-segment revenue	–	–	–	(164)	(164)		
Revenue from external customers							
Retail	374	1	197	–	572		
Wholesale	291	–	–	–	291		
Licensing and others	–	–	–	23	23		
Total	**665**	**1**	**197**	**23**	**886**	**885**	**1**
Segment results							
Retail	(29)	(5)	(37)	–	(71)		
Wholesale	(73)	(1)	–	–	(74)		
Licensing and others	–	–	–	(238)	(238)		
(LBIT)/EBIT of the Group	**(102)**	**(6)**	**(37)**	**(238)**	**(383)**	**(841)**	**458**
Interest income					2	2	–
Finance costs					(15)	(15)	–
(Loss)/profit before taxation					**(396)**	**(854)**	**458**

Note: The operating segments Germany and Rest of Europe including America as reported previously have been aggregated to the segment Europe from 1 January 2021 onwards.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.1. Segment information (Continued)

For the six months ended 31 December 2020 (restated)

	Europe	Asia	E-shop	Corporate services, sourcing, licensing and others	Group	Continued operations	Discontinued operations
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Depreciation[1]							
Retail	(89)	–	(7)	–	(96)		
Wholesale	(9)	–	–	–	(9)		
Licensing and others	–	–	–	(16)	(16)		
Total	**(98)**	**–**	**(7)**	**(16)**	**(121)**	**(119)**	**(2)**
Impairment loss[2]							
Retail	(6)	–	–	–	(6)		
Wholesale	–	–	–	–	–		
Licensing and others	–	–	–	(7)	(7)		
Total	**(6)**	**–**	**–**	**(7)**	**(13)**	**(13)**	**–**
Loss on deconsolidation							
Licensing and others	–	–	–	(1,664)	(1,664)	(1,664)	–
Loss on remeasurement							
Licensing and others	–	–	–	(69)	(69)	(69)	–
Share of results from associates							
Licensing and others	–	–	–	1,939	1,939	1,939	–
Capital expenditure[3]							
Retail	(1)	–	(4)	–	(5)		
Wholesale	(1)	–	–	–	(1)		
Licensing and others	–	–	–	(2)	(2)		
Total	**(2)**	**–**	**(4)**	**(2)**	**(8)**	**(8)**	**–**

1 Depreciation includes depreciation of property, plant and equipment and right-of-use assets.

2 Impairment loss includes impairments loss on property, plant and equipment and right-of-use assets.

3 Capital expenditure includes property, plant and equipment and intangible assets.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.1. Segment information (Continued)

Non-current assets other than deferred tax assets and financial instruments are located in the following countries:

HK$ million	As at 31 December 2021	As at 31 December 2020
Hong Kong	33	2
Germany	1,152	1,480
Other countries[1]	2,943	3,167
Total	**4,128**	**4,649**

[1] Non-current assets located in other countries include intangible assets of HK$1,727 million (31 December 2020: HK$1,878 million). Other countries mainly include Switzerland, Austria, Netherlands and Belgium.

2.2. Revenue

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Retail and Wholesale		
Europe	4,583	665
Asia	–	1
E-shop	3,621	197
Licensing and others	112	23
Revenue from external customers total	**8,316**	**886**
– from continuing operations	8,316	885
– from discontinued operations	–	1

Revenue from external customers is attributed to the following countries or regions based on the location in which the sales originated:

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Retail and Wholesale		
Germany	2,276	117
Benelux	635	170
Switzerland	473	235
France	350	23
Austria	318	19
Spain	148	47
Finland	118	6
Sweden	87	3
Italy	81	40
Poland	31	2
United Kingdom	38	2
Denmark	26	1
Others	2	–
Europe total	**4,583**	**665**
Singapore	–	1
Asia total	**–**	**1**
Retail and Wholesale total	**4,583**	**666**
E-shop		
Germany	2,099	87
Benelux	577	43
France	219	22
Switzerland	227	8
Austria	212	13
Denmark	41	5
United Kingdom	46	3
Poland	40	3
Sweden	41	4
Czech Republic	38	2
Finland	21	1
Spain	17	2
Italy	14	1
Others	29	3
E-shop total	**3,621**	**197**
Licensing and others		
Germany	48	3
Others	64	20
Licensing and others total	**112**	**23**
Revenue total	**8,316**	**886**
– from continuing operations	8,316	885
– from discontinued operations	–	1

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.3. Major profit or loss items

The Group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

2.3.1. Write-back of provision/(provision) for inventories, net

The net realizable value test on inventories was performed at balance sheet date. While there are signs of recovery in economic activities in major markets where the Group operates in, the Pandemic and worldwide economic uncertainties may impact our business negatively. During the year ended 31 December 2021, we have recognized a net write-back of provision on inventories. Write-downs and reversals are included in write-back of provision/(provision) for inventories, net; other inventory expenses are directly shown as "cost of purchases" in the statement of profit or loss.

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Write-back of provision/(provision) for inventories, net	140	(180)
– from continuing operations	140	(187)
– from discontinued operations	–	7

2.3.2. Staff costs

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Salaries and wages	867	183
Severance payments	24	46
Social security costs and other staff costs	251	12
Pensions costs of defined contribution plans[1]	13	5
Employee share-based compensation benefits	(11)	3
Pensions costs of defined benefit plan (note 2.9.3)	2	2
Total staff costs	**1,146**	**251**
– from continuing operations	1,146	236
– from discontinued operations	–	15

1 **Defined contribution plan in Hong Kong**
The Group principally participates in defined contribution plans. In Hong Kong, the Group participates in the Mandatory Provident Fund Scheme operated by HSBC Provident Fund Trustee (Hong Kong) Limited. For the year ended 31 December 2021, contributions at a fixed rate of 5.0% (for the six months ended 31 December 2020: 5.0%) of the employee's relevant income, subject to a cap of monthly relevant income of HK$30,000 (for the six months ended 31 December 2020: HK$30,000) per employee, are made to the scheme and are vested immediately. The Group also operates several defined contribution retirement plans for its overseas subsidiaries and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. Contributions to the schemes by the Group and employees are calculated at fixed percentages of employees' basic salaries or at agreed fixed amounts. Under the defined contribution scheme in some countries, where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group. During the year ended 31 December 2021, the Group did not have any contributions forfeited in accordance with the schemes' rules (for the six months ended 31 December 2020: nil) which have been applied towards the contributions payable by the Group.

Government grants

The Group has been awarded government grants in the amount of HK$229 million (HK$69 million relating to staff costs) during the year ended 31 December 2021 (for the six months ended 31 December 2020: HK$33 million). These grants relate to government grants for fixed costs such as rental expenses, salaries and social security costs in respect of the Pandemic relief measures. The grants for salaries were netted with staff costs. The grants for fixed costs were shown as other operating income. The government grants are linked to conditions that have to be fulfilled to receive the funds and there is sufficient likelihood that those conditions can be fulfilled.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.3. Major profit or loss items (Continued)

2.3.3. Depreciation of right-of-use assets

The consolidated statement of profit or loss comprised the following depreciation charges relating to leases:

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Depreciation of right-of-use assets		
Buildings	537	97
Furniture and office equipment	–	–
Motor vehicles	4	1
Other	1	1
Total depreciation of right-of-use assets	**542**	**99**
– from continuing operations	542	97
– from discontinued operations	–	2

2.3.4. Impairment loss on right-of-use assets

Triggered by the Pandemic, the Group completed an impairment test in accordance with IAS 36 "Impairment of Assets" for its right-of-use assets by comparing the recoverable amount of the cash-generating unit ("CGU") (the Group product lines) to its carrying amount as at 31 December 2021.

The valuation uses cash flow projections based on financial estimates covering a four-year period. The estimated value in use of the CGU by retail store was determined using a pre-tax discount rate of 8.4%-14.4% (2020: 7.7%-14.1%) which are country-specific rates. Beyond the four-year period, the cash flows are extrapolated using a constant projection of cash flows.

The impairment loss attributable to the individual CGUs was allocated to the assets in the CGU on a pro rata basis based on the carrying amount of each asset in the CGU but only to the highest of its fair value less cost of disposal, value in use and zero.

For right-of-use assets the fair value less cost of disposal was estimated. As no quoted prices existed, fair value less cost of disposal was assessed by discounting asset-specific market rents for remaining contracts duration with consideration of specific incremental borrowing rates. Market rent and incremental borrowing rate are predominantly estimated on external sources or on the latest contracts in place.

Total impairment loss recognized for the year amounted to HK$15 million (for the six months ended 31 December 2020: HK$6 million) and is included in "impairment loss on right-of-use assets".

HK$ million	Recoverable amount	Carrying amount	Impairment
Impairment loss on right-of-use assets[1]	2,018	2,033	(15)

2.3.5. Other operating costs

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
IT expenses	322	27
Write-back of provision for restructuring	(88)	(3)
Exchange difference	119	(41)
Legal and professional fees	90	23
Packaging, postage and distribution	101	9
Travelling	15	2
Samples	50	14
Insurance	25	4
Telecommunications	14	2
Governmental grants	(160)	(33)
Audit fee	21	21
Bank Charges	20	2
Amortization of intangible assets	27	–
Other	98	208
Total other operating costs	**654**	**235**
– from continuing operations	654	708
– from discontinued operations	–	(473)

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.3. Major profit or loss items (Continued)

2.3.6. Finance costs

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Interest on lease liabilities	26	14
Imputed interest on financial assets and financial liabilities	3	1
Others	3	–
Total interest expenses	**32**	**15**
– from continuing operations	32	15
– from discontinued operations	–	–

2.4. Taxation

Amounts recognized in consolidated statement of profit or loss:

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Current tax expense		
Income taxes – related to current year/period	30	4
Income taxes – related to prior years	(14)	–
Current tax total	**16**	**4**
Deferred tax expense		
Origination of temporary differences	(11)	14
Total income tax expense	**5**	**18**
– from continuing operations	5	18
– from discontinued operations	–	–

For the year ended 31 December 2021, Hong Kong profits tax is calculated at 16.5% (for the six months ended 31 December 2020: 16.5%) on the estimated assessable profit for the year, net of tax losses carried forward, if applicable.

Overseas (outside of Hong Kong) taxation has been calculated on the estimated assessable profit for the year ended 31 December 2021 at the rates of taxation prevailing in the countries in which the Group companies operate, net of tax losses carried forward, if applicable.

2.5. Reconciliation of effective tax rate

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group's subsidiaries. The effective tax rate was 1.3% (31 December 2020: -4.7%).

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Profit/(loss) before taxation	**386**	**(396)**
– from continuing operations	386	(854)
– from discontinued operations	–	458
Tax calculated at applicable tax rates[1]	**120**	**(108)**
Expenses not deductible for tax purposes	25	31
Non-taxable income	(32)	(21)
Tax effect of tax losses not recognized	19	116
Utilization of previously unrecognized tax losses	(113)	–
Over-provision for prior years, net	(14)	–
Income tax expense	**5**	**18**
– from continuing operations	5	18
– from discontinued operations	–	–

1 Since the focus of business activities is currently in Europe, the applicable tax rate reflects the average tax rate of the European subsidiaries.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.5. Reconciliation of effective tax rate (Continued)

2.5.1. Movement in deferred tax balances

The following are the deferred tax assets/(liabilities) recognized and movements thereon for the year ended 31 December 2021 and the six months ended 31 December 2020:

HK$ million	Accelerated accounting/ tax depreciation	Elimination of unrealized profits	Intangible assets	Other deferred tax assets	Other deferred tax liabilities	Total
At 1 July 2020	**–**	**32**	**(192)**	**–**	**(13)**	**(173)**
Charged to profit or loss	–	(5)	–	(3)	(6)	(14)
Disposal of subsidiaries	–	(32)	116	–	10	94
Acquisition of subsidiaries	–	50	(337)	5	(5)	(287)
Exchange difference recognized in equity	–	1	(10)	3	–	(6)
At 31 December 2020	**–**	**46**	**(423)**	**5**	**(14)**	**(386)**
(Charged)/credited to profit or loss	(14)	(6)	31	–	–	11
Exchange difference recognized in equity	–	(3)	21	–	1	19
At 31 December 2021	**(14)**	**37**	**(371)**	**5**	**(13)**	**(356)**

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable.

The following amounts, determined after appropriate offsetting, are shown separately on the consolidated balance sheet:

HK$ million	As at 31 December 2021	As at 31 December 2020
Deferred tax assets	42	51
Deferred tax liabilities	(398)	(437)
Deferred tax liability, net	**(356)**	**(386)**

At 31 December 2021, the Group had unused tax losses of approximately HK$2,582 million (31 December 2020: HK$8,132 million) available for offset against future taxable profits. Since the Group has suffered losses in the prior year no deferred tax asset has been recognized in respect of such losses. Unrecognized tax losses include losses in the amount of approximately HK$470 million (31 December 2020: HK$482 million) that will expire in the next one to ten years. Other losses may be carried forward indefinitely.

For temporary differences associated with investments in subsidiaries in the amount of HK$192 million (31 December 2020: HK$1,071 million) no deferred income tax liabilities have been recognized. Such amounts are permanently reinvested.

2.5.2. IFRIC 23 – uncertain tax positions

The Group assessed potentially uncertain tax treatments and whether additional tax payments may occur in regard to current tax matters. The effect of this uncertainty has been reflected in the income tax calculation by recognizing an additional tax liability, which is based on the assumption that taxable income might differ from the Group's assessment on tax position in some countries. The Group recognized uncertain tax liabilities of HK$80 million as at 31 December 2021 (31 December 2020: HK$79 million).

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.6. Non-current assets

2.6.1. Intangible assets

The movement of the intangible assets are shown in the table below.

HK$ million	Trademarks	Goodwill		Software	Customer relationships	Total
		Finland	Switzerland and Italy			
Cost						
At 1 January 2021	1,701	–	58	44	75	1,878
Exchange translation	(126)	–	(1)	(5)	(5)	(137)
Addition	–	–	–	12	–	12
At 31 December 2021	**1,575**	**–**	**57**	**51**	**70**	**1,753**
Amortization						
At 1 January 2021	–	–	–	–	–	–
Exchange translation	–	–	–	1	–	1
Amortization charge	–	–	–	(9)	(18)	(27)
At 31 December 2021	**–**	**–**	**–**	**(8)**	**(18)**	**(26)**
Net book value						
At 31 December 2021	**1,575**	**–**	**57**	**43**	**52**	**1,727**
Cost and net book value						
At 1 July 2020	**1,546**	**16**	**54**	**25**	**–**	**1,641**
Addition	–	–	–	4	–	4
Disposal of subsidiaries	(955)	(17)	–	(25)	–	(997)
Acquisition of subsidiaries	963	–	–	39	73	1,075
Exchange translation	147	1	4	1	2	155
At 31 December 2020	**1,701**	**–**	**58**	**44**	**75**	**1,878**

Trademarks

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for ESPRIT trademarks by comparing the recoverable amount of the CGU (the Group product line) to its carrying amount as at 31 December 2021. The Group conducted an internal valuation of the ESPRIT trademarks as one corporate asset based on a value in use calculation as of 31 December 2021. The valuation uses cash flow projections based on corporate plan covering a four-year period, expected royalty rates deriving from the Esprit trademarks of 4.0% (31 December 2020: 4.0%) and a pre-tax discount rate between 14.1 – 14.6% (31 December 2020: 14.8 – 15.0%). The cash flows beyond the planning period are extrapolated using a constant projection of cash flows. This growth rate does not exceed the long-term average growth rate for apparel markets in which the Group operates and is in line with base rate (risk-free rate) assumptions. The Group concluded its annual impairment test for ESPRIT trademarks resulting in no additional impairment amount.

Sensitivity analysis

A possible change of the discount rate by 1% or the change of the royalty margin by 0.55% would not cause the carrying amount to exceed the recoverable amount.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.6. Non-current assets (Continued)

2.6.1. Intangible assets (Continued)

Goodwill Switzerland and Italy

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's CGUs Switzerland and Italy by comparing their recoverable amount to their carrying amount as at the date of the balance sheet. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The recoverable amount of the CGU is determined based on a value in use calculation. The key assumptions used in the estimation of the value in use are set out below. These key assumptions are based on historical data and include management's assumptions of future trends in the relevant industry.

	CGU Switzerland and Italy As at 31 December 2021
Discount rate (pre-tax)	8.43 – 10.77%
Projected EBITDA[1]-margin	31.7%

[1] Earnings before interest, taxes, depreciation and amortization ("EBITDA").

The discount rate is a pre-tax measure estimated based on the rate of government bonds issued by the government in the relevant markets and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the specific CGU.

The cash flow projections included specific estimates for four years. Beyond four-year period, the cash flows are extrapolated using a constant projection of cash flows.

Budgeted EBITDA was based on the Group's expectations of future economic development.

Regarding goodwill allocated to the CGU Switzerland and Italy in the amount of HK$57 million (31 December 2020: HK$58 million), the recoverable amount (value in use) of the CGU was assessed to be higher than its carrying amount. Thus, no impairment loss incurred.

Sensitivity analysis

A reasonably possible change of the discount rate by 1% or the EBITDA margin by 0.5% would not cause the carrying amount to exceed the recoverable amount.

2.6.2. Property, plant and equipment

Property, plant and equipment consists of the following:

HK$ million	Buildings	Leasehold improvements and fixtures	Plant and Machinery	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Costs							
At 1 January 2021	4	600	284	415	4	18	1,325
Exchange translation	(4)	147	(29)	(18)	3	(2)	97
Additions	–	17	–	14	1	1	33
Disposals	–	(39)	(5)	(55)	(2)	–	(101)
Transfer	–	4	–	11	–	(15)	–
At 31 December 2021	**–**	**729**	**250**	**367**	**6**	**2**	**1,354**
Depreciation and Impairment							
At 1 January 2021	(4)	(469)	(13)	(330)	–	–	(816)
Exchange translation	4	(153)	11	13	(2)	–	(127)
Depreciation for the year	–	(38)	(44)	(50)	(3)	–	(135)
Disposals	–	37	–	55	–	–	92
At 31 December 2021	**–**	**(623)**	**(46)**	**(312)**	**(5)**	**–**	**(986)**
Net book value at 31 December 2021	**–**	**106**	**204**	**55**	**1**	**2**	**368**

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.6. Non-current assets (Continued)

2.6.2. Property, plant and equipment (Continued)

HK$ million	Buildings	Leasehold improvements and fixtures	Plant and Machinery	Furniture and office equipment	Motor vehicles	Construction in progress	Total
Costs							
At 1 July 2020	138	2,160	557	2,997	23	11	5,886
Exchange translation	4	95	18	102	2	2	223
Disposal of subsidiaries	(138)	(1,532)	(558)	(2,672)	(21)	(9)	(4,930)
Acquisition of subsidiaries	–	95	267	75	4	18	459
Additions	–	1	–	2	–	–	3
Transfer	–	1	–	3	–	(4)	–
Disposals	–	(220)	–	(92)	(4)	–	(316)
At 31 December 2020	**4**	**600**	**284**	**415**	**4**	**18**	**1,325**
Depreciation and Impairment							
At 1 July 2020	(138)	(2,020)	(290)	(2,890)	(18)	–	(5,356)
Exchange translation	(4)	(93)	(9)	(99)	(1)	–	(206)
Depreciation for the period	–	(10)	(4)	(8)	–	–	(22)
– from continuing operations							(22)
– from discontinued operations							–
Impairment loss for the year	–	–	–	(7)	–	–	(7)
– from continuing operations							(7)
– from discontinued operations							–
Disposals	–	220	–	92	4	–	316
Disposal of subsidiaries	138	1,434	290	2,582	15	–	4,459
At 31 December 2020	**(4)**	**(469)**	**(13)**	**(330)**	**–**	**–**	**(816)**
Net book value at 31 December 2020	**–**	**131**	**271**	**85**	**4**	**18**	**509**

2.6.3. Right-of-use asset and finance lease receivables

Group as lessee

HK$ million	As at 31 December 2021	As at 31 December 2020
Buildings	2,015	2,232
Furniture and office equipment	–	1
Motor vehicles	5	5
Other	13	24
Right-of-use assets total	**2,033**	**2,262**

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.6. Non-current assets (Continued)

2.6.3. Right-of-use asset and finance lease receivables (Continued)

Group as lessee (Continued)

The following table shows the movements of the right-of-use assets:

HK$ million	Cost	Accumulated depreciation	Impairment loss	Net book value
At 1 January 2021	**3,118**	**(408)**	**(448)**	**2,262**
Exchange translation	(328)	94	90	(144)
Additions	786	–	–	786
Disposals	(739)	100	325	(314)
Depreciation for the year	–	(542)	–	(542)
Impairment loss for the year	–	–	(15)	(15)
At 31 December 2021	**2,837**	**(756)**	**(48)**	**2,033**

HK$ million	Cost	Accumulated depreciation	Impairment loss	Net book value
At 1 July 2020	**4,792**	**(949)**	**(1,637)**	**2,206**
Exchange translation	204	(50)	(58)	96
Additions	91	–	–	91
Disposals	(213)	6	22	(185)
Disposal of subsidiaries	(3,447)	684	1,231	(1,532)
Acquisition of subsidiaries	1,691	–	–	1,691
Depreciation for the period	–	(99)	–	(99)
– from continuing operations	–	(97)	–	(97)
– from discontinued operations	–	(2)	–	(2)
Impairment charge for the period	–	–	(6)	(6)
– from continuing operations	–	–	(6)	(6)
– from discontinued operations	–	–	–	–
At 31 December 2020	**3,118**	**(408)**	**(448)**	**2,262**

Group as lessor

The Group sub-leases stores and has classified the sub-leases as operating leases. The following table sets out a maturity analysis of the finance lease receivables as at the end of the year.

HK$ million	As at 31 December 2021	As at 31 December 2020
Less than one year	–	13
One to two years	–	1
Net finance lease receivables	**–**	**14**

Movement of the finance lease receivables were as follows:

HK$ million	As at 31 December 2021	As at 31 December 2020
Balance at beginning of year/period	14	71
Interest income	–	3
Disposals	(14)	(50)
Lease payments received	–	(7)
Exchange translation	–	(3)
Balance at end of year/period	**–**	**14**
– non-current (note 2.6.5)	–	3
– current (note 2.7.2)	–	11

There was no income related to variable lease payments for the Group as a lessor.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.6. Non-current assets (Continued)

2.6.4. Financial assets at fair value through profit or loss

As at 31 December 2021, the Group holds

- club debentures with a fair value of HK$4 million (31 December 2020: HK$11 million) categorized as a Level 3 fair value based on the valuation of open market quotes. The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. Neither during this year nor during the last year there have been any transfers.
- an amount of HK$25,000 (31 December 2020: HK$21,000) of listed shares is categorized as Level 1 fair value.

The movements of the carrying amount of the club debentures and investment in equity securities are demonstrated in the following table.

HK$ million	As at 31 December 2021	As at 31 December 2020
Balance at beginning of year/period	**11**	**10**
Change in fair value	1	1
Disposal	(8)	–
Balance at end of year/period	**4**	**11**

The following table shows a breakdown of the total gains/(losses) recognized in respect of Level 3 fair values (club debentures). All positions except for the club debentures are measured at amortized costs, therefore no further fair value categories are relevant for the Group.

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Gain/(loss) included in other operating costs		
Change in fair value (unrealized)	1	1

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the significant unobservable inputs (holding other inputs constant) would have the following effects.

	Impact on profit or loss	
HK$ million	**increase**	**decrease**
31 December 2021		
Membership quotation (10.0% movement)	1	(1)
31 December 2020		
Membership quotation (10.0% movement)	1	(1)

2.6.5. Non-current debtors, deposits and prepayments

Non-current debtors, deposits and prepayments consist of the following financial and non-financial positions:

HK$ million	As at 31 December 2021	As at 31 December 2020
Finance lease receivables	–	3
Deposits	409	380
Prepayments	–	1
Other debtors and receivables	7	8
Total	**416**	**392**

Deposits mainly include underlying cash for rent guarantees which has been pledged as collateral for drawn credit facilities.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.7. Current assets

2.7.1. Inventories

HK$ million	As at 31 December 2021	As at 31 December 2020
Finished goods	1,392	1,280
Consumables	21	23
Inventories total	**1,413**	**1,303**

2.7.2. Current debtors, deposits and prepayments

Current debtors, deposits and prepayments consist of the following financial and non-financial positions:

HK$ million	As at 31 December 2021	As at 31 December 2020
Trade debtors	792	930
less: provision for impairment of trade debtors	(194)	(254)
Net trade debtors	**598**	**676**
Finance lease receivables	–	11
Deposits	9	9
Prepayments	403	609
Right-of-return assets	101	93
Other debtors and receivables	254	229
Total	**1,365**	**1,627**

The carrying amounts of debtors, deposits and prepayments approximate their fair values

The following table provides information about the exposure to credit risk and expected credit losses for trade debtors:

As at 31 December 2021 HK$ million	Trade debtors gross carrying amount by overdue	Provision for credit-impaired trade debtors	Provision for non credit-impaired trade debtors	Expected credit losses total
To 0 days	523	9	1	10
1-30 days	26	–	4	4
31-60 days	66	2	9	11
61-90 days	11	4	4	8
Over 90 days	166	69	92	161
Total	**792**	**84**	**110**	**194**

As at 31 December 2020 HK$ million	Trade debtors gross carrying amount by overdue	Provision for credit-impaired trade debtors	Provision for non credit-impaired trade debtors	Expected credit losses total
To 0 days	539	4	1	5
1-30 days	93	1	1	2
31-60 days	29	2	3	5
61-90 days	1	1	–	1
Over 90 days	268	67	174	241
Total	**930**	**75**	**179**	**254**

Provisions for doubtful debts have been measured at an amount equal to lifetime expected credit losses.

Loss rates are based on actual credit loss experience over the past five years. These rates have been multiplied by country-specific scalar factors to reflect differences between economic conditions during the year over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the trade receivables.

The carrying amounts of debtors, deposits and prepayments approximate their fair values.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade debtors.

The Group has analyzed the effects of the Pandemic on expected credit losses as of the reporting date using external and internal information available to the Group and assessed whether prior estimates of credit losses have to be adjusted. In particular, available information regarding changes in probabilities of default (PDs) owing to the Pandemic as well as internal assessment of counterparties' payment histories and related non-payment risks served as the basis for these assessments. Given the fact that the Group has insured a considerable amount of open positions, the Group currently does not expect to face additional material risks other than provided for based on current economic outlook.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.7. Current assets (Continued)

2.7.2. Current debtors, deposits and prepayments (Continued)

The aging analysis by invoice date of trade debtors net of provision for impairment are as follows:

HK$ million	As at 31 December 2021	As at 31 December 2020
0-30 days	162	379
31-60 days	338	126
61-90 days	69	61
Over 90 days	29	110
Total	**598**	**676**

The Group's sales to retail customers are made in cash, bank transfer or by credit card. The Group also grants credit period, which is usually 30 to 60 days to certain wholesale and franchise customers.

Movements in provision for impairment of trade debtors are as follows:

HK$ million	As at 31 December 2021	As at 31 December 2020
Balance at beginning of year/ period	**254**	**213**
Utilization	(79)	(23)
Disposal of subsidiaries	–	(189)
Provision for impairment of trade debtors, net	35	37
Addition of subsidiaries	–	218
Exchange translation	(16)	(2)
Balance at end of year/period	**194**	**254**

2.7.3. Cash, bank balances and deposits

Cash, bank balances and deposits include the following for the purposes of the consolidated statement of cash flows:

HK$ million	As at 31 December 2021	As at 31 December 2020
Bank balances and cash	2,648	2,175
Bank deposits with maturities within three months	–	95
Bank deposits with maturities of more than three months	1	1
Total	**2,649**	**2,271**

The effective interest rate on cash, bank balances and deposits for the year was determined to be 0.0% (for the six months ended 31 December 2020: 0.0%) per annum.

2.8. Current liabilities

2.8.1. Creditors and accrued charges

HK$ million	As at 31 December 2021	As at 31 December 2020
Trade creditors	328	502
Accruals	595	885
Return liabilities	265	257
Other creditors and payables	309	430
Total	**1,497**	**2,074**

The aging analysis by invoice date of trade creditors is as follows:

HK$ million	As at 31 December 2021	As at 31 December 2020
0-30 days	232	220
31-60 days	60	109
61-90 days	8	25
Over 90 days	28	148
Total	**328**	**502**

The carrying amounts of creditors and accrued charges approximate their fair values.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.8. Current liabilities (Continued)

2.8.2. Current lease liabilities

HK$ million	As at 31 December 2021	As at 31 December 2020
Current	566	1,046

2.8.3. Provisions

Provisions consist of the following:

HK$ million	As at 31 December 2021	As at 31 December 2020
Restructuring	13	135
Reinstatement	84	101
Legal cost	35	10
Provision total	**132**	**246**

The restructuring provision of HK$13 million (31 December 2020: HK$135 million) represent the costs associated with restructuring measures taken in order to preserve the solvency and liquidity of the Group and its ongoing operations that have been negatively affected by the Pandemic. Estimated restructuring costs are based on the terms of the relevant contracts and mainly include costs for employee termination benefits that are based on a detailed plan agreed between management and employee representatives.

Movements in provisions are as follows:

HK$ million	As at 31 December 2021	As at 31 December 2020
Balance at beginning of year/period	246	357
Amounts used during the year/period	(50)	(23)
Additions	32	85
Releases	(113)	(198)
Reclassified from accruals	27	–
Exchange translation	(10)	25
Balance at end of year/period	**132**	**246**

2.9. Non-current liabilities

2.9.1. Bank loans

HK$ million	As at 31 December 2021	As at 31 December 2020
Bank loans	–	9

As at 31 December 2021, there are no outstanding bank loans (31 December 2020: HK$9 million (CHF1 million)). During the year, the Group's subsidiaries in Switzerland have fully settled the bank loans of HK$9 million (CHF1 million).

Regarding maturity of the bank loans refer to note 3.2.3.

2.9.2. Non-current lease liabilities

HK$ million	As at 31 December 2021	As at 31 December 2020
Non-current	2,066	2,010

The maturity analysis is included in note 3.2.3.

2.9.3. Retirement defined benefit obligation

The Group's subsidiaries in Switzerland participate in a defined benefit plan which defines the pension benefit that an employee will receive on retirement as a lump-sum or annuity, which depends on several factors such as age of the employee, years of services and salary. The subsidiaries have obligations to provide participating employees with the benefit.

The subsidiaries meet their obligations via entering into contracts with an insurance provider, who is responsible for the investments of the assets and guarantees vested benefit amount to members. Any asset-liability matching strategies are the responsibility of the insurance provider. Risks such as actuarial risk and investment risk are covered by the insurance. The subsidiaries face counterparty risk which occurs when the insurer is unable to meet its obligations and also the risk of insurance contract being cancelled.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.9. Non-current liabilities (Continued)

2.9.3. Retirement defined benefit obligation (Continued)

The retirement benefit plans accounted for as defined benefit plans are valued using the Projected Unit Credit Cost Method to determine the present value of the defined benefit obligation and the related service costs. Under this method, the determination is based on actuarial calculations which include assumptions about demographics, salary increases as well as interest and inflation rates. The plans are valued by independent qualified actuaries, Willis Towers Watson Switzerland at 31 December 2021.

(a) The amounts recognized in the consolidated balance sheet are as follows:

HK$ million	As at 31 December 2021	As at 31 December 2020
Present value of funded obligations	89	104
Fair value of plan assets	(71)	(73)
Net defined benefit obligations	**18**	**31**

The latest actuarial valuations indicate a funding level of 79.8% (31 December 2020: 70.4%).

(b) The movements in the net defined benefit obligations over the year/period are as follows:

HK$ million	Present value of obligations	Fair Value of plan assets	Total
At 1 January 2021	**104**	**(73)**	**31**
Current service cost	2	–	**2**
Interest expense/(income)	–	–	**-**
	2	–	**2**
Remeasurements:			
Loss from change in financial assumptions	(10)	–	**(10)**
Currency translation differences	–	2	**2**
Contributions:			
Employers	–	4	**4**
Plan participants	–	3	**3**
Payment from plans:			
Benefit payments	(7)	(7)	**(14)**
At 31 December 2021	**89**	**(71)**	**18**

HK$ million	Present value of obligations	Fair Value of plan assets	Total
At 1 July 2020	**93**	**(67)**	**26**
Current service cost	2	–	**2**
Interest expense/(income)	–	–	**-**
	2	–	**2**
Remeasurements:			
Gain from change in financial assumptions	2	–	**2**
Currency translation differences	10	(7)	**3**
Contributions:			
Employers	–	(2)	**(2)**
Plan participants	1	(1)	**-**
Payment from plans:			
Benefit payments	(4)	4	**-**
At 31 December 2020	**104**	**(73)**	**31**

Note: The past service cost represents present value of obligations and fair value of plan assets arisen from previous years.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.9. Non-current liabilities (Continued)

2.9.3. Retirement defined benefit obligation (Continued)

There were no plan amendments, curtailments or settlements during the year/period.

The fair value of the plan assets comprises:

	As at 31 December 2021				As at 31 December 2020			
	Quoted	Unquoted	Total	% of Total	Quoted	Unquoted	Total	% of Total
Insurance contracts	–	71	71	100%	–	73	73	100%

The weighted average duration of retirement defined benefit obligations is 15 years (31 December 2020: 15 years).

Employer and employee saving contributions are defined in terms of an age-related sliding scale of percentage of the insured salary. The subsidiaries expect to make contributions of HK$3 million (for the six months ended 31 December 2020: HK$6 million) to their retirement defined benefit plan in 2022.

The significant actuarial assumptions are as follows:

	As at 31 December 2021	As at 31 December 2020
Discount rate	0.2	0.0
Expected future salary increases	1.0	1.0

The sensitivity of the defined benefit obligations to changes in actuarial assumptions is:

	As at 31 December 2021		
	(Decrease)/increase in defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
		HK$ million	HK$ million
Discount rate	0.25%	(2)	3
Expected future salary increases	0.25%	1	–

	As at 31 December 2020		
	(Decrease)/increase in defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
		HK$ million	HK$ million
Discount rate	0.25%	(3)	4
Expected future salary increases	0.25%	1	–

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognized within the balance sheet.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.10. Equity

2.10.1. Share Capital

	Number of shares of HK$0.10 each million	HK$ million
Authorized:		
At 1 January 2021	**3,000**	**300**
Increase in authorized share capital (note a)	27,000	2,700
At 31 December 2021	**30,000**	**3,000**
At 1 July 2020 and 31 December 2020	**3,000**	**300**

	Number of shares of HK$0.10 each million	Nominal value HK$ million
Issued and fully paid:		
At 1 January 2021	**1,887**	**189**
Issue of rights shares (note b)	944	94
At 31 December 2021	**2,831**	**283**
At 1 July 2020 and 31 December 2020	**1,887**	**189**

Notes:

(a) In the special general meeting on 6 July 2021, an increase in authorized share capital from HK$300,000,000 divided into 3,000,000,000 ordinary shares to HK$3,000,000,000 divided into 30,000,000,000 ordinary shares (ranking *pari passu* with the existing shares in all respects upon issue) has been resolved in this meeting. The memorandum of increase of share capital was delivered to the Registrar of Companies on 16 July 2021 according to the Companies Act 1981 of Bermuda.

(b) During the year ended 31 December 2021, 943,605,781 new shares of HK$0.10 each were issued and allotted under the rights issue at the subscription price of HK$0.75 each on the basis of one rights share for every two existing shares held by the shareholders on 25 March 2021.

2.10.2. Reserves

A description of the nature and purpose of each reserve is provided below.

Employee share-based payments reserve

The share-based payments reserve is used to recognize:

– the grant date fair value of options issued to employees but not exercised
– the grant date fair value of shares issued to employees
– the grant date fair value of deferred shares granted to employees but not yet vested

Shares held for Old Share Award Scheme

The consideration paid by the Company through the Old Share Award Scheme trustee for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for Old Share Award Scheme" and the amount is deducted from total equity. The Group recognizes the impact of the revision of original estimates, if any, in the consolidated statement of profit or loss, and a corresponding adjustment to equity. For further information refer to note 4.2.2.

Hedging reserve

The cash flow hedge reserve is used to recognize the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently either transferred to the initial cost of inventory or reclassified to profit or loss as appropriate.

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.10. Equity (Continued)

2.10.2. Reserves (Continued)

Remeasurement of retirement defined benefit obligations

Remeasurements of retirement defined benefit obligations comprise:

- actuarial gains and losses
- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability/(asset) and
- any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability/(asset).

For further information refer to note 2.9.3.

Contributed surplus

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company arising from the Group reorganization which became effective on 17 November 1993 and the excess of the value of the shares acquired over the nominal value of the shares issued for the acquisition of Esprit Far East Limited and its subsidiaries on 10 January 1997. Contributed surplus is available for distribution to shareholders under the laws of Bermuda.

Translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Capital reserve

The capital reserve of the Group represents a non-distributable reserve set aside by a subsidiary according to relevant statutory requirements.

No dividends have been declared and paid by the Company during the year (six months ended 31 December 2020: nil).

2.11. Notes to consolidated statement of cash flows

Reconciliation of profit/(loss) before taxation to cash generated from/(used in) operations:

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Profit/(loss) before taxation	**386**	**(396)**
– from continuing operations	386	(854)
– from discontinued operations	–	458
Adjustments for:		
Interest income	(2)	(2)
Finance costs	32	15
Depreciation of property, plant and equipment	135	22
Depreciation of right-of-use assets	542	99
Impairment loss on property, plant and equipment	–	7
Impairment loss on right-of-use assets	15	6
Loss/(gain) on disposal of property, plant and equipment[1]	5	(1)
Loss on disposal of club debenture	4	–
Loss on remeasurement	–	69
Share of results of associates	–	(1,939)
Loss on deconsolidation	–	1,664
Increase in fair value of financial assets at fair value through profit or loss	(1)	(1)
(Write-back)/addition of employee share-based compensation benefits	(11)	3
Amortization of customer relationships	18	–
Amortization of software	9	–
Profit/(loss) before taxation after adjustments	**1,132**	**(454)**
Change in working capital		
Increase in inventories	(110)	(38)
Decrease/(increase) in debtors, deposits and prepayments	239	(228)
(Decrease)/increase in creditors and accrued charges	(694)	542
Effect of foreign exchange rate changes	2	73
Cash generated from/(used in) operations	**569**	**(105)**

[1] In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprised:

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.11. Notes to consolidated statement of cash flows (Continued)

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Net book value	9	–
(Loss)/gain on disposal of property, plant and equipment	(5)	1
Proceeds from disposal of property, plant and equipment	**4**	**1**

Cash flow from financing activities

The table below shows the reconciliation of movements of liabilities to cash flows arising from financing activities:

HK$ million	Bank loans	Lease liabilities	Total
Balance at 1 January 2021	**9**	**3,056**	**3,065**
Repayment from bank loans	(9)	–	(9)
Repayment of lease liabilities	–	(740)	(740)
– repayments of lease liabilities	–	(715)	(715)
– interests	–	(25)	(25)
Foreign exchange adjustments	–	(185)	(185)
Other changes	–	501	501
– Additions	–	741	741
– Interest expense	–	25	25
– Disposals	–	(265)	(265)
Balance at 31 December 2021	**–**	**2,632**	**2,632**

HK$ million	Bank loans	Lease liabilities	Total
Balance at 1 July 2020	**8**	**3,483**	**3,491**
Repayment of lease liabilities	–	(166)	(166)
– repayments of lease liabilities	–	(152)	(152)
– interests	–	(14)	(14)
Foreign exchange adjustments	1	81	82
Other changes	–	(342)	(342)
– Disposal of subsidiaries	–	(2,471)	(2,471)
– Additions	–	146	146
– Addition of subsidiaries	–	2,189	2,189
– Interest expense	–	14	14
– Disposals	–	(220)	(220)
Balance at 31 December 2020	**9**	**3,056**	**3,065**

2. PERFORMANCE FOR THE YEAR (CONTINUED)

2.12. Balance sheet and reserve movement of the Company

2.12.1. Balance sheet of the Company

HK$ million	As at 31 December 2021	As at 31 December 2020
Non-current assets		
Investments in subsidiaries, unlisted and at costs	1,335	1,329
Current assets		
Amounts due from subsidiaries	3,057	4,704
Cash, bank balances and deposits	892	266
	3,949	**4,970**
Current liabilities		
Amounts due to subsidiaries	149	47
Accrued charges	18	32
	167	**79**
Net current assets	***3,782***	***4,891***
Total assets less current liabilities	***5,117***	***6,220***
Equity		
Share capital	283	189
Reserves	4,834	6,031
	5,117	**6,220**

Approved by the Board of Directors on 29 March 2022.

CHIU Christin Su Yi
Executive Director

PAK William Eui Won
Executive Director

2.12.2. Reserve movement of the company

HK$ million	Share premium	Employee share-based payment reserve	Shares held for Old Share Award Scheme	Contributed surplus	Retained profits/ (accumulated losses)	Total Equity
At 1 January 2021	**7,988**	**913**	**(39)**	**474**	**(3,305)**	**6,031**
Loss attributable to shareholders	–	–	–	–	(1,787)	(1,787)
Issue of right issues	595	–	–	–	–	595
Disposal of shares held for Old Share Award Scheme	–	–	39	–	(33)	6
Employee share-based compensation benefits	–	(11)	–	–	–	(11)
At 31 December 2021	**8,583**	**902**	**–**	**474**	**(5,125)**	**4,834**
At 1 July 2020	**7,988**	**910**	**(39)**	**474**	**(3,301)**	**6,032**
Loss attributable to shareholders	–	–	–	–	(4)	(4)
Employee share-based compensation benefits	–	3	–	–	–	3
At 31 December 2020	**7,988**	**913**	**(39)**	**474**	**(3,305)**	**6,031**

3. CRITICAL ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

3.1. Estimates and judgements

3.1.1. Useful life and impairment of trademarks

Indefinite useful life

The Group's acquired ESPRIT trademarks are classified as an indefinite-lived intangible asset in accordance with IAS 38 "Intangible Assets". This conclusion is supported by the fact that ESPRIT trademark legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, relate to a well-known and long-established fashion brand since 1968, and based on the future financial performance of the Group, they are expected to generate positive cash flows indefinitely. This view was supported by an independent professional appraiser, who was appointed by the Group to perform an assessment of the useful life of ESPRIT trademarks in accordance with the requirements set out in IAS 38. Having considered the factors specific to the Group, the appraiser opined that ESPRIT trademarks should be regarded as an intangible asset with an indefinite useful life. Under IAS 38, the Group re-evaluates the useful life of ESPRIT trademarks each year to determine whether events and circumstances continue to support the view of indefinite useful life for this asset. Having considered the current circumstances, relevant legal and regulatory factors and business plan, management considers the classification of the trademark as indefinite-lived intangible asset is appropriate.

Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for ESPRIT trademarks by comparing their recoverable amount to their carrying amount as at 31 December 2021 (see note 2.6.1).

3.1.2. Impairment of right-of-use assets

In accordance with IAS 36 "Impairment of Assets", the Group assesses annually whether right-of-use assets have any indication of impairment. The Group estimates the recoverable amount of the asset if any such indication exists. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The value in use calculation involves estimating the future cash inflows and outflows for a leasing contract to be derived from continuing use of the right-of-use asset and applying the appropriate discount rate to those future cash flows. The estimation of future cash flows and selection of discount rate require the use of judgments and estimates (note 2.3.4).

3. CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

3.1. Estimates and judgements (Continued)

3.1.3. Net realizable value of inventories

In accordance with IAS 2 "Inventories", the Group estimates annually the net realizable value of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at the end of each reporting period.

3.1.4. Impairment of goodwill

In accordance with IAS 36 "Impairment of Assets", the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amount to their carrying amount as at the date of the balance sheet (note 2.6.1).

3.1.5. Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", the Group assesses annually whether property, plant and equipment have any indication of impairment. The Group estimates the recoverable amount of the asset if any such indication exists. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The value in use calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. The estimation of future cash flows and selection of discount rate require the use of judgments and estimates.

3.1.6. Determination of lease terms

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

3.1.7. Income and other taxes

The Group is subject to income and other taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes, as current liabilities, liabilities for anticipated tax audit issues based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and other taxes and deferred tax provisions in the year in which such determination is made.

3. CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

3.1. Estimates and judgements (Continued)

3.1.8. Provisions

Provisions for restructuring, legal cost and reinstatement

Provisions for restructuring represent the costs associated with restructuring measures taken in order to preserve the solvency and liquidity of the Group and its ongoing operations that have been negatively affected by the Pandemic. Estimated restructuring costs are based on the terms of the relevant contracts and mainly include costs for employee termination benefits that are based on a detailed plan agreed between management and employee representatives.

Provisions for legal cost and reinstatement are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

3.2. Financial risk management

3.2.1. Foreign Exchange risk

As at 31 December 2021, the Group has not entered in any financial derivative transaction.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, US Dollar and Renminbi. Foreign exchange risk primarily arises from future commercial transactions and recognized monetary assets and liabilities that are denominated in currencies that are not the functional currencies of the Group's entities.

The Group's exposure to currency risk as reported to the management of the Group is as follows:

	As at 31 December 2021			As at 31 December 2020		
million	**USD**	**EUR**	**RMB**	**USD**	**EUR**	**RMB**
Trade receivables	–	–	–	–	–	–
Trade payables	(19)	–	–	(18)	–	–
Foreign exchange exposure	**(19)**	**–**	**–**	**(18)**	**–**	**–**

The following significant exchange rates have been applied.

	As at 31 December 2021		As at 31 December 2020	
	Average Rate	Spot rate	Average Rate	Spot rate
USD	7.7725	7.7994	7.7523	7.7526
EUR	9.1983	8.8330	9.4355	9.5352
RMB(CNY)	1.2048	1.2236	1.1852	1.1885

The impact on the Group's post-tax profit or loss and total comprehensive income in response to a 1.0% strengthening in Euro and Renminbi against US Dollar in relation to monetary items and derivative financial instruments in existence at the date of the balance sheet, with all other variables held constant, would have been:

HK$ million	As at 31 December 2021	As at 31 December 2020
Euro against US Dollar		
Impact on post-tax profit; gain	–	–
Renminbi against US Dollar		
Impact on post-tax profit; gain	–	1

3. CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

3.2. Financial risk management (Continued)

3.2.1. Foreign Exchange risk (Continued)

At 31 December 2021, no items are designated as hedged items. The amounts as at 31 December 2020 relating to items designated as hedged item were as follows:

	As at 31 December 2020	
HK$ million	**Change in value used for calculating hedge ineffectiveness**	**Cash flow hedge reserve**
Foreign currency risk		
Inventory purchases	(10)	–

3.2.2. Credit risk

The Group's credit risk is primarily attributable to trade and other debtors and deposits with banks.

There is no significant concentration of credit risk with respect to trade debtors as the Group has a large number of internationally dispersed customers. The Group has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash, bank transfer or by credit card. The Group grants credit for a period which is usually 30 to 60 days to certain wholesale and franchise customers. The Group holds securities as collaterals over the trade debtors. The Group manages the credit risk mainly by purchasing credit guarantee insurance and arranging the trade debtors to be covered by letters of credit or bank guarantees. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilization of credit limits is regularly monitored.

The Group has a "Group Credit Control Policy" in place to promote good practice in credit control procedures across the Group and protect and limit the Group's overall exposure to credit risks. This policy provides the general principle to guide the credit management process by setting forth the general acceptable practices for limiting credit exposures and in particular, the establishment of the regional and country credit limit for control of credit.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade debtors. To measure the expected credit losses, trade debtors have been grouped based on shared credit risk characteristics and the days past due.

The Group considers the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the year. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at year end date with the risk of default as at the date of initial recognition.

The Group reviews regularly the recoverable amount of each other debtor to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors. The historical loss rates are based on the payment profiles of sales over the last five years and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted by a scalar factor to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors are based on projected non-performing loans ("NPL") ratios for all countries in which the Group sells its goods and services. Expected changes of NPL ratios due to the Pandemic are based on macroeconomic scenario projections from the International Monetary Fund.

The credit risk on deposits with banks is limited because the Group mainly places the deposits in banks with high credit rating and management does not expect any losses from non-performance by banks.

3. CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

3.2. Financial risk management (Continued)

3.2.3. Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, by keeping sufficient available cash on the bank accounts. The Group's liquidity needs have been funded through internal resources, using a Cash Pooling scheme and intercompany loans. Bank facilities have been in place only for guarantees and letter of credits which were already backed by cash collaterals since February 2019. No major overdraft or term loans with the banks were in place. In the Protection Shield Proceedings all banking agreements become invalid but due to the above mentioned funding through internal resources there was no major impact on the business except that further cash collaterals for outstanding bank guarantees had to be provided to the banks.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

HK$ million	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
At 31 December 2021						
Trade creditors	328	–	–	–	328	328
Lease liabilities	735	596	1,101	364	2,796	2,632
At 31 December 2020						
Trade creditors	502	–	–	–	502	502
Lease liabilities	847	751	1,341	526	3,465	3,056
Bank loans	–	–	9	–	9	9

3.2.4. Interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	As at 31 December 2021		As at 31 December 2020	
HK$ million	Carrying amount	Interest rate (%)	Carrying amount	Interest rate (%)
Fixed-rate instruments				
Cash, bank balances and deposits	2,649	0.0	2,271	0.0
Lease liabilities	2,632	2.1	3,056	1.6

There are no variable-rate instruments for the period (31 December 2020: nil).

Fair value sensitivity analysis for fixed-rate instruments

An increase and decrease of 100 basis points in interest rates would have increased equity by HK$12 million and HK$11 million. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

The Group monitors closely its interest rate risk exposure.

3. CRITICAL ESTIMATES AND JUDGEMENTS (CONTINUED)

3.2. Financial risk management (Continued)

3.2.5. Net gains and losses from financial instruments

The following table shows net gains and losses by category of financial instruments including gains and losses from leases.

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Interest income from instruments at amortized costs and leases	2	2
From banks	1	1
From leases	–	–
Others	1	1
Total interest income	**2**	**2**
– from continuing operations	2	2
– from discontinued operations	–	–

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Interest expense from instruments at amortized costs and leases	32	15
From leases	26	14
Others	6	1
Total finance costs	**32**	**15**
– from continuing operations	32	15
– from discontinued operations	–	–
Change in fair value of financial assets at fair value through profit or loss	1	1

3.3. Capital management

3.3.1. Risk management

The Group's capital structure consists of equity and interest-bearing liabilities as shown in the consolidated balance sheet.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's capital structure consists of equity and interest-bearing liabilities as shown in the consolidated balance sheet.

As at 31 December 2021 there are no bank loans outstanding for the Group (31 December 2020: HK$9 million).

3.3.2. Dividends

The Board of Directors did not declare and recommend the distribution of any dividend for the year ended 31 December 2021 (for the six months ended 31 December 2020: Nil).

4. FURTHER DETAILS

4.1. Related party transactions – Directors' and senior management's emoluments

Other than the key management compensation as set out below, the Group had no material related party transactions during the year/period. Part of the expenses incurred during 1 July 2020 and 30 November 2020 are recorded as "Share of results from associates" on the consolidated statement of profit or loss.

	For the year ended 31 December 2021							
HK$ thousand	**Fees[27]**	**Basic salaries, allowance and benefits in kind**	**Bonuses[28]**	**Inducement fee**	**Employee share-based compensation benefits**	**Provident fund contributions/ retirement benefit costs**	**Compensation for loss of office**	**Total emoluments**
CHIU Christin Su Yi[4,5,6,7]	2,200	20	–	–	–	–	–	2,220
PAK William Eui Won[4,5,8]	–	496	–	–	–	–	–	496
SCHLANGMANN Wolfgang Paul Josef[9]	–	266	–	–	–	–	–	266
(amount in EUR'000)	–	*29*	–	–	–	–	–	*29*
WRIGHT Bradley Stephen[6,10]	–	16	–	–	–	–	–	16
DALEY Mark David[26]	–	8,310	797	–	–	–	–	9,107
(amount in USD'000)	–	*1,069*	*102*	–	–	–	–	*1,171*
WAN Yung Ting[25]	–	2,312	–	–	–	–	–	2,312
LO Kin Ching Joseph[2,3,4]	735	–	–	–	–	–	–	735
CHUNG Kwok Pan[2,3,5,6]	480	–	–	–	–	–	–	480
GILES William Nicholas[2,3,4,5,6]	480	–	–	–	–	–	–	480
LIU Hang-so[2,4,5,14]	471	–	–	–	–	–	–	471
HA Kee Choy Eugene[2,3,6,15]	25	–	–	–	–	–	–	25
Total	**4,391**	**11,420**	**797**	**–**	**–**	**–**	**–**	**16,608**

4. FURTHER DETAILS (CONTINUED)

4.1. Related party transactions – Directors' and senior management's emoluments (Continued)

	For the six months ended 31 December 2020							
HK$ thousand	Fees[27]	Basic salaries, allowance and benefits in kind	Bonuses[28]	Inducement fee	Employee share-based compensation benefits	Provident fund contributions/ retirement benefit costs	Compensation for loss of office	Total emoluments
OR Ching Fai Raymond[1,4,22]	1,084	53	–	–	1,169	–	–	2,306
DALEY Mark David[26]	–	167	–	–	–	–	–	167
(amount in USD'000)	–	*22*	–	–	–	–	–	*22*
WAN Yung Ting[6, 25]	–	52	–	–	–	–	–	52
KRISTIANSEN Anders Christian[5, 17]	–	1,217	–	–	2,337	6	–	3,560
(amount in EUR'000)	–	*133*	–	–	*255*	*1*	–	*389*
SCHMIDT-SCHULTES Johannes Georg[6,18]	–	2,080	25	–	167	35	–	2,307
(amount in EUR'000)	–	*224*	*3*	–	*18*	*4*	–	*249*
FRIEDRICH Jürgen Alfred Rudolf[1,3,19]	272	–	–	–	–	–	–	272
LEE Ka Sze Carmelo[2,4,5,6,23]	403	–	–	–	–	–	–	403
ZERBIB Sandrine Suzanne Eleonore Agar[2,3,5,6,20]	383	–	–	–	–	–	–	383
LO Kin Ching Joseph[2,3,4, 11]	371	–	–	–	–	–	–	371
CHUNG Kwok Pan[2,3,5,6,12]	286	–	–	–	–	–	–	286
GILES William Nicholas[2,3,5,13]	10	–	–	–	–	–	–	10
WECKWERTH Martin[2,3,5,16]	48	–	–	–	–	–	–	48
Total	**2,857**	**3,569**	**25**	**-**	**3,673**	**41**	**-**	**10,165**

1 Non-executive Director

2 Independent Non-executive Director

3 Members of the Audit Committee (Mr. LO Kin Ching Joseph has been appointed as chairman with effect from 15 January 2020. Dr. WECKWERTH Martin has been appointed as member with effect from 15 January 2020 and has resigned with effect from 24 July 2020. Mr. CHUNG Kwok Pan has been appointed as member with effect from 29 July 2020. Mr. FRIEDRICH Jürgen Alfred Rudolf has retired as member with effect from the conclusion of 2020 annual general meeting of the Company held on 18 December 2020. Ms. ZERBIB Sandrine Suzanne Eleonore Agar has resigned as member with effect from 24 December 2020. Mr. GILES William Nicholas has been appointed as member with effect from 24 December 2020. Mr. HA Kee Choy Eugene has been appointed as member with effect from 13 December 2021.)

4 Members of the Nomination Committee (Mr. LO Kin Ching Joseph has been appointed as member with effect from 15 January 2020. With effect from 1 January 2021, Dr. OR Ching Fai Raymond has resigned as chairman, Mr. LEE Ka Sze Carmelo has resigned as member, Ms. CHIU Christin Su Yi has been appointed as chairman and Mr. GILES William Nicholas has been appointed as member. Mr. PAK William Eui Won has been appointed as member with effect from 23 September 2021.)

5 Members of the Remuneration Committee (Dr. WECKWERTH Martin has been appointed as chairman with effect from 15 January 2020 and has resigned with effect from 24 July 2020. Ms. ZERBIB Sandrine Suzanne Eleonore Agar has been re-designated from member to chairman with effect from 29 July 2020 and has resigned with effect from 24 December 2020. Ms. CHIU Christin Su Yi has been appointed as member with effect from 21 July 2020. Mr. CHUNG Kwok Pan has been appointed as member with effect from 29 July 2020. Mr. KRISTIANSEN Anders Christian has resigned as member with effect 17 December 2020. Mr. GILES William Nicholas has been appointed as chairman with effect from 24 December 2020. Mr. LEE Ka Sze Carmelo has resigned as member with effect from 1 January 2021. Mr. PAK William Eui Won has been appointed as member with effect from 23 September 2021.)

6 Members of the Risk Management Committee (Ms. ZERBIB Sandrine Suzanne Eleonore Agar has been appointed as a member with effect from 26 February 2020 and has resigned with effect from 24 December 2020. Dr. SCHMIDT-SCHULTES Johannes Georg has resigned as member with effect from 17 December 2020. Ms. CHIU Christin Su Yi has been appointed as member with effect from 17 December 2020 and has resigned with effect from 1 January 2021. Mr. CHUNG Kwok Pan has been appointed as member with effect from 24 December 2020. Mr. LEE Ka Sze Carmelo has resigned as chairman with effect from 1 January 2021. Mr. GILES William Nicholas has been appointed as chairman with effect from 1 January 2021. Dr. WAN Yung Ting has been appointed as member with effect from 1 January 2021 and has resigned with effect from 30 November 2021. Mr. HA Kee Choy Eugene has been appointed as member with effect from 13 December 2021. Mr. WRIGHT Bradley Stephen has been appointed as member with effect from 14 December 2021.)

7 Ms. CHIU Christin Su Yi has been appointed as Executive Director with effect from 21 July 2020. She has been appointed as Acting Executive Chairman of the Board with effect from 1 January 2021 and has been re-designated as Chairman of the Board with effect from 30 August 2021.

4. FURTHER DETAILS (CONTINUED)

4.1. Related party transactions – Directors' and senior management's emoluments (Continued)

8 Mr. PAK William Eui Won has been appointed as Executive Director with effect from 23 September 2021.

9 Mr. SCHLANGMANN Wolfgang Paul Josef has been appointed as Executive Director with effect from 28 October 2021.

10 Mr. WRIGHT Bradley Stephen has been appointed as Executive Director with effect from 14 December 2021.

11 Mr. LO Kin Ching Joseph has been appointed as Independent Non-executive Director with effect from 15 January 2020.

12 Mr. CHUNG Kwok Pan has been appointed as Independent Non-executive Director with effect from 29 July 2020.

13 Mr. GILES William Nicholas has been appointed as Independent Non-executive Director with effect from 24 December 2020.

14 Ms. LIU Hang-so has been appointed as Independent Non-executive Director with effect from 8 January 2021.

15 Mr. HA Kee Choy Eugene has been appointed as Independent Non-executive Director with effect from 13 December 2021.

16 Dr. WECKWERTH Martin has been appointed as Independent Non-executive Director with effect from 15 January 2020 and has resigned with effect from 24 July 2020.

17 Mr. KRISTIANSEN Anders Christian has resigned as Executive Director with effect from 17 December 2020.

18 Dr. SCHMIDT-SCHULTES Johannes Georg has resigned as Executive Director with effect from 17 December 2020.

19 Mr. FRIEDRICH Jürgen Alfred Rudolf has retired as Non-executive Director with effect from the conclusion of 2020 annual general meeting of the Company held on 18 December 2020.

20 Ms. ZERBIB Sandrine Suzanne Eleonore Agar has resigned as Independent Non-executive Director with effect from 24 December 2020.

21 Mr. WONG Hung Wai has been appointed as Executive Director with effect from 21 July 2020 and has resigned with effect from 28 December 2020.

22 Dr. OR Ching Fai Raymond has resigned as Non-executive chairman of the Board and Non-executive Director with effect from 1 January 2021.

23 Mr. LEE Ka Sze Carmelo has resigned as Independent Non-executive Director with effect from 1 January 2021.

24 Mr. TSCHIRNER Marc Andreas has been appointed as Executive Director with effect from 21 July 2020 and has resigned with effect from 8 January 2021.

25 Dr. WAN Yung Ting has been appointed as Executive Director with effect from 24 December 2020 and has resigned with effect from 30 November 2021.

26 Mr. DALEY Mark David has been appointed as Executive Director with effect from 24 December 2020 and has resigned with effect from 26 October 2021.

27 The amount includes directors' fees of HK$2.2 million (31 December 2020: HK$2.6 million) paid to Independent Non-executive Directors.

28 During the current period, there was HK$797.6 thousand discretionary bonus to the directors (31 December 2020: HK$24.7 thousand)

Directors' retirement benefits

No retirement benefits were provided to or receivable by any director during the year ended 31 December 2021 (for the six month ended 31 December 2020: nil).

Directors' termination benefits

No termination benefits were provided to or receivable by any director during the year ended 31 December 2021 as compensation for the early termination of appointment (for the six month ended 31 December 2020: nil).

Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services during the year ended 31 December 2021 (for the six month ended 31 December 2020: nil).

Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities during the year ended 31 December 2021 (for the six month ended 31 December 2020: nil).

Directors' material interests in transactions, arrangements or contracts

No 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 ended 31 December 2021 or at any time during the six months period.

4. FURTHER DETAILS (CONTINUED)

4.1. Related party transactions – Directors' and senior management's emoluments (Continued)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (for the six months ended 31 December 2020: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (for the six months ended 31 December 2020: two) individuals during the year ended 31 December 2021 are as follows:

HK$ thousand	For the year ended 31 December 2021	For the six months ended 31 December 2020
Salaries, housing and other allowances and benefits in kind	12,770	4,621
Bonuses	4,854	–
Write back of employee share-based compensation benefits	(4,895)	(47)
Pensions costs of defined contribution plans	176	106
Compensation for loss of office	12,080	–
Total	**24,985**	**4,680**

During the year as well as prior period, the Group did not pay the aforementioned four (31 December 2020: three) individuals any inducement to join or upon joining the Group.

The emoluments fell within the following bands:

	Number of individuals	
Emoluments band	**For the year ended 31 December 2021**	**For the six months ended 31 December 2020**
HK$1,000,001–HK$1,500,000	–	2
HK$1,500,001–HK$2,000,000	–	1
HK$4,500,001–HK$4,500,000	1	–
HK$6,000,001–HK$6,500,000	1	–
HK$7,000,001–HK$7,500,000	2	–

4.2. Share-based payments

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
(Write-back)/addition of employee share-based compensation benefits	(11)	3

4.2.1. Share option scheme

The Company adopted a share option scheme on 10 December 2009 (the "2009 Share Option Scheme"). The 2009 Share Option Scheme was terminated on 5 December 2018, notwithstanding that the share options which have been granted and remained outstanding shall continue to be valid and exercisable subject to and in accordance with the terms on which the share options were granted, the provisions of the 2009 Share Option Scheme and the Listing Rules.

The Company adopted a new share option scheme on 5 December 2018 (the "2018 Share Option Scheme"). The option mandate limit of the 2018 Share Option Scheme has been refreshed upon the shareholders' approval at the special general meeting of the Company held on 6 July 2021, the details of which were disclosed in the circular of the company dated 15 June 2021.

Information on the Schemes

The following is a summary of the 2009 Share Option Scheme and the 2018 Share Option Scheme (collectively the "Schemes") disclosed in accordance with the Listing Rules.

4. FURTHER DETAILS (CONTINUED)

4.2. Share-based payments (Continued)

4.2.1. Share option scheme (Continued)

Purpose of the Schemes

The Schemes are share incentive schemes and are established to recognize and acknowledge the contributions that eligible persons have made or may make to the Group.

The Schemes provide eligible persons with an opportunity to have a personal stake in the Company with a view to:

(i) motivating eligible persons to optimize their performance and efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining ongoing business relationships with eligible persons whose contributions are or will be beneficial to the long-term growth of the Group.

Participants of the Schemes

The Board of Directors may at its discretion grant share options to:

(i) any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or

(ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or

(iii) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

Total number of shares available for issue under the Schemes and percentage of issued share capital as at 31 December 2021

The total number of shares available for issue upon exercise of all outstanding share options already granted under the Schemes is 27,609,558 shares (2009 Share Option Scheme: 23,717,925 shares and 2018 Share Option Scheme: 3,891,633 shares), representing 0.98% (31 December 2020: 3.3%) of the issued share capital of the Company as at 31 December 2021.

The maximum number of shares available for issue upon exercise of share options not yet granted under the Schemes is 283,081,734 shares (2009 Share Option Scheme: None shares and 2018 Share Option Scheme: 283,081,734 shares), representing 10.00% (31 December 2020: 9.3%) of the issued share capital of the Company as at 31 December 2021.

Maximum entitlement of each participant under the Schemes

The maximum entitlement of each participant under the Schemes shall not exceed any limits that may be imposed under the Listing Rules from time to time as amended and in force.

In accordance with the current Listing Rules, no share options may be granted to any eligible persons which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the share options already granted or to be granted to such eligible person under the Schemes or any other schemes of the Company (including exercised, canceled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1.0% of the issued share capital of the Company at the date of such new grant. Any grant of further share options above this limit is subject to certain requirements as stipulated in the Listing Rules.

4. FURTHER DETAILS (CONTINUED)

4.2. Share-based payments (Continued)

4.2.1. Share option scheme (Continued)

The period within which the shares must be taken up under a share option under the Schemes

A share option is exercisable, subject to certain restrictions contained in the Schemes and the terms on which the share option is granted at any time during the applicable share option period which may be determined by the Board of Directors but which shall in no event be more than 10 years from the date of grant of the share option.

The minimum period for which a share option must be held before it can be exercised under the Schemes

There is no general requirement on the minimum period for which a share option must be held or the performance targets which must be achieved before a share option can be exercised under the Schemes. At the time of granting a share option, however, the Board of Directors may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation thereto, including the minimum period for which the share option must be held and/or the performance targets to be achieved, additional to those expressly set forth in the Schemes as the Board of Directors may in its absolute discretion determine.

The amount payable on application or acceptance of the share option and the period within which payments or calls must or may be made or loans for such purposes must be repaid under the Schemes

There is no amount payable on application or acceptance of the share option and the period within which payments or calls must or may be made or loans for such purposes must be repaid.

The basis of determining the subscription price under the Schemes

The price per share at which a grantee may subscribe for shares upon the exercise of a share option is determined by the Board of Directors and shall not be less than the highest of:

(i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant of the relevant share option, which must be a Business Day (as defined in the Listing Rules);

(ii) an amount equivalent to the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the relevant share option; and

(iii) the nominal value of the Company's shares.

The remaining life of the 2009 Share Option Scheme

On 5 December 2018, the shareholders approved at the annual general meeting of the Company the termination of the 2009 Share Option Scheme and no further share options may be granted to eligible person under the 2009 Share Option Scheme with effect thereof.

Details of the share options movement during the year/period and outstanding share options as at 31 December 2021 under the 2009 Share Option Scheme are as follows:

	As at 31 December 2021		As at 31 December 2020	
	Average exercise price	Number of share options	Average exercise price	Number of share options
Balance at beginning of year/period	5.88	48,145,000	6.42	52,295,000
Granted during the year/period	–	–	–	–
Adjustment (note)	7.30	1,319,416		
Lapsed during the year/period	–	(1,104,382)	12.66	(550,000)
Forfeited during the year/period	4.19	(24,642,109)	12.66	(3,600,000)
Balance at end of year/period	**7.32**	**23,717,925**	**5.88**	**48,145,000**

Note: Adjustment as a result of the rights issue with effect from 21 April 2021

4. FURTHER DETAILS (CONTINUED)

4.2. Share-based payments (Continued)

4.2.1. Share option scheme (Continued)

The remaining life of the 2009 Share Option Scheme (Continued)

Share options outstanding at the end of the year/period have the following terms:

Expiry date	Exercise price (note) HK$	Number of share options outstanding As at 31 December 2021	As at 31 December 2020
Directors			
30 June 2024 *	11.000	–	550,000
25 June 2028 **	2.660	–	8,000,000
28 September 2028*	1.884	–	500,000
		–	**9,050,000**
Employees			
27 September 2021 *	8.760 (8.330 Note)	–	1,050,000
12 December 2022 *	12.320 (11.710 Note)	473,307	890,000
11 March 2023 *	10.040 (9.550 Note)	315,538	520,000
4 November 2023 *	14.180 (13.480 Note)	920,319	1,425,000
30 June 2024 *	11.000 (10.460 Note)	315,537	300,000
31 October 2024 *	10.124 (9.630 Note)	1,498,804	2,300,000
13 October 2025 *	6.550 (6.230 Note)	1,472,510	2,250,000
31 October 2026 *	6.870 (6.530 Note)	1,525,100	2,500,000
7 November 2027*	4.650 (4.420 Note)	1,472,511	2,550,000
25 June 2028 **	2.660 (2.53 Note)	1,893,227	–
25 June 2028 **	2.660	–	2,750,000
28 September 2028 **	1.884 (1.790 Note)	1,051,793	–
28 September 2028 **	1.884	–	1,500,000
		10,938,646	**18,035,000**

Expiry date	Exercise price (note) HK$	Number of share options outstanding As at 31 December 2021	As at 31 December 2020
Others			
27 September 2021*	8.760 (8.330 Note)	–	300,000
12 December 2022*	12.320 (11.710 Note)	105,179	100,000
11 March 2023 *	10.040 (9.550 Note)	7,730,677	7,350,000
4 November 2023*	14.180 (13.480 Note)	841,434	800,000
30 June 2024 *	11.000	–	110,000
31 October 2024*	10.124 (9.630 Note)	946,613	900,000
13 October 2025*	6.550 (6.230 Note)	105,179	100,000
31 October 2026 *	6.870 (6.530 Note)	105,179	100,000
7 November 2027*	4.650 (4.420 Note)	105,179	100,000
25 June 2028**	2.660 (2.53 Note)	210,358	–
25 June 2028**	2.660	–	8,200,000
28 September 2028*	1.884	–	500,000
28 September 2028*	1.884 (1.790 Note)	2,629,481	–
28 September 2028**	1.790	–	2,500,000
		12,779,279	**21,060,000**
Total		**23,717,925**	**48,145,000**
Weighted average remaining contractual life of share options outstanding at end of the year/period		**3.5 years**	**5.6 years**

* The share options listed above are vested as of the respective dates of the balance sheet.

** The share options listed above are not vested as of the respective dates of the balance sheet.

Note: Adjustment for exercise price as a result of the rights issue with effect from 21 April 2021

4. FURTHER DETAILS (CONTINUED)

4.2. Share-based payments (Continued)

4.2.1. Share option scheme (Continued)

The remaining life of the 2018 Share Option Scheme

Share options may be granted to eligible persons under the 2018 Share Option Scheme for the period until 4 December 2028.

Details of the share options movement during the period and outstanding share options as at 31 December 2021 under the 2018 Share Option Scheme are as follows:

	For the year ended 31 December 2021		For the six months ended 31 December 2020	
	Average exercise price	Number of share options	Average exercise price	Number of share options
Balance at beginning of year/period	1.60	14,100,000	1.67	20,700,000
Granted during the year/period	–	–	–	–
Adjustment	1.53	269,322		
Lapsed during the year/period	–	–	–	–
Forfeited during the year/period	1.57	(10,477,689)	1.80	(6,600,000)
Balance at end of year/period	**1.53**	**3,891,633**	**1.60**	**14,100,000**

Share options outstanding at the end of the period have the following terms:

	Exercise price	Number of share options outstanding	
Expiry date	**HK$**	**As at 31 December 2021**	**As at 31 December 2020**
Directors			
10 December 2029*	1.604	–	500,000
10 December 2029**	1.604	–	–
Employees			
10 December 2029**	1.604 (1.530 Note)	3,365,737	6,100,000
Others			
10 December 2029*	1.604	–	1,000,000
10 December 2029**	1.604	–	6,500,000
10 December 2029**	1.604 (1.530 Note)	525,896	–
		3,891,633	**14,100,000**
Weighted average remaining contractual life of share options outstanding at end of the year/period		**7.9 years**	**8.9 years**

* The share options listed above are vested as of the respective dates of the balance sheet.
** The share options listed above are not vested as of the respective dates of the balance sheet.
Note: Adjustment for exercise price as a result of the rights issue with effect from 21 April 2021

4.2.2. Awarded shares

The Board of Directors has adopted the Employees' share award scheme on 17 March 2016 (the "Old Share Award Scheme"), which was terminated on 23 April 2021. The Company has adopted a new share award scheme on 6 July 2021 (the "New Share Award Scheme"), together with Old Share Award Scheme as the "Share Award Schemes". The purpose of the Old Share Award Scheme is to incentivize and retain selected senior management of the Group. The purpose of the New Share Award Scheme is to recognize the contributions by certain Eligible Participants (including any employee, consultant, executive or officers, directors and senior management or any member of the Group), and to provide them incentives; and to attract suitable personnel with relevant experience in the Group's business. The details of the New Share Award Scheme were disclosed in the circular of the Company dated 15 June 2021.

Pursuant to the rules relating to the Old Share Award Scheme (the "Old Scheme Rules"), the Board of Directors selected any employees of the Group, including Executive Directors of the Company (the "Selected Employees") for participation in the Old Share Award Scheme and determine the awarded sums or the number of awarded shares. The Company appointed an independent trustee for the administration of the Old Share Award Scheme. The trustee purchased the relevant number of shares from the market out of the Company's funds paid to the trustee. The trustee holds such shares on trust for the relevant Selected Employees until they were vested and delivered in accordance with the Old Scheme Rules and the conditions of the award of such awarded shares (if any).

Details of the awarded shares movement during the year ended 31 December 2021 and outstanding awarded shares as at 31 December 2021 under the Old Share Award Scheme are as follows:

Number of awarded shares	As at 31 December 2021	As at 31 December 2020
Balance at beginning of year/period	**2,000,000**	**2,095,270**
Lapsed during the year/period for awarded shares included forfeited and expired	(2,000,000)	(95,270)
Balance at end of year/period	**–**	**2,000,000**

4. FURTHER DETAILS (CONTINUED)

4.2. Share-based payments (Continued)

4.2.2. Awarded shares (Continued)

During the year end 31 December 2021, there is no movement for the New Share Award Scheme.

During the year ended 31 December 2021, the trustee did not purchase any shares (for the six months ended 31 December 2020: Nil) of the Company on the Stock Exchange. No payment was made to the trustee to purchase any shares (for the six months ended 31 December 2020: Nil).

During the year ended 31 December 2021, a total of 7,818,589 shares of the Company were sold by the trustee due to the termination of the Old Share Award Scheme. The net proceeds from disposal of shares held for the Old Share Award Scheme was HK$6 million. An equity movement of HK$33 million was made from shares held for the Old Share Award Scheme to accumulated loss in respect of the shares whose selling prices were lower than the costs.

4.3. Profit/(loss) per share

4.3.1. Basic

Basic profit/(loss) per share is calculated by dividing the profit/(loss) attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year/period less shares held for Old Share Award Scheme.

	For the year ended 31 December 2021	For the six months ended 31 December 2020 (Adjusted)[1]
Profit/(loss) attributable to shareholders of the Company (HK$ million)	**381**	**(414)**
Number of ordinary shares in issue at beginning of year/period (million)	1,887	1,887
Adjustment for issue of rights shares (million)	712	171
Adjustments for share held for Old Share Award Scheme (million)	(3)	(8)
Weighted average number of ordinary shares in issue less share held for Old Share Award Scheme (million)	2,596	2,050
Basic profit/(loss) per share (HK$ per share)	**0.15**	**(0.20)**
– from continuing operations (HK$ per share)	0.15	(0.42)
– from discontinued operations (HK$ per share)	–	0.22

[1] Adjustment as a result of the rights issue on 21 April 2021

4.3.2. Diluted

Diluted profit/(loss) per share is calculated based on dividing the profit/(loss) attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year/period (less shares held for Share Award Scheme) adjusted by the dilutive effect of share options and awarded shares.

	For the year ended 31 December 2021	For the six months ended 31 December 2020 (Adjusted)[1]
Profit/(loss) attributable to shareholders of the Company (HK$ million)	**381**	**(414)**
Weighted average number of ordinary shares in issues less shares held for Old Share Award Scheme (million)	2,596	2,050
Adjustments for share options and awarded shares (million)	–	–
Weighted average number of ordinary shares for diluted earnings per share (million)	2,596	2,050
Diluted profit/(loss) per share (HK$ per share)	**0.15**	**(0.20)**
– from continuing operations (HK$ per share)	0.15	(0.42)
– from discontinued operations (HK$ per share)	–	0.22

[1] Adjustment as a result of the rights issue on 21 April 2021

Diluted profit/(loss) per share for the year ended 31 December 2021 and six months ended 31 December 2020 was the same as the basic profit/(loss) per share since the share options and awarded shares are anti-dilutive for the periods presented.

4.4. Auditor's remuneration

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020
Nature of the services		
Audit services	21	21
Non-audit services	5	1
Auditor's remuneration total	**26**	**22**

5. UNRECOGNIZED ITEMS

5.1. Capital commitments

HK$ million	As at 31 December 2021	As at 31 December 2020
Intangible assets		
Contracted but not provided for	–	12

5.2. Events occurring after the reporting period

Change of Management

Mr. PAK William Eui Won has been re-designated from Interim Chief Executive Officer of the Company to Chief Executive Officer of the Company with effect from 1 March 2022. His appointment as an Executive Director and Chief Operating Officer of the Company remains unchanged.

Russian Conflict in Ukraine

Developments due to the conflict in Ukraine caused by Russian invasion in February 2022 do not have any impacts on Esprit Financial Statements as at 31 December 2022 because the Company does not have material risk exposure such as assets and/or cash in these respective countries. Furthermore, business in these countries is not significant to the Group. The range of potential consequences including, but not limited to sanctions and countermeasures is currently unclear and cannot be forecasted in full by the Company at the current stage.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1. Principles of consolidation

6.1.1. Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination is achieved in stages, the Group remeasures its previously held interest in the acquiree at its fair value at the date when control is obtained, with any resulting gain or loss recognized in the statement of profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of profit or loss.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.1. Principles of consolidation (Continued)

6.1.2. Separate financial Statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable. In addition, the contribution to the Company's Old Share Award Scheme Trust, a controlled entity, is stated at cost in "Contribution to Old Share Award Scheme Trust" first, and then will be transferred to the "Shares held for Old Share Award Scheme" under equity when the contribution is used for the acquisition for the shares of the Company.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

6.1.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, have been identified as the executive directors that make strategic decisions.

6.1.4. Interest in at equity interests in associates

Interests in equity-accounted investees are part of non-controlling interests ("associates"). Associates are all entities over which the Group has significant influence but not control. This is generally the case where the Group holds between 20% and 50% of the voting rights, but also in those cases where the major shareholder lost control (e.g. due to insolvency proceedings).

Interests in associates are accounted for using the equity method. They are initially recognized at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

6.1.5. Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Hong Kong Dollar (HK$), which is Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the presentation currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year/6 months end exchange rates, are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other operating costs.

6.1.6. Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated automatically in the system with the closing rate at the date of that balance sheet,
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated automatically in the system at monthly average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.1. Principles of consolidation (Continued)

6.1.6. Group companies (Continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale. When an inter-company loan balance which forms part of the net investment in a foreign entity is repaid, such exchange differences are transferred to the statement of profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in equity.

6.2. Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest million currency units unless otherwise stated.

6.3. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Goods and services are transferred to customers at a point in time. Revenue is recognized as follows:

6.3.1. Sales of goods – wholesale

Sales of goods are recognized on the transfer of control of a product to the customer, which generally coincides with the time when the goods are delivered to the customer and title has been passed that the customer has the ability to direct the use of and obtain the benefit of the product.

6.3.2. Sales of goods – retail including e-shop

Sales of goods are recognized on sale of a product transferred to the customer in store or upon delivery. Retail sales are mainly paid by cash or by credit card.

Payment of the transaction price is due immediately when the customer purchases the products and takes delivery in store. It is the Group's policy to sell its products to the end customer with a right of return. Therefore, a refund liability (included in creditors and accrued charges) and a right to the returned goods (included in current debtors, deposits and prepayments) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

6.3.3. Customer loyalty program

The Group runs customer loyalty programs which award credit points upon sales of products to the loyal customers who have joined the programs. Portion of the consideration received from the sale of products is allocated to the credit points. Revenue of this portion of the consideration is deferred and will be recognized when the points are redeemed, expired or forfeited.

6.3.4. Licensing income

Licensing income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

6.4. Interest income

Interest income is recognized on a time proportion basis using the effective interest method.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.5. Income Tax

The income tax expense or income for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by deferred tax income or expenses resulting from changes in deferred tax assets and liabilities attributable from temporary differences and from unused tax losses.

The **current income tax** charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It accounts for liabilities, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax expense is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred tax expense is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax income and expense are determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The **deferred tax liability** in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax income or expense is recognized in statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

6.6. Impairment

6.6.1. Impairment of receivables

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income (FVTOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Furthermore, the Group assessed at the end of each reporting period whether there was objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. A provision for impairment of trade receivables is established when the impact on the estimated future cash flows of the financial asset could be reliably estimated.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see note 2.7.2 for further details.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.6. Impairment (Continued)

6.6.1. Impairment of receivables (Continued)

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are estimated based on the present value of the cash shortfalls between the cash flow receivable in accordance with the terms of the contract and the cash flow expected to receive. In measuring the expected credit losses, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

For all other financial assets measured at amortized cost and at FVTOCI, the Group recognizes a loss allowance equal to twelve month expected credit loss unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

When there is a significant increase in credit risk or the proceeds receivables are not settled in accordance with the terms stipulated in the agreements, management consider these receivables as underperforming or non-performing and impairment is measured as lifetime expected credit loss.

6.6.2. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets other than goodwill are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGUs")). Goodwill is allocated to CGUs for the purposes of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

An impairment loss recognized in prior years for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed.

6.7. Intangible assets

6.7.1. Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill included in intangible assets is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (note 2.1).

6.7.2. Trademarks and licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks with indefinite useful lives are carried at cost less accumulated impairment losses, if any. They are not amortized but are tested for impairment (note 2.6.1).

6.7.3. Software

Software is stated at cost less any impairment losses and is amortized on the straight-line basis over the shorter of the estimated economic life.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.8. Leases, right-of-use assets

Group as lessee

The Group leases various offices, warehouses, retail stores, equipment and motor vehicles. Rental contracts are typically made for fixed periods, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the Group, as a lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.8. Leases, right-of-use assets (Continued)

Group as lessee (Continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If there is a significant event or significant changes in circumstances within its control the Group also reassesses whether it is reasonably certain to exercise the option.

Group as lessor

The Group sub-leases stores and has classified the sub-leases as operating leases. Amounts are shown under other non-current assets as well as other receivables.

6.9. Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the statement of profit or loss during the reporting period in which they are incurred.

The depreciation methods and periods used by the Group are the following:

- The principal annual rates are

Buildings	3.3% – 5.0%
Plant and machinery	30.0%
Furniture and office equipment	10.0% – 33.3%
Motor vehicles	25.0% – 30.0%

- Freehold land is not depreciated. Leasehold land and leasehold improvements are depreciated over the initial lease terms. Fixtures are depreciated over the shorter of five years and their estimated useful lives on a straight-line basis. Depreciation on other assets is calculated using the straight-line method to write down their cost to their residual values over their estimated useful lives.
- No depreciation is provided for construction in progress until it is completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3.1.5).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in statement of profit or loss.

6.10. Investment properties

Investment properties are interests in land and buildings which are held for long term and/or for capital appreciation. Such properties are carried in the balance sheet at their fair values. Changes in fair values of investment properties are recognized directly in the statement of profit or loss in the reporting period in which they arise.

6.11. Investments and other financial assets

6.11.1. Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortized cost.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.11. Investments and other financial assets (Continued)

6.11.1. Classification (Continued)

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVTOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

6.11.2. Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

6.11.3. Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other operating costs together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other operating costs. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other operating costs and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other operating costs in the reporting period in which it arises.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.11. Investments and other financial assets (Continued)

6.11.3. Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognized in other operating costs in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

6.12. Inventories

Inventories are stated at the lower of cost and net realizable value with cost being determined on a weighted average basis. Cost comprises the direct costs of merchandise, charges that have been incurred in bringing inventories to their current location and condition and the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchase of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

6.13. Trade receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If collection of receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are classified as non-current assets.

For trade receivables, the Group applies the simplified approach permitted under IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of the receivables. Expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast economic conditions at the reporting date. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered for the estimation of the expected credit losses. Expected credit losses are remeasured at each reporting date to reflect changes in the financial asset's credit risk. Any change in the expected credit loss amount is recognized as an impairment loss or reversal of impairment loss in the statement of profit or loss, with corresponding adjustment to the carrying amount through a loss allowance account. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of provision is recognized in the statement of profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the statement of profit or loss.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables are presented as net impairment losses within operating profit or loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.14. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

6.15. Trade creditors

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured. Invoices are issued on a monthly basis and are usually payable within 30 days. Trade and other payables are presented as current liabilities unless payment is not due within twelve months after the reporting period. Payables denominated in foreign currencies are translated at the year-end exchange rates. The resulting gains or losses are recorded in the consolidated statement of profit or loss, with the exception of the gains or losses resulting from the translation of inter-company long-term loans. The impacts of translation of these items have been reflected in other comprehensive income. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

6.16. Provisions

Provisions for legal claims, reinstatements and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

6.17. Discontinued operations

A discontinued operation is a component of the Group that is to be abandoned, that has been disposed of and

- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of such a line of business or area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately in the statement of profit or loss. The comparative statement of profit or loss and other comprehensive income is restated as if the operation had been discontinued from the start of the comparative year.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.18. Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges), or
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. As of 31 December 2021, there are no derivative financial instruments designated in hedge relationships. Movements in the hedging reserve in shareholders' equity are shown in note 3.2.1. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

6.18.1. Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within other operating costs.

When forward contracts are used to hedge forecast transactions, the Group generally designates the full change in fair value of the forward contract.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

6.18.2. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss and are included in other operating costs.

6.19. Fair value estimation

IFRS 7 requires disclosure for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1	Level 2	Level 3
quoted prices (unadjusted) in active markets for identical assets or liabilities.	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the balance sheet. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in Level 1.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.19. Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

6.20. Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss. It incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognized at fair value on the date the guarantee was given. Subsequently, the liabilities under such guarantees are measured at the higher of the best estimate of the expenditure required to settle any financial obligation arising at the date of the balance sheet and the initial measurement. These estimates are determined based on debtors' payment history, supplemented by the judgment of management of the Group.

6.21. Employee benefits

6.21.1. Pension obligations

The Group principally participates in defined contribution plans and pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and if applicable, are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

The Group also participates in defined benefit pension plan in a country in Europe. The asset or liability recognized in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds and high-quality corporate bonds.

The current service cost of the defined benefit plan, recognized in the statement of profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligations results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognized immediately in the statement of profit or loss. Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in the statement of profit or loss as past service costs.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligations and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the reporting period in which they arise.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.21. Employee benefits (Continued)

6.21.2. Share options

The Group operates an equity-settled, share-based compensation plan to grant share options to directors, employees and consultants of the Group in exchange for their services provided to the Group. The cost of equity-settled transactions with directors, employees and consultants is measured by reference to the fair value at the date at which they are granted. The fair value of the share options granted is recognized as an expense over the relevant period of the service (the vesting period of the share options). The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share options that are expected to be vested. The Group recognizes the impact of the revision of original estimates, if any, in the statement of profit or loss, and a corresponding adjustment to equity.

When the share options are exercised, the proceeds received net of any directly attributable transactions cost are credited to share capital and share premium.

The grant of share options by the Company over its equity instruments to the employees of subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognized over the vesting period as an increase to investment in subsidiaries with a corresponding credit to equity.

6.21.3. Awarded shares

The Group operates an equity-settled, share-based compensation plan to grant awarded shares to directors and employees of the Group in exchange for their services provided to the Group. The cost of equity-settled transactions with directors and employees is measured by reference to the fair value at the date at which they are granted. The fair value of the awarded shares granted is recognized as an expense over the relevant period of the service (the vesting period of awarded shares). The total amount to be expensed over the vesting period is determined by reference to the fair value of the awarded shares granted; excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of awarded shares that are expected to be vested. The Group recognizes the impact of the revision of original estimates, if any, in the statement of profit or loss, and a corresponding adjustment to equity. The consideration paid by the Company through the Old Share Award Scheme trustee for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for Old Share Award Scheme" and the amount is deducted from total equity.

When the Old Share Award Scheme trustee transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for Old Share Award Scheme", with a corresponding adjustment to equity.

The grant of awarded shares by the Company over its equity instruments to the employees of subsidiaries is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value at the date of grant, is recognized over the vesting period as an increase to investment in subsidiaries with a corresponding credit to equity.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6.21. Employee benefits (Continued)

6.21.4. Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the date of the balance sheet.

6.21.5. Bonus plans

The Group recognizes a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

6.22. Dividends

Dividend distributions to the Company's shareholders are recognized as a liability in the Group's and the Company's financial statements in the reporting period in which the dividends are approved by the Company's shareholders.

6.23. Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

6.24. Loss per share

6.24.1. Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 4.3).

6.24.2. Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

6.25. Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

7. PRINCIPAL SUBSIDIARIES

The following are the principal subsidiaries as at 31 December 2021 which, in the opinion of the Directors, principally affect the results and net operating 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 at the end of the year.

Place of incorporation/ operation	Name of subsidiary	Attributable equity interest to the Group (note a)	Currency	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Austria (note e)	Esprit Handelsgesellschaft mbH	100%	EUR	100,000	Wholesale and retail distribution of apparel and accessories
Belgium (note f)	Esprit Belgie Retail N.V.	100%	EUR	960,313	Retail distribution of apparel and accessories
Belgium (note f)	Esprit Belgie Wholesale N.V.	100%	EUR	100,000	Wholesale distribution of apparel and accessories
British Virgin Islands/ Hong Kong	Esprit Global Limited	100%	USD	500	Investment holding
British Virgin Islands	Esprit China Distribution Limited	100%	USD	100	Investment holding
British Virgin Islands	Esprit Assets Limited	100%	USD	1	Financial services
The People's Republic of China (note c)	思環貿易(上海)有限公司	100%	USD	35,000,000	Wholesale, retail, and ecommerce distribution of apparel and accessories
The People's Republic of China (note c)	創和捷商貿(北京)有限公司	100%	USD	5,000,000	Retail distribution of apparel and accessories
The People's Republic of China (note c)	普思埃商業(上海)有限公司	100%	USD	7,900,000	Retail distribution of apparel and accessories
Denmark (note e)	Esprit de Corp Danmark A/S	100%	DKK	12,000,000	Wholesale and retail distribution of apparel and accessories
France (note f)	Esprit de Corp. France SAS	100%	EUR	5,201,760	Wholesale and retail distribution of apparel and accessories
Germany (note d)	Esprit Europe GmbH	100%	EUR	5,112,919	Management and control function; render of services to Esprit Group
Germany (note d)	Esprit Retail B.V. & Co. KG (limited partnership)	100%	EUR	5,000,000	Retail and ecommerce distribution of apparel and accessories
Germany (note d)	Esprit Wholesale GmbH	100%	EUR	5,000,000	Wholesale distribution of apparel and accessories
Germany (note d)	Esprit Europe Services GmbH	100%	EUR	2,700,000	Sourcing, purchase and sale of merchandise, distribution of merchandise and other logistic functions, including customs dealing and quality control; holding and licensing of trademarks; and treasury services to European group subsidiaries
Germany (note d)	Esprit Design & Product Development GmbH	100%	EUR	100,000	Provision of services to the worldwide Esprit Group in relation to the development of designs, styles and prototypes for the sales line of Esprit products
Germany (note e)	Esprit Card Services GmbH	100%	EUR	25,000	Issuance, accounting of and service in connection with GiftCard, as provided to certain European group subsidiaries and distribution partners in Europe
Germany (note d)	Esprit Global Image GmbH	100%	EUR	25,000	Design and image directions; conceptualization and development of global uniform image; conceptualization and development of global image direction within product development
Hong Kong (note f)	Esprit Retail (Hong Kong) Limited	100%	HK$	10,000	Retail distribution of apparel and accessories

7. PRINCIPAL SUBSIDIARIES (CONTINUED)

Place of incorporation/ operation	Name of subsidiary	Attributable equity interest to the Group (note a)	Currency	Issued and fully paid share capital/ registered capital (note b)	Principal activities
Hong Kong (note f)	Esprit Regional Distribution Limited	100%	HK$	10,000	Wholesale distribution of apparel and accessories and provision of services
Hong Kong (note f)	Esprit de Corp (Far East) Limited	100%	HK$	1,200,000	Sourcing of apparel and accessories
Hong Kong (note f)	Million Success Resources Limited	100%	HK$	2	Provision of the services to Esprit Group
Republic of Ireland (note e)	Esprit Ireland Distribution Ltd.	100%	EUR	100,000	Wholesale distribution of apparel and accessories
Italy (note e)	Esprit Italy Distribution S.R.L.	100%	EUR	12,750	Wholesale distribution of apparel and accessories
Luxembourg (note e)	Esprit Luxembourg S.à r.l.	100%	EUR	250,000	Retail distribution of apparel and accessories
Macau	Garment Accessories and Cosmetics Esprit Retail (Macau) Limited	100%	MOP	100,000	Retail distribution of apparel and accessories
Malaysia (note f)	Esprit de Corp (Malaysia) Sdn. Bhd.	100%	MYR	5,000,000	Retail distribution of apparel and accessories
The Netherlands (note e)	Esprit Europe Holdings B.V.	100%	EUR	30,000,000	Investment holding
The Netherlands (note e)	Esprit Europe B.V.	100%	EUR	1,500,000	Investment holding, wholesale and retail distribution of apparel and accessories, and licensing of trademarks
The Netherlands (note e)	Esprit Nederland B.V.	100%	EUR	250,000	Investment holding
The Netherlands (note e)	Esprit (Holdings II) B.V.	100%	EUR	414,000	Investment holding
Norway (note e)	Esprit (Norway) A/S	100%	NOK	21,800,000	Wholesale distribution of apparel and accessories
Poland (note g)	Esprit Poland Retail Sp. z o.o.	100%	PLN	5,147,200	Retail distribution of apparel and accessories
Singapore (note f)	Esprit Retail Pte Ltd	100%	SGD	3,000,000	Retail distribution of apparel and accessories
Spain (note e)	Esprit de Corp (Spain) S.L.	100%	EUR	10,000	Wholesale distribution of apparel and accessories
Sweden (note f)	Esprit Sweden AB	100%	SEK	500,000	Wholesale and retail distribution of apparel and accessories
Switzerland (note e)	Esprit Switzerland Retail AG	100%	CHF	500,000	Retail distribution of apparel and accessories
Switzerland (note e)	Esprit Switzerland Distribution AG	100%	CHF	100,000	Wholesale distribution of apparel and accessories
United Kingdom (note f)	Esprit GB Limited	100%	GBP	1	Wholesale distribution of apparel and accessories
United States (note e)	Esprit International (limited partnership)	100%	N/A	N/A	Holding and licensing of trademarks

note a): All subsidiaries were held indirectly by the Company (Esprit Holdings Limited), except Esprit Global Limited.
note b): All are ordinary share capital unless otherwise stated.
note c): Wholly foreign owned enterprise.
note d): Subject Subsidiary's financial year being, due to insolvency proceedings, from 1 December 2020 to 30 June 2021 and a short fiscal year of 6 months ended 31 December 2021.
note e): The subsidiary changed its financial year end date from 30 June to 31 December, recent financial periods being year ended 30 June 2021 and a short fiscal year of 6 months ended 31 December 2021.
note f): The subsidiary changed its financial year end date from 30 June to 31 December, recent financial period being fiscal year of 18 months ended 31 December 2021.
note g): The subsidiary changed its financial year end date from 30 June to 31 December, recent financial periods being year 30 June 2021 and a long fiscal year of 18 months ended 31 December 2022.

6

Ten-Year Financial Summary

BALANCE SHEET

HK$ million	As at 31 December 2021	As at 31 December 2020	As at 30 June 2020	As at 30 June 2019
Non-current assets				
Intangible assets	1,727	1,878	1,641	2,050
Property, plant and equipment	368	509	530	1,128
Right-of-use assets	2,033	2,262	2,206	–
Investment properties	–	–	–	27
Financial assets at fair value through profit or loss	4	11	10	12
Other investments	–	–	–	–
Debtors, deposits and prepayments	416	392	345	120
Deferred tax assets	42	51	32	559
Net current assets	**3,009**	**1,623**	**712**	**3,101**
Total assets less current liabilities	**7,599**	**6,726**	**5,476**	**6,997**
Equity				
Share capital	283	189	189	189
Reserves	4,834	4,050	2,581	6,524
Total equity	**5,117**	**4,239**	**2,770**	**6,713**
Non-current liabilities				
Bank loans	–	9	8	–
Lease liabilities	2,066	2,010	2,467	–
Retirement defined benefit obligations	18	31	26	31
Deferred tax liabilities	398	437	205	253
Total non-current liabilities	**2,482**	**2,487**	**2,706**	**284**
Total equity and non-current liabilities	**7,599**	**6,726**	**5,476**	**6,997**

Notes:

- On 28 December 2020, the Board announced that the financial year end date of the Company has been changed from 30 June to 31 December commencing from the financial period ended 31 December 2020 in order to align its financial year end date with that of other global fashion brands and companies and to symbolize a new beginning of the Company, subsequent to the termination of the PSP of its Subject Subsidiaries.
- The Group adopted IFRS 16 with effect from 1 July 2019 and has changes its accounting policies in relation to lease liabilities. Under the transition methods chosen, the Group recognizes the cumulative effect of the initial application of IFRS 16 as an adjustment to the opening balance at equity at 1 July 2019. Comparative information in years earlier than 2020 is not restated and in accordance with the policies applicable in those years.
- The Group adopted IFRS 9 and IFRS 15 with effect from 1 July 2018 and has changed its accounting policies in relation to financial instruments and revenue recognition. Under the transition methods chosen, the Group recognizes the cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 July 2018. Comparative information in years earlier than 2019 is not restated and in accordance with the policies applicable in those years.

As at 30 June 2018	**As at 30 June 2017**	**As at 30 June 2016**	**As at 30 June 2015**	**As at 30 June 2014**	**As at 30 June 2013**
2,063	2,851	2,902	3,031	5,670	5,763
1,571	1,900	2,159	2,835	3,972	4,363
–	–	–	–	–	–
24	23	19	17	16	15
–	–	–	–	–	–
7	7	7	7	7	7
140	174	220	240	312	384
524	822	745	649	615	697
5,005	**6,091**	**5,829**	**5,718**	**6,979**	**6,158**
9,334	**11,868**	**11,881**	**12,497**	**17,571**	**17,387**
189	194	194	194	194	194
8,837	11,349	11,203	11,704	16,717	16,402
9,026	**11,543**	**11,397**	**11,898**	**16,911**	**16,596**
–	–	–	–	–	–
–	–	–	–	–	–
26	–	–	–	–	–
282	325	484	599	660	791
308	**325**	**484**	**599**	**660**	**791**
9,334	**11,868**	**11,881**	**12,497**	**17,571**	**17,387**

STATEMENT OF PROFIT OR LOSS

HK$ million	For the year ended 31 December 2021	For the six months ended 31 December 2020	For the year ended 30 June 2020	For the year ended 30 June 2019
Revenue	8,316	886	9,874	12,932
Operating profit/(loss) (EBIT/(LBIT))	416	(2,253)	(3,447)	(2,080)
Share of results from associates	–	1,939	–	–
Loss on remeasurement	–	(69)	–	–
Interest income	2	2	54	49
Finance costs	(32)	(15)	(100)	(35)
Profit/(loss) before taxation	**386**	**(396)**	**(3,493)**	**(2,066)**
Taxation (charge)/credit	(5)	(18)	(499)	(78)
Profit/(loss) attributable to shareholders of the Company	**381**	**(414)**	**(3,992)**	**(2,144)**

Notes:

- On 28 December 2020, the Board announced that the financial year end date of the Company has been changed from 30 June to 31 December commencing from the financial period ended 31 December 2020 in order to align its financial year end date with that of other global fashion brands and companies and to symbolize a new beginning of the Company, subsequent to the termination of the PSP of its Subject Subsidiaries.

For the year ended 30 June 2018	For the year ended 30 June 2017	For the year ended 30 June 2016	For the year ended 30 June 2015	For the year ended 30 June 2014	For the year ended 30 June 2013
15,455	15,942	17,788	19,421	24,227	25,902
(2,253)	(102)	(596)	(3,683)	361	(4,170)
–	–	–	–	–	–
–	–	–	–	–	–
58	44	40	45	55	51
(31)	(48)	(29)	(29)	(37)	(30)
(2,226)	**(106)**	**(585)**	**(3,667)**	**379**	**(4,149)**
(328)	173	606	(29)	(169)	(239)
(2,554)	**67**	**21**	**(3,696)**	**210**	**(4,388)**

Glossary of Terms

A

ADR
American Depositary Receipt

AGM
Annual General Meeting

B

Board
The Board of Directors of the Company

C

CAPEX
Capital expenditure

CG Code
The Corporate Governance Code as set out in Appendix 14 of the Listing Rules

CGUs
Cash-generating units

Company
Esprit Holdings Limited

Corresponding Period
The six months period ended 31 December 2020

Cover Ratio Before Provision
The amount of insured and secured gross trade debtors including value-added tax over total gross trade debtors including value-added tax

Current Year
The financial year ended 31 December 2021

D

Deconsolidation
The G20 Companies that were deconsolidated from 1 July to 30 November 2020 due to the Insolvency Proceedings

E

EBIT/LBIT
Earnings/loss before interest and taxes

EBITDA
Earnings before interest, taxes, depreciation and amortization

E-shop
Online store

F

FTE
Full-Time-Equivalent staff

FVTOCI
Fair Value through other comprehensive income

FVTPL
Fair value through profit or loss

FX
Foreign Exchange

G

G20 Companies
The twenty legal entities made up the Subject Subsidiaries and their fourteen international subsidiaries

Group
Esprit Holdings Limited and its subsidiaries

H

HKCO
Hong Kong Companies Ordinance

I

IAS
International Accounting Standards

IESBA Code
International Ethics Standards Board of Accountants

IFRSs
International Financial Reporting Standards

Insolvency Proceedings
The insolvency proceedings that took place by the Düsseldorf District Court of Germany

Interim Report
Interim report for the six months period ended 30 June 2021

Inventory Turnover Days
Calculated as average inventory (excluding consumables) over average daily cost of goods sold

L

Listing Rules
The Rules Governing the Listing of Securities on the Stock Exchange

M

Management
The current management team

Model Code
The Model Code for Securities Transactions by Directors of Listed Issuers

N

New Share Award Scheme
Employees share award scheme of the Company adopted on 6 July 2021

O

OCI
Other comprehensive income

Old Share Award Scheme
Employees' share award scheme of the Company adopted on 17 March 2016

P

Pandemic
COVID-19 pandemic

PPA
Purchase Price Allocation

Prospectus
The prospectus of the Company dated 26 March 2021

PSP
Protective Shield Proceedings, a restructuring proceeding in self-administration, applied by the Subject Subsidiaries on 27 March 2020

R

Rights Issue
On 27 January 2021, the Company announced a proposed rights issue on the basis of one rights share for every two shares in issue at a subscription price of HK$0.75 per rights share to raise not less than HK$707.7 million before expenses by way of issuing not less than 943,605,781 rights shares

S

Selected Employees
Any employees of the Company selected by the Board for participation in the Share Award Scheme

Schemes
The 2009 Share Option Scheme and the 2018 Share Option Scheme

Share(s)
Ordinary share(s) in the share capital of the Company with a par value of HK$0.1 each

Share Award Schemes
The Old Share Award Scheme and the New Share Award Scheme

Stock Exchange
The Stock Exchange of Hong Kong Limited

Subject Subsidiaries
The six German subsidiaries

2009 Share Option Scheme
Share option scheme of the Company adopted at an annual general meeting of the Company held on 10 December 2009 and terminated on 5 December 2018

2018 Share Option Scheme
Share option scheme of the Company adopted at an annual general meeting of the Company held on 5 December 2018

ESPRIT