2017
ANNUAL REPORT

寶勝國際（控股）有限公司
POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code：3813)

OUR VISION

Make sports your life!

OUR MISSION

Discover your persistent passion for sports by providing convenient and fun sports experiences via unique channels full of quality services and products you can access everyday.

CONTENTS

CORPORATE OVERVIEW


Win and Go Home
YY 胜道体育 SPORTS
斗到底
DDD 3X3 LEAGUE
城市争霸赛

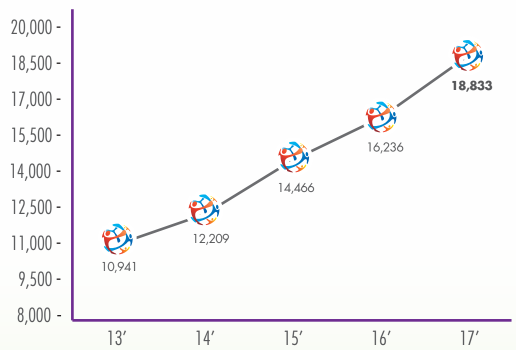
THE GROUP'S FINANCIAL HIGHLIGHTS

	For the year ended December 31,		Percentage Increase (Decrease)
	2017	2016	
Revenue *(RMB'000)*	18,833,313	16,236,384	16.0%
Operating profit *(RMB'000)*	770,392	924,156	(16.6)%
Profit attributable to owners of the Company *(RMB'000)*	394,322	560,579	(29.7)%
Basic earnings per share *(RMB cents)*	7.57	10.72	(29.4)%
Dividend per share			
Interim dividend *(HK$)*	–	0.02	(100)%
Final dividend (proposed) *(HK$)*	0.02	0.02	–

KEY SHAREHOLDER VALUE INDICES

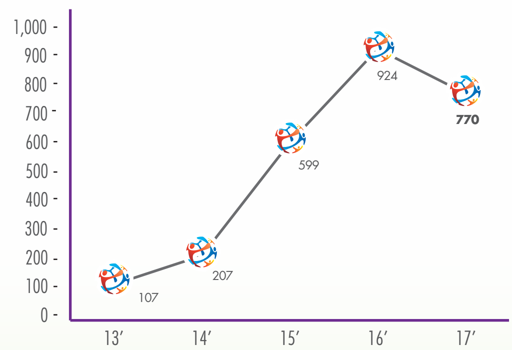
Revenue

RMB million



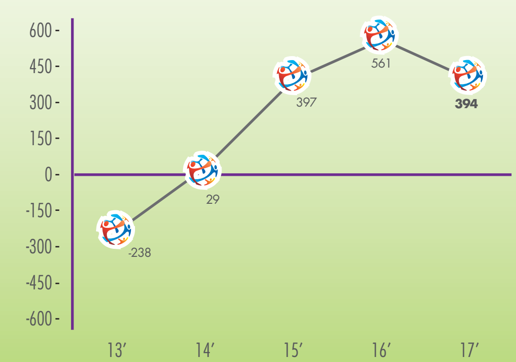
Operating Profit

RMB million



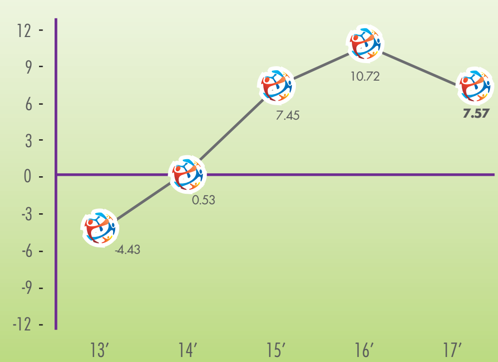
Profit (Loss) Attributable to Owners of the Company

RMB million



Basic Earnings (Loss) Per Share

RMB cent



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Wu, Pan-Tsu (Chairman)
Lee, Shao-Wu (Chief Executive Officer)
(appointed as executive Director and acting Chief Executive Officer on February 6, 2017 and re-designated as Chief Executive Officer on March 24, 2017)
Kwan, Heh-Der (Chief Executive Officer)
(resigned on January 6, 2017)

Non-executive Directors

Tsai Patty, Pei Chun
Li I-nan

Independent Non-executive Directors

Chen, Huan-Chung
Hsieh, Wuei-Jung
Shan Xue

AUDIT COMMITTEE

Chen, Huan-Chung (Chairman)
Tsai Patty, Pei Chun
Shan Xue

REMUNERATION COMMITTEE

Hsieh, Wuei-Jung (Chairman)
Chen, Huan-Chung
Li I-nan

NOMINATION COMMITTEE

Wu, Pan-Tsu (Chairman)
Chen, Huan-Chung
Shan Xue

AUTHORISED REPRESENTATIVES

Wu, Pan-Tsu (appointed on January 19, 2017)
Tsai Patty, Pei Chun
Chong Yim Kuen (ceased on January 19, 2017)

COMPANY SECRETARY

Fan Kam Wing (appointed on May 12, 2017)
Chong Yim Kuen (resigned on January 19, 2017)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

SOLICITOR

Reed Smith Richards Butler

PRINCIPAL BANKERS

ANZ Bank (Taiwan) Limited
Australia and New Zealand Bank (China) Company Limited
Bank of America N.A.
Bank of America, N.A. Shanghai Branch
Citibank (China) Co., Limited
Hang Seng Bank (China) Limited
HSBC Bank (China) Company Limited
Industrial and Commercial Bank of China Limited
Mizuho Bank, Limited
Standard Chartered Bank (China) Limited
Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank (Taiwan) Limited

WEBSITE

www.pousheng.com

STOCK CODE

3813

CHAIRMAN'S STATEMENT

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YY 胜道体育 SPORTS
国际越野跑邀请赛

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the annual results of Pou Sheng International (Holdings) Limited for the financial year ended December 31, 2017 to you.

During the financial year 2017, our business continued to expand, powered by the steady growth of the Chinese economy and the government's policies of promoting sports-related activities to make sports part of everyday life in China. In 2017, total retail sales in China grew by 10.2%, according to the National Bureau of Statistics of China.

The continuous improvement of living standards in China has led more and more consumers to discover the benefits of a healthy and active lifestyle, which is encouraging them to participate more in sports and leisure activities. This has resulted in growing demand for sportswear, including quality sports shoes, apparel and accessories. Frequent participation in sports-related activities is also influencing fashion trends, as people increasingly wear sportswear throughout their daily life and at various social occasions. This is encouraging sports brands to design their products for both sports performance, as well as fashion and casual life. This has contributed greatly to the growth of the sportswear market in China and globally.

The Chinese government is also playing an active role in promoting active lifestyles, particularly through the development of sport ecosystems and events. According to an ISOP survey, running has become one of the major sport activities favored by Chinese recreational athletes, with 44% of "health-conscious" respondents identifying running as their favorite activity. The development of soccer is also high on the government's agenda, with the Chinese Football Association setting a goal to open 50,000 football academies across the country by 2025. Other sports activities and events like basketball, volleyball, skiing and tennis, among others, are in the pipeline of the Chinese government's promotional agenda.

This growing vogue will also be a source of demand for community-focused sporting events, representing an opportunity for the Group's sports services platform, which mingles sports services and products of our online and offline stores, interacting with our consumers 24 hours a day and 365 days a year. Through this online and offline platform, we encourage consumers to make sports a part of their life.

All of these are hastening the pace of ever-changing consumer demand, preferences and shopping habits, which is the main factor behind our strategy of upgrading our concept stores and experimental shopping experiences for our customers to further reinforce our competitive position and partnerships with leading international brands.

The Group's total revenue for 2017 grew 16.0% to RMB18,833.3 million, compared with the total revenue of RMB16,236.4 million for the last financial year. During the financial year, we made further efforts to achieve our strategic vision by expanding the geographic reach and range of our portfolio of sport and fashion brands. Our management team continued to collaborate closely with the key international brands to create new consumer experiences and instigate multiple interactions with our customers by further integrating our flagship stores, digital platforms and sports services platform. This included rolling out new mono-brand and multi-brand mega flagship stores in key cities. We also optimised our e-commerce platform to better meet changing consumer tastes and preferences, evolving it from being a simple online sportswear store to a more value-adding platform with sports products of multiple brands, while also home to various sports services in selected categories. Our management team also upgraded the training of our sales staff, enhanced our information systems, and further integrated the Group's CRM and logistics platforms to increase the quality of services that we provide to our customers.

As a result of the ongoing revamps of our retail store network, as well as the continuous increases in rents and wages across China, our operating margin declined 1.6% compared with last year. As of the end of 2017, our workforce had expanded to approximately 30,500 employees, with majority working in store expansion, marketing and customer service roles. To improve the quality of our self-operated retail network, we continued to focus on screening, developing, and training talents throughout the year, while motivating our sales teams through our incentive programs. These measures ensured that a high standard of customer experience and satisfaction was maintained at our self-operated stores, enabling us to preserve our advantages in the highly competitive Chinese retail market.

Throughout the year, various control procedures were implemented to closely track inventory and store performance, as well as to ensure our workforce adhere to the Group's objectives and conduct guidelines. We continued to make strategic and timely decisions to manage multiple product launches to match and take advantages of the changing market landscape and rapid shifts in consumer preferences across our omni-channel.

As part of our corporate citizenship and community initiatives, YYsports, the operating brand of the Group, continued its philanthropic cooperations with various local schools and county governments, such as the donation and visit program for a Hope Primary School in Cangzhou, held on the International Children's Day which aimed to help improving the livelihood of under-privileged children. Meanwhile, our Dalian regional office also organised a 'clean-up day' to reinforce our commitment to environmental protection. We aim to cooperate with more international sport and leisure brands to promote sustainable development and support under-privileged communities.

Looking forward, we are optimistic about our long-term prospect, although our short-term prospect remains challenging. Our brick-and-mortar stores are still facing strong pressure from the rise of online shopping, as seen from the rapid growth of e-commerce platforms, as well as the integration and collaboration of online and offline operators and changing consumer expectations. Our Group will also continue to be challenged by increasing market competition, such as more aggressive and frequent promotions among sportswear brand owners and the aggressive experimentation of new store formats that is being undertaken by various market players.

We will continue to implement our long-term strategy to overcome these challenges and strengthen our competitiveness, namely to expand our omni-channel capabilities; plan promotional activities with key international brands; enhance our store offerings; and provide sports-related content and services. However, given the challenging retail environment, the Board has concluded that the strategy may involve execution risks that could impact on the Group's performance in the near term, which may result in share price volatility. As such, we believe that our long-term strategy will be best achieved under 100% ownership of Pou Chen Corporation ("Pou Chen"). Owing to this reason and with the privatisation proposal by way of a scheme of arrangement offered by Pou Chen, we intend to apply for withdrawal of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Proposal") as per our announcement issued jointly with Pou Chen and Yue Yuen Industrial (Holdings) Limited on January 21, 2018 subject to the fulfilment of the conditions to the Proposal.

During this time of transition and transformation, I am extremely grateful to our dedicated staff and management who have continued to uphold the Group's philosophy, value and integrity. I am also indebted for the continued support from our business partners, financial institutions and shareholders.

I am confident that with continued enhancement, solid execution and strong internal controls, the long-term future of our Group remains bright.

Wu, Pan-Tsu
Chairman

March 23, 2018

MANAGEMENT DISCUSSION AND ANALYSIS


MINI
WBSC
MINI BASEBALL

BUSINESS REVIEW

Business model and environment

“Make sports your life!” is the vision of the Company.

From being one of the top tier sportswear distributors in China by the establishment of an intensive brick-and-mortar store network with quality sporting products, to striving to become the number one sports services provider and sportswear retailer in the Greater China region, the Company defines its mission as “Discover your persistent passion for sports by providing convenient and fun sports experiences via unique channels full of quality services and products you can access everyday.”.

To efficiently implement the mission under the vision of the Company, the management of the Company started, from 2017, to strengthen the contacts with consumers from what was generally a single transaction taking a couple of minutes, to an aggressive initiative of 365-day communications. The new initiative is being done by organising a full year sports services calendar connected with the sports events organised by the Company, sponsored by sports brand owners, licensed by sports event companies as well as cooperated with local governments in the Greater China region. The 365-day communications with consumers are done both online and offline with quality services and products relating to specific sports events in the full year sports services calendar. The objective of the Company is to be the most valuable partner to sports brand owners by connecting them with end consumers with quality services and products, and enabling their precision marketing to be more effective and efficient both online and offline.

Digitising the daily management of the current retailing business and shortening the sales cycle by efficiently integrating online and offline channels with potential partners are top priorities of the Company’s agenda in 2018. Whilst we are growing our business by opening more and more brick-and-mortar stores, we need to ensure the quality of the newly opened stores and apportion part of the growth to be derived from new and promising online channels via competent business partners.

With the benefit of effective communications with consumers and creative integrations of online and offline channels, the Company is aiming to be not only a tier one sportswear distributor in the Greater China region, but also an efficient and effective sports services provider providing quality sports services to consumers as well as an effective and efficient network for the introduction of a wide variety of sports and leisure brands into the region.

As at December 31, 2017, the Group’s nationwide retail network consisted of 5,465 directly-operated stores and 3,313 sub-distributor stores.

The Group's operating environment was supported by growing interest in sports participation and healthy lifestyle among Chinese consumers, which was in turn supported by the government policies designed to develop the domestic sporting industry, such as the 'Fitness-for-All' program that was highlighted in the 19th CPC National Congress policy report.

In the meantime, this heightened demand has kept the sportswear retailing environment in China highly competitive. E-commerce sales in the sector are rising quickly alongside the shift to online shopping. Despite this, traditional offline retail channels remain important, as consumers still seek unique shopping experiences for products and services. To better cope with the ever-changing consumer habits, continuous investment is required to develop and upgrade existing store formats and digital channels, which will help to reinforce consumer experiences and stimulate higher-margin sales.

With the vision and mission defined, and the ongoing projects implemented, there are great opportunities. The Company will be able to upgrade itself from a distributor of sports brand owners, to a quality sports services and products provider to both end consumers and sports brand owners. There are numerous competitors with different approaches and initiatives in the market eyeing the same end consumers and sports market. Hence, there will be enormous threats if the Company is unable to deliver what are planned for end consumers and sports brand owners in a timely manner. Only with determination and quality execution, can the Company prevail. It is believed that the Company will successfully manage the costs and time to implement what are planned under fierce market competition.

Analysis of Performance

Financial Review

For the financial year, the Group recorded revenue of RMB18,833.3 million, representing an increase of 16.0% compared with the 2016 financial year. Gross profit was RMB6,593.6 million, an increase of 14.3% compared with last year. The Group's operating profit was RMB770.4 million, which was a decline compared with the operating profit of RMB924.2 million reported during the 2016 financial year. Profit attributable to owners of the Company for the year was RMB394.3 million, an decrease of 29.7% compared with the profit attributable to owners of RMB560.6 million recorded last year.

Revenue

Total revenue for the Group grew 16.0% to RMB18,833.3 million for the year ended December 31, 2017, as compared with RMB16,236.4 million reported last year. This growth was attributable to higher overall store sales and higher contributions from newly opened stores.

Gross Profit

Gross profit for the Group amounted to RMB6,593.6 million, an increase comparing to the comparable figure achieved during the last financial year. The gross profit margin was slightly lower than comparable figure achieved in the last financial year. The decline in gross profit margin was primarily due to increased discounting and allowances on the aging inventory of emerging brands.

Selling & Distribution Expenses and Administrative Expenses

The selling and distribution expenses and administrative expenses of the Group were in aggregate RMB6,051.2 million, representing 32.1% of total revenue and an increase of 19.3%, compared with the last financial year. To align with the growth strategies of the Group's brand owners in China, the management team continued to invest in concept stores and store upgrades, optimising distribution and digital channels, as well as motivating the sales team. These activities led to a corresponding increase in staff costs, rental expenses and concession fees.

Operating Profit

The Group's operating profit for the financial year was RMB770.4 million, while the operating profit margin was 4.1%. This compared with the operating profit of RMB924.2 million, or 5.7% in the 2016 financial year.

Other Gains (Losses) arising other than Operating Activities

The Group incurred various gains (losses) from a variety of situations, amounting to a net loss of RMB9.1 million in the financial year. Amongst others, there were a loss on disposal of subsidiaries and a joint venture, and a fair value gain on investment properties during the financial year.

Profit for the Year

Due to the aforementioned reasons, the Group recorded a net profit of RMB415.0 million for the year, a decrease over the net profit of RMB569.6 million recorded from the last financial year.

Working Capital Efficiency

The average inventory turnover period for the year was 149 days (2016: 145 days). The increase in the inventory turnover period was mainly due to the underperformance of emerging brands. The Group continues to diligently manage inventory levels to optimise the required working capital. The average trade receivables turnover period was 28 days (2016: 28 days), which remained consistent with the credit terms of 30 to 60 days that the Group gives to its department store counters and retail distributors. The average trade and bills payables turnover period was 16 days (2016: 22 days).

Liquidity and Financial Resources

As at December 31, 2017, the Group had cash and cash equivalents of RMB377.4 million (2016: RMB482.6 million) and working capital (current assets minus current liabilities) of RMB4,039.6 million (2016: RMB3,858.7 million). Total bank borrowings were RMB2,532.2 million (2016: RMB1,375.8 million) and are repayable within one year. Bank borrowings were mainly denominated in Renminbi and so were cash and cash equivalents.

The Group's gearing ratio for 2017 represented by total interest bearing loans (including the amount due to a connected party) as a percentage of total equity was 41% (2016: 27%).

During the year, net cash used in operating activities was RMB199.7 million. The Group believes its liquidity requirements will be satisfied with a combination of capital generated from operating activities and bank borrowings in the future. Net cash used in investing activities was RMB581.7 million, of which RMB523.7 million was used for the purchase of property, plants and equipment. Net cash generated from financing activities was RMB669.4 million. During the year, the Group raised and repaid bank borrowings of RMB4,916.1 million and RMB3,759.8 million respectively.

Capital Expenditure

The Group's capital expenditure primarily comprised of payments for upgrading existing store formats, expanding mega stores and injecting resources into its online sports services platform. For the 2017 financial year, the total capital expenditure was RMB576.4 million (2016: RMB517.6 million). As at December 31, 2017, the Group had no material capital commitments and contingent liabilities.

Foreign Exchange

The Group conducted its business primarily in the Greater China region, and the majority of its transactions are denominated in RMB. As at December 31, 2017, the Group had no significant hedging instruments for managing foreign exchange exposures. As the exchange rate of RMB against foreign currencies may fluctuate, the Group may enter into forward contracts, currency swaps or options to hedge against currency risks arising from foreign currency transactions when necessary.

The Group has a dedicated treasury division and internal treasury policies and approval guidelines to manage and control the Group's exposure to structured deposit investments. The use of derivatives and approval procedures were in accordance to our internal policies and guidelines during the year under review.

HUMAN RESOURCES

As at December 31, 2017, the Group had approximately 30,500 employees in total. The Group provides competitive remuneration packages that are determined with reference to prevailing salary levels in the market and individual performance. The Company offers awarded shares and/or share options to eligible employees in order to provide them with incentives and to recognise their contributions and ongoing efforts. In addition, the Group provides other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programs for employees based on their respective personal career development.

PROSPECTS AND FUTURE DEVELOPMENTS

The Group's management is optimistic about the long-term growth prospect for sportswear retailing, given increasing health awareness, higher sports participation rate and the growth of 'athleisure' trend in the Greater China region. The Group's omni-channel distribution strategy will continue to benefit from the favorable environment being fostered by official government support for the popularisation of sport as China's economy is shifting away from over-dependence on investment and exports towards more sustainable growth based on higher domestic consumption, including spending on sport and cultural activities.

The execution of strategic marketing initiatives of various sports events organised by the Company, licensed by sports event companies, cooperated with local governments and global brands partners in the Greater China region will remain one of the Group's core development strategies. This includes but is not limited to:

- "Go Wild" trail run tournament
- "Dou Dao Di" 3 on 3 basketball tournament
- HOOD to COAST marathon relay
- Kunshan Marathon, a cross Strait focused annual marathon event
- Baseball training camp coached by Taiwan baseball superstar players
- Running, basketball, baseball, rock climbing etc. training programs

The Group will also further synchronize traditional and experiential retail experiences, improve operational management, utilize big data to analyse and respond to consumer purchasing behavior, and roll-out new concept stores that combine the sales of goods with professional sports training and after-sales training services. With the efforts to attract consumers coming to offline store with a purpose, the Group now has further flexibility in planning new concept store openings in suburbs, rather than in prime locations.

The Group will further develop its digital platform to better support inventory management and allocate more resources to improve working capital efficiency. It will continue to optimise its omni-channel sales and distribution network, as well as its operational systems, to support the execution of sporting services and events across the Greater China region. With a comprehensive product portfolio and event-focused services in the full year sports services agenda implemented in the Company's offline stores and online platform, it is expected that the 365-day communications with end consumers, with quality products and services will strengthen the interactions with consumers, better promote sports brands' products and attract capable online operators to team up with, which should result in a better sell-through for products and in-depth communications with end consumers. All these are in the course of establishing a valuable sports services platform for serving end consumers and sports brand owners better.

Business opportunities and investment risks always happen at the same time with similar magnitude. The Company will plan and proceed all these new initiatives with caution but being aggressive and proactive.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Proposed Privatisation

On January 21, 2018, Pou Chen Corporation ("Pou Chen") requested the Board to put forward the proposal (the "Proposal") to the scheme shareholders of the Company for the privatisation of the Company by way of a scheme of arrangement under section 99 of the Bermuda Companies Act 1981 (the "Scheme"), subject to the fulfilment or waiver (as applicable) of certain conditions. If the Proposal is approved and implemented, (i) the Company will become a direct or indirect wholly-owned subsidiary of Pou Chen; and (ii) the listing of the shares of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be withdrawn.

For further details of the Proposal and the Scheme, please refer to the announcement dated January 21, 2018, jointly issued by Pou Chen, Yue Yuen Industrial (Holdings) Limited ("Yue Yuen") and the Company (the "Joint Announcement"), the subsequent announcements issued by the Company and/or Pou Chen, and the scheme document issued jointly by Pou Chen and the Company dated March 12, 2018 (the "Scheme Document").

BIOGRAPHICAL DATA OF DIRECTORS

Mr. WU, Pan-Tsu

WU, Pan-Tsu, aged 65, is the Chairman of the Company and has been an Executive Director of the Company since April 2012. He is also the chairman of the Nomination Committee of the Board. He once was the acting Chief Executive Officer of the Company (the "CEO") during the period from April to August 2012. He is also a director of various subsidiaries and a joint venture company of the Company. Mr. Wu graduated from Tamkang University, Taiwan with a Bachelor's degree in Banking and Insurance and started his career at Bank of America Taipei Branch in 1978. He later worked in ABN-AMRO Bank, Chase Manhattan Bank and BNP PARIBAS in various managerial positions. In 2000, Mr. Wu was invited to join Taishin Financial Holding Co. Ltd. in a position specializing in corporate banking. After serving in the financial services industry for about 25 years, Mr. Wu joined Pou Chen in 2003 and currently serves as a president. Pou Chen, a public company listed on the Taiwan Stock Exchange Corporation ("TSEC"), is a controlling shareholder of Yue Yuen, a public company listed on the Stock Exchange, and through Yue Yuen, is deemed to have interests in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Wu is a director of Elitegroup Computer Systems Co., Ltd. (shares of which are listed on the TSEC). He was a director of First Sino Bank in Shanghai, China and Kleine Development Ltd. Mr. Wu is also a director of certain subsidiaries of Yue Yuen.

Mr. LEE, Shao-Wu

LEE, Shao-Wu, aged 54, is the CEO and has been an Executive Director of the Company since February 2017. He once was the acting CEO from February 6, 2017 to March 23, 2017. Mr. Lee is also a director of various subsidiaries of the Company. He holds a Master of International Business Administration Degree granted by Chinese Culture University in Taiwan and a Bachelor of Mechanical Engineering Degree granted by National Central University in Taiwan. Mr. Lee was the managing director of Barits Securities (HK) Ltd before he joined InfoVision Optoelectronics (Kunshan) Co., Ltd., a TFT-LCD panel manufacturer in China, as CFO and vice president of administration center in 2004. Mr. Lee was an executive director of Yue Yuen during the period from January 2011 to 5 February 2017 and was the Head of Strategic Investment of Pou Chen. Pou Chen is a controlling shareholder of Yue Yuen and through Yue Yuen, is deemed to have interests in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of part XV of the SFO.

BIOGRAPHICAL DATA OF DIRECTORS (Continued)

Ms. TSAI Patty, Pei Chun

TSAI Patty, Pei Chun, aged 38, has been a Non-executive Director of the Company since April 2008. She is also a member of the Audit Committee of the Board. Ms. Tsai joined Yue Yuen group in 2002. She has served as an executive director and the managing director of Yue Yuen since January 2005 and June 2013 respectively. She is responsible for the strategic planning and enterprise developments of Yue Yuen group. Ms. Tsai is also the chief executive officer of Pou Chen group, a director of Pou Chen and Wealthplus Holdings Limited ("Wealthplus"). She was previously a director of Mega Financial Holding Company Limited (shares of which are listed on TSEC). Ms. Tsai graduated from the Wharton School of the University of Pennsylvania in 2002 with a Bachelor of Science in Economics degree with major in Finance and minor in Psychology. Pou Chen, Wealthplus and Yue Yuen are deemed to have interests in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. LI I-nan

LI I-nan, aged 76, has been a Non-executive Director of the Company since March 2013. He is also a member of the Remuneration Committee of the Board. Mr. Li has many years of experience in footwear business. He joined Yue Yuen group in 1992 and was responsible for the financial operations of the group. He was previously an executive director of Yue Yuen. He is currently a director of Yue Yuen Education Foundation in which he has been involving in the planning and execution of various projects of the Foundation. Mr. Li holds a Bachelor and a Master of Arts degree of National Chengchi University in Taiwan and the University of Southern California in the United States, respectively. Mr. Li was a non-executive director of Symphony Holdings Limited, a publicly listed company in Hong Kong.

Mr. CHEN, Huan-Chung

CHEN, Huan-Chung, aged 62, has been an Independent Non-executive Director of the Company since April 2008. He is also the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. Mr. Chen is a partner of Wong Tong & Co., CPAS (萬通聯合會計師事務所), a certified public accountant in Taiwan and a certified securities investment analyst in Taiwan. He was a supervisor of Pou Chen. Mr. Chen worked as a deputy manager in E. Sun Bills Finance Corporation of Taiwan (台灣玉山票券金融(股)公司). He became a certified public accountant in Taiwan in 1992 and a certified securities investment analyst in Taiwan in 1990. He received a Bachelor degree from the Department of Industrial Management of National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) in 1983.

BIOGRAPHICAL DATA OF DIRECTORS (Continued)

Mr. HSIEH, Wuei-Jung

HSIEH, Wuei-Jung, aged 66, has been an Independent Non-executive Director of the Company and the chairman of the Remuneration Committee of the Board since March 2013. He received a Bachelor of Science degree in Nuclear Engineering from the National Tsing Hua University, Taiwan in 1973 and a Master degree of Business Administration, finance from National Taiwan University in 1977. Mr. Hsieh started his career at Bank of America, National Trust and Savings Association, Taipei Branch (renamed to Bank of America N.A. Taipei Branch) as account officer in 1978 and later was promoted to vice president and country banking head respectively. He was a vice president and chief finance officer of Vanguard International Semiconductor Corporation, shares of which are traded on Taipei Exchange ("TPEx", formerly known as Gre Tai Securities Market) in Taiwan. He was also a member of the compensation committee of Motech Industries, Inc., shares of which are traded on TPEx. Mr. Hsieh currently serves as an independent director, the chairman of the audit committee and a member of the compensation committee of Anpec Electronics Corporation and an independent director, the chairman of the audit committee and a member of the compensation committee of the board of Xintec Inc. (the shares of these two companies are traded on TPEx).

Mr. SHAN Xue

SHAN Xue, aged 39, has been an Independent Non-executive Director of the Company, a member of the Audit Committee and a member of the Nomination Committee of the Board since October 2014. He is also a director and the general manager of JIC Technology Investments Co., Ltd. (建投華科投資股份有限公司) and an executive director of ZT Dawn (Beijing) Investment Consultant Limited (中投晨曦(北京)投資顧問有限公司). He is a qualified accountant, a qualified lawyer and a qualified securities practitioner in the PRC. Prior to these, he was the chairman of the board of directors and the chairman of investments committee of JIC Capital Management (Tianjin) Limited (中建投資本管理(天津)有限公司) ("JIC Capital") and had been working in Beijing Deheng Law Office (北京德恒律師事務所) and China Jianyin Investment Ltd. (中國建銀投資有限責任公司). Mr. Shan obtained a Master degree from Dongbei University of Finance and Economics (東北財經大學).

BIOGRAPHICAL DATA OF SENIOR MANAGEMENT

Ms. CHANG, Su-Ching

CHANG, Su-Ching, aged 53, is currently in charge of Operation & Business Management Department and CEO Office, and also a director of various subsidiaries and a joint venture of the Company, and a supervisor of certain subsidiaries of the Company. She was appointed as the Vice President of Finance Department of the Company in September 2011. Ms. Chang graduated with a Master degree in Finance from National Taiwan University. She has more than 20 years' working experience in treasury, cash management and financial planning.

Mr. CHEN Hang

CHEN Hang, aged 52, is the Executive Vice President of Executive Office of the Company and also a director of certain subsidiaries of the Company at the same time. He joined the Company as Vice President of Sports Platform Department (previously known as"Marketing Management Department") in September 2016. He graduated from Oriental Institute of Technology, then studied Executive Master of Business Administration at National Chengchi University. Prior to joining the Company, Mr. Chen was the senior commercial director of an international sports brand company and has more than 25 years of experience in strategic planning, sales marketing, retail and operation management in sportswear field.

Ms. SHEN, Yuan-Fang

SHEN, Yuan-Fang, aged 51, was appointed as the Chief Financial Officer of the Company in July 2017. She is also a director of various subsidiaries of the Company. Ms. Shen received a Bachelor degree of Business Administration from National Chengchi University in Taiwan and a Master degree of Commerce, major in Accounting, from National Taiwan University. She passed the Certified Public Accountant Examination in Taiwan. Ms. Shen joined Procter & Gamble Taiwan, Ltd. as financial analyst in 1994 and was promoted to Greater China financial analysis manager and then assigned to Greater China tax manager. She then worked in Bristol-Myers Squibb Company ("Bristol-Myers Squibb") as finance director of Taiwan and Hong Kong and was later promoted and relocated to Shanghai, China to serve various managerial positions in both finance and commercial operations. She was Mature Product Business Lead, China of Bristol-Myers Squibb prior to joining the Company. Ms. Shen has extensive experiences in financial management.

Mr. WANG Jun

WANG Jun, aged 49, is the Executive Vice General Manager of Merchandise & Retail Business Unit of the Company and also a director of various subsidiaries of the Company at the same time. He joined the Company as the Vice President of Brand & Retail Management Division (previously known as "Brand and Merchandizing Management Department") in April 2014. Mr. Wang graduated from the Department of Marketing of the Capital University of Economics and Business in Beijing. He has extensive experience and achievements in strategic planning, sales marketing, product branding, and retail operation.

The directors of Pou Sheng International (Holdings) Limited (the "Company" and the "Director(s)" or the "Board", respectively) are pleased to present this annual report (the "Annual Report") together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2017.

All references made below to other sections, reports or notes in the Annual Report shall form an integral part of this report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are retailing of sportswear and distribution of licensed products.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2017 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 89 and 90.

The appropriations of profits of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 93 to 94.

DIVIDENDS

The final dividend of HK$0.02 per Share for the year ended December 31, 2016 was paid to the shareholders of the Company (the "Shareholders") on June 16, 2017.

The Directors recommend the payment of a final dividend in respect of the year ended December 31, 2017 of HK$0.02 per Share to the Shareholders whose names appear on the register of members of the Company (the "Register of Members") on Monday, June 11, 2018, amounting to approximately HK$106.8 million, subject to approval by the Shareholders at the forthcoming annual general meeting (the "2018 AGM"). The total dividend for the year will amount to HK$0.02 per Share (2016: HK$0.04 per Share).

FIVE YEAR FINANCIAL SUMMARY

A financial summary of the Group for the past five financial years is set out on page 194.

BUSINESS REVIEW

A review of the business of the Group during the year as required pursuant to schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is covered in different sections, reports or notes of the Annual Report, which shall form an integral part of this review.

Fair Review of Business

The information is provided in the Chairman's Statement on pages 6 to 11 and Management Discussion and Analysis on pages 12 to 21.

Principal Risks and Uncertainties

The Board and senior management continue to devote time and resources in screening for specific risks in the Group, and in developing a mindset of balanced risk minimization. The Group has specific policies and management system in place to ensure that risks are properly evaluated and managed at the appropriate level within the Group.

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

Description and Impact of Risk and Uncertainty	Mitigation
Information Technology and Data Security	
The reliance of the Group's operation on information technology (the "IT") system is heavy. Any failure could cause adverse effects to our business operation.	The Group makes significant investment in technology infrastructure. The data stored in the system is regularly backed-up. Contingency plans and back-up system are in place to deal with any system failures.
The IT system might be subject to security breaches resulting in theft, leakage or corruption of key information and sensitive customer data, which could have a severe impact on the Group's reputation.	Confidential files are password protected. Only restricted employees with authority are allowed to access to the sensitive data. Extensive and resilient controls and reviews are undertaken to maintain the integrity and efficiency of IT infrastructure.
Human Resources	
Loss of key management personnel could cause disruption in delivery of the strategic objectives.	Effective retention system and succession planning are established to develop and train talents, and ensure effective continuation of leadership and expertise without any interruption respectively.
The Group needs to attract talents and retain employees with relevant experience and knowledge in order to take advantage of all growth opportunities to achieve its strategic objectives.	The Group continues to seek to widen our talent pool. The performance management system is designed to provide reward, competitive remuneration structures and personal development opportunities to attract talents and retain employees.

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
Market The Group's business is affected by general seasonal trends. Prolonged unseasonal weather conditions could have a material adverse effect on the Group's business.	The Group strives to minimise the impact by altering its merchandise mix to reflect customers' demand. Diversification of the client base also allows for some smoothing when there are seasonal or sectorial changes in demand.
The Group operates in a highly competitive market with a wide variety of retailers, which place pressure on the Group's pricing strategy, margins and profitability.	The Group seeks to differentiate itself from other competitors by integrated sports product-and-service offerings. Strong relationships with our suppliers also ensure competitively priced and high quality products.
Sportswear retailers are exposed to ever-changing consumers' fashion preferences which make it difficult for us to meet our customers' needs and building long-term relationships with customers.	Business units strive their best to identify key market drivers and monitor the trends and forecasts. The brand and product portfolios are regularly reviewed. The Group also seeks to engage with our customers through social media and sports service platform to build customers' loyalty.
Strategy The Group's experience in market development of emerging brands is limited. Wrong brand positioning could have a material adverse effect on the sales performance of those emerging brands.	Relevant trainings, such as brand management, are provided to relevant employees. Frequent and up-to-date performance reviews of those brands are conducted.
Majority of the revenue of the Group is derived from products of small number of major brands. Any failure of these major brands could have an adverse effect on the Group's business and financial condition.	The Group seeks to be more proactive in the collaboration with the major brands and to work with other different and new brand vendors to lower the reliance on those major brands.

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
Financial Defaults on receivables due from business partners could cause financial distress on cash flow to the Group.	Each business unit has established procedures and credit control policies on managing its receivables and will take action when necessary. Credit evaluations are performed on all customers requiring credit over a certain amount.
Impairment of goodwill and intangible assets depends on various assumptions. The change in any of those assumptions could impact the financial position of the Group.	The Group periodically reviews the assumptions and reassesses the useful life of these assets. Impairment review, which is a recurring task for the accounting department and the Audit Committee, is conducted regularly (please see Note 16 to the consolidated financial statements).
Regulatory environment and compliance The Group has to comply with a large number of different laws, rules, regulations and accounting standards, which are subject to continuing changes. Any breach and non-compliance could damage the Group's image and reputation.	The Group actively seeks to identify and meet its regulatory obligations and to respond to new requirements. Good governance practices and controls are in place to ensure ethical practices.
Economic and political environment The Group's business operations are mainly conducted in the PRC. Thus the Group's business and prospects are significantly affected by economic and political environments in the PRC. A downturn in the PRC economy and political unrest could have a significant negative effect on consumer spending.	The Group keeps monitoring the political and economic developments in the PRC on a proactive continuous basis to enable the Group to prepare itself to cope with the changes. To arouse consumer sentiments, the Group keeps exploring and strengthening its brand and product portfolios continuously.
Intellectual property Intellectual property plays an important role in the Group's business operations. Any failure in intellectual property management and protection could impair our competitiveness and harm our relationship with the brand vendors.	The Group endeavours to take all necessary precautions to protect all the intellectual property rights involved in our business operations, including those of our partners.

BUSINESS REVIEW (Continued)

Events after the Reporting Period

Proposal for Privatisation by Scheme of Arrangement

On January 21, 2018, Pou Chen requested the Board to put forward a proposal to the holders of Shares which other than those held by Pou Chen directly and/or indirectly through its wholly-owned subsidiary(ies) (the "Scheme Shares") for the privatization of the Company by way of a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda (as amended). Subject to the Scheme becoming effective, all the Scheme Shares will be cancelled in exchange for the cancellation price of HK$2.03 per Scheme Share and the Company will apply to the Stock Exchange for withdrawal of listing of the Shares on the Stock Exchange upon the completion of the Scheme.

Details of the Proposal were set out in the Joint Announcement, the subsequent announcements issued by the Company and/or Pou Chen, and the Scheme Document.

Further information of events after the reporting period is provided in the Management Discussion and Analysis on page 21 and Note 37 to the consolidated financial statements.

Future Development in Business

The information is provided in the Chairman's Statement on pages 6 to 11 and Management Discussion and Analysis on pages 12 to 21.

Financial Key Performance Indicators

The financial key performance indicators are provided in the Corporate Overview on page 4 and the relevant analysis is provided in the Chairman's Statement on pages 6 to 11 and Management Discussion and Analysis on pages 12 to 21.

BUSINESS REVIEW (Continued)

Environmental Policies and Performance

The noticeable deterioration of the environment arising from climate change persuades us to improve our energy and resource consumption. The Group follows the local laws concerning environmental protection and also the relevant environmental policies, where there is no discrepancy, of the various brands distributed by the Group.

Owing to the nature of retail business, the Group's operation does not directly lead to any emission of hazardous pollutants, the pollution emission standards that the Group must comply with are relatively straightforward. We use our materials and resources as efficiently as possible. Standardised methods and tools are applied to ensure waste-optimised and low-emission processes covered the entire value chain.

More information is provided in the Environment, Social and Governance Report on pages 67 to 82.

Compliance with Laws and Regulations

During the year, the Group is not aware of any non-compliance with laws and regulations that have a significant impact on the operations of the Group.

Relationships with Employees, Customers and Suppliers

Our relationship with employees

Our employees are the foundation of our success. Respect, appreciation and fairness are the tenets of our relationship with employees. When structuring our work environment, we have let all the tenets incorporated in it. We do not tolerate any behaviour of discrimination, harassment, vilification and victimization under any circumstances in the workplace. We do not discriminate against any employees or candidates for employment because of their race, ethnic origin, religion, political affiliation, disability or age. We expect professional competence, exemplary management practices at all levels and effective team work. We demand our staff to be honest, responsible, trustworthy and willing to adopt our principles of corporate responsibility, and to set an example and to give their best contribution towards the Company's success in every possible way through applying the principles.

Our relationship with customers and suppliers

We aim to be a leading and innovative company in our industry. Sustainable customer and supplier relationships could only be built on the basis of honesty and trust. We believe that these principles will defend and bolster our success and our suppliers' success. The compliance guidelines and responsible supply chain management principles we adhere to will help us to achieve this aim. We consider our suppliers as partners who are able to make an important contribution to our business success. Our customers could choose to shop in-store or online or whichever they prefer. Best practices are adopted by the Group for ensuring customers are treated fairly and receive good customer service throughout their time with us. Regarding the wholesale business, the Group abides by the following: 1) usually transact on "cash on delivery" basis; 2) short term credits are provided to those retailers the Group deems creditworthy; and 3) endeavor to secure timely delivery as promised.

ANNUAL GENERAL MEETING

The 2018 AGM will be held on Monday, June 4, 2018 at 10:00 a.m. at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

Entitlement to attend and vote at the 2018 AGM

For the purpose of ascertaining entitlement to attend and vote at the 2018 AGM (the "Entitlement to 2018 AGM"), the Register of Members will be closed from Tuesday, May 29, 2018 to Monday, June 4, 2018, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the 2018 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, May 28, 2018. The record date for Entitlement to 2018 AGM will be Monday, June 4, 2018.

Entitlement to the proposed final dividend

For the purpose of ascertaining entitlement to the proposed final dividend (the "Entitlement to Final Dividend"), the Register of Members will be closed from Monday, June 11, 2018 to Thursday, June 14, 2018, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend payable on Monday, June 25, 2018, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, June 8, 2018. Dividend warrants will be despatched on Monday, June 25, 2018. The record date for Entitlement to Final Dividend will be Monday, June 11, 2018.

DONATIONS

During the year, the Group made donations totalling approximately RMB1.9 million.

SUBSIDIARIES AND JOINT VENTURES

Details of the principal subsidiaries and joint ventures of the Group as at December 31, 2017 are set out in Notes 35 and 17 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL/ISSUE OF EQUITY SECURITIES

During the year, 800,000 ordinary Shares were issued on the exercise of options previously granted under the share option scheme of the Company adopted on May 14, 2008 and duly amended on March 7, 2012 (the "Share Option Scheme"). The total consideration received for the issue was HK$1,023,000.

Details of the movements in share capital of the Company during the year are set out in Note 27 to the consolidated financial statements.

EQUITY-LINKED AGREEMENT

Save as disclosed in the section "Share Option Scheme", no equity-linked agreements that will or may result in the Company issuing Shares nor require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year or subsisted at the end of the year.

DISTRIBUTABLE RESERVES

As at December 31, 2017, the Company's reserves available for distribution consisted of contributed surplus of approximately RMB1,252.4 million (December 31, 2016: approximately RMB1,252.4 million) plus accumulated profits of approximately RMB538.1 million (December 31, 2016: plus accumulated profits of approximately RMB38.0 million).

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

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

(b) the realisable value of the Company's assets would thereby be less than its liabilities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's Shares listed and traded on the Stock Exchange (2016: 53,186,000 Shares).

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

DIRECTORS

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

Executive Directors

Wu, Pan-Tsu (Chairman)
Lee, Shao-Wu (CEO)
(appointed as Director and acting CEO on February 6, 2017 and
re-designated as Director and CEO on March 24, 2017)
Kwan, Heh-Der (CEO)
(resigned on January 6, 2017)

Non-executive Directors (the "NEDs")

Tsai Patty, Pei Chun
Li I-nan

Independent Non-executive Directors (the "INEDs")

Chen, Huan-Chung
Hsieh, Wuei-Jung
Shan Xue

Mr. Kwan, Heh-Der has confirmed in writing that there was no disagreement with the Board and nothing in relation to the affairs of the Company, save as disclosed in the announcement of the Company dated January 8, 2017, needed to be brought to the attention of the Shareholders in relation to his resignation.

In accordance with the Bye-laws, Mr. Li I-nan, Mr. Hsieh, Wuei-Jung and Mr. Shan Xue will retire by rotation at the 2018 AGM and, being eligible, will offer themselves for re-election.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

Biographical data of the Directors and senior management of the Group are set out on pages 22 to 25.

DIRECTORS' SERVICE CONTRACTS

The terms of office of all Directors are three years and subject to retirement by rotation in accordance with the provisions of the Listing Rules and the Bye-laws.

None of the Directors being proposed for re-election at the 2018 AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, subject to the applicable laws and regulations, every Director shall be entitled to 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 about the execution of their duty in their respective offices provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty.

The permitted indemnity provision has been in force throughout the year ended December 31, 2017. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section "Continuing Connected Transactions" and Note 9(d) to the consolidated financial statements, no transaction, arrangement or 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 or an entity connected with a Director, or a controlling Shareholder or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

In addition, no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries subsisted at any time during the year or at the end of the year.

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

As at December 31, 2017, the interests or short positions of the Company's Directors, chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long Position in shares

(a) The Company

Ordinary shares of HK$0.01 each of the Company

		Number of Shares					
Name of Directors/ chief executive	Capacity	Personal interest	Family interest	Corporate interest	Other interest	Total	Percentage of the issued Shares
Tsai Patty, Pei Chun	Beneficial owner	19,523,000	-	-	-	19,523,000	0.37%
Lee, Shao-Wu	Beneficial owner	1,000,000[1]	-	-	-	1,000,000	0.02%

note:

1. 1,000,000 Shares are awarded shares granted under the share award scheme of the Company (the "Share Award Scheme"), which are subject to certain vesting conditions remained unvested. Details of the awarded shares are set out in the section "Share Award Scheme".

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Long Position in shares (Continued)

(b) *Associated Corporation – Yue Yuen*

Ordinary shares of HK$0.25 each of Yue Yuen

		Number of shares					
Name of Director/ chief executive	Capacity	Personal interest	Family interest	Corporate interest	Other interest	Total	Percentage of the issued shares of Yue Yuen
Lee, Shao-Wu	Beneficial owner	78,000[1]	-	-	-	78,000	0.00%

note:

1. Included interests in 33,000 awarded shares granted by Yue Yuen under the share award scheme of Yue Yuen (the "YY Share Award Scheme") and are subject to certain vesting conditions, remained unvested. Further information of the awarded shares is set out in the section "Arrangement to Acquire Shares or Debentures".

Save as disclosed above, as at December 31, 2017, none of the Directors nor chief executives of the Company had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

In accordance with the register of interests in Shares and short positions of substantial Shareholders maintained by the Company pursuant to section 336 of the SFO, Yue Yuen is a controlling shareholder of the Company and holding approximately 62% indirect interest in the Company. Yue Yuen's principal activities are OEM/ODM footwear manufacturing business. During the reporting period, Ms. Tsai Patty, Pei Chun was a director and the managing director of Yue Yuen, Mr. Wu, Pan-Tsu was a director of certain subsidiaries of Yue Yuen, and Mr. Lee, Shao-Wu held 78,000 shares and underlying shares in Yue Yuen, they therefore were considered as having an interest in Yue Yuen.

However, the Company and Yue Yuen are separate listed entities and are mainly run by separate and independent management teams, which the Directors believe that the Company is capable of carrying on its business independently of, and at arm's length from, Yue Yuen. As the Company no longer has any footwear manufacturing business, it is expected that there will not be any competition between the Company and Yue Yuen in term of the footwear manufacturing business.

Save as disclosed above, as at December 31, 2017, none of the Directors had any interest in a business which may compete with that of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors are set out below:

1. On August 8, 2017, Mr. Shan Xue ceased to be the chairman of the board of directors and the chairman of the investment committee of JIC Capital.

2. On September 1, 2017, Mr. Shan Xue entered into a supplemental letter of appointment with the Company for renewal of his term of appointment as an INED for further three years commencing from October 1, 2017 to September 30, 2020, subject to retirement by rotation and re-election at annual general meetings pursuant to the Bye-Laws.

3. On November 6, 2017, Mr. Wu, Pan-Tsu resigned as a director of Kleine Developments Limited.

4. Details of changes in the Directors' remuneration are set out in Note 9(a) to the consolidated financial statements.

SHARE OPTION SCHEME

The Company recognises the importance of offering incentive and rewards through the grant of share-based incentive mechanism for attracting talents and retaining employees. The Company believes that this will align their interests with that of the Company.

The Share Option Scheme was adopted by the Shareholders on May 14, 2008 and amended on March 7, 2012. The Share Option Scheme is valid and effective for a period of ten years commencing on May 14, 2008, after which no further share options may be offered or granted.

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

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

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

As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 301,614,810 Shares, representing approximately 5.65% of the total number of issued Shares. As at December 31, 2017, an aggregate of 12,826,000 ordinary Shares have been issued on the exercise of share options and an aggregate of 53,749,190 ordinary Shares are issuable for share options granted under the Share Option Scheme, representing approximately 1.01% of the total number of issued Shares.

SHARE OPTION SCHEME (Continued)

Pursuant to the Share Option Scheme, movements in share options during the year are listed below:

				Number of underlying Shares comprised in the share options				
Date of grant	Exercise price HK$	Vesting period	Exercisable period	Balance as at January 1, 2017	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Balance as at December 31, 2017
Employees/Consultants								
21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	1,668,450	-	-	-	1,668,450
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	1,673,450	-	-	-	1,673,450
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	3,401,900	-	-	-	3,401,900
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	4,719,200	-	-	-	4,719,200
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	2,525,000	-	(25,000)	-	2,500,000
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	2,875,000	-	(75,000)	-	2,800,000
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	3,264,000	-	(300,000)	-	2,964,000
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	3,375,000	-	(300,000)	-	3,075,000
14.11.2016	2.494	14.11.2016-31.08.2017	01.09.2017-01.09.2019	1,166,320	-	-	-	1,166,320
		14.11.2016-31.08.2018	01.09.2018-01.09.2020	1,166,320	-	-	-	1,166,320
		14.11.2016-31.08.2019	01.09.2019-01.09.2021	1,166,320	-	-	-	1,166,320
		14.11.2016-31.08.2020	01.09.2020-01.09.2022	2,332,640	-	-	-	2,332,640
		14.11.2016-31.08.2021	01.09.2021-01.09.2023	5,831,590	-	-	-	5,831,590
Sub-total				35,165,190	-	(700,000)	-	34,465,190

SHARE OPTION SCHEME (Continued)

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of underlying Shares comprised in the share options: Balance as at January 1, 2017	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Balance as at December 31, 2017
Former Employees								
21.01.2010	1.620	21.01.2010-20.01.2011	21.01.2011-20.01.2018	1,870,000	-	(16,000)	-	1,854,000
		21.01.2010-20.01.2012	21.01.2012-20.01.2018	1,899,000	-	(45,000)	-	1,854,000
		21.01.2010-20.01.2013	21.01.2013-20.01.2018	2,763,000	-	(39,000)	-	2,724,000
		21.01.2010-20.01.2014	21.01.2014-20.01.2018	852,000	-	-	-	852,000
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	6,987,500	-	-	-	6,987,500
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	3,337,500	-	-	-	3,337,500
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	1,000,000	-	-	-	1,000,000
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	300,000	-	-	-	300,000
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	-	-	375,000
		07.03.2012-06.03.2014	07.03.2014-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2015	07.03.2015-06.03.2020	-	-	-	-	-
		07.03.2012-06.03.2016	07.03.2016-06.03.2020	-	-	-	-	-
Sub-total				19,384,000	-	(100,000)	-	19,284,000
Grand total				54,549,190	-	(800,000)	-	53,749,190

The weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the year is HK$1.78 per Share.

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

Subsequent to the end of the reporting period and on January 21, 2018, all the outstanding share options that were exercisable into 18,747,000 Shares at the exercise price of HK$1.62 per Share and were granted on January 21, 2010 lapsed.

Further details of the Share Option Scheme are set out in Note 30(a) to the consolidated financial statements.

SHARE AWARD SCHEME

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

Any proposed award should be on the basis of individual performance and must be recommended by the remuneration committee of the Board and approved by the Board. All the share awards granted under the Share Award Scheme should be vested in accordance with the conditions (such as employment status and individual performance) and timetable as set out in the relevant letter of award as determined by the Board.

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

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

SHARE AWARD SCHEME (Continued)

Pursuant to the Share Award Scheme, movements in awarded Shares during the year are listed below:

			Number of awarded Shares				
	Date of grant	Vesting period	Balance as at January 1, 2017	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	Balance as at December 31, 2017
Director/former Director							
Lee, Shao-Wu	25.03.2017	25.03.2017-24.03.2018	-	300,000	-	-	300,000
	25.03.2017	25.03.2017-24.03.2019	-	300,000	-	-	300,000
	25.03.2017	25.03.2017-24.03.2020	-	400,000	-	-	400,000
Kwan, Heh-Der[1]	01.09.2014	01.09.2014-31.08.2017	1,200,000	-	-	(1,200,000)	-
	13.05.2016	13.05.2016-30.08.2018	1,400,000	-	-	(1,400,000)	-
Sub-total			2,600,000	1,000,000	-	(2,600,000)	1,000,000
Employees							
	01.09.2014	01.09.2014-31.08.2017	7,100,000	-	(4,100,000)	(3,000,000)	-
	21.03.2015	21.03.2015-20.03.2018	7,783,000	-	-	(2,425,000)	5,358,000
	14.08.2015	14.08.2015-13.08.2018	8,330,000	-	-	(220,000)	8,110,000
	24.03.2016	24.03.2016-23.03.2019	4,920,000	-	-	(1,700,000)	3,220,000
	13.08.2016	13.08.2016-12.08.2019	5,460,000	-	-	-	5,460,000
	12.11.2016	12.11.2016-30.08.2019	600,000	-	-	-	600,000
	14.11.2016	14.11.2016-31.08.2017	833,680	-	(833,680)	-	-
	14.11.2016	14.11.2016-31.08.2018	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2019	833,680	-	-	-	833,680
	14.11.2016	14.11.2016-31.08.2020	1,667,360	-	-	-	1,667,360
	14.11.2016	14.11.2016-31.08.2021	4,168,410	-	-	-	4,168,410
	25.03.2017	25.03.2017-24.03.2020	-	5,026,000	-	(498,000)	4,528,000
	03.07.2017	03.07.2017-02.07.2020	-	300,000	-	-	300,000
	14.11.2017	14.11.2017-28.02.2018	-	270,000	-	-	270,000
	14.11.2017	14.11.2017-28.02.2019	-	315,000	-	-	315,000
	14.11.2017	14.11.2017-11.12.2019	-	300,000	-	-	300,000
	14.11.2017	14.11.2017-29.02.2020		315,000	-	-	315,000
	14.11.2017	14.11.2017-13.11.2020	-	3,800,000	-	-	3,800,000
Sub-total			42,529,810	10,326,000	(4,933,680)	(7,843,000)	40,079,130
Grand total			45,129,810	11,326,000	(4,933,680)	(10,443,000)	41,079,130

note:

1. Mr. Kwan, Heh-Der resigned as an executive Director and the CEO on January 6, 2017 and all the awarded shares granted to him lapsed on that date.

SHARE AWARD SCHEME (Continued)

The weighted average closing price of the Shares immediately before the grant of awarded shares during the year is HK$1.68 per Share.

Further details of the Share Award Scheme are set out in Note 30(b) to the consolidated financial statements.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Mr. Lee, Shao-Wu, being a former executive director of Yue Yuen, an intermediate holding company of the Company, was awarded 33,000 ordinary shares of Yue Yuen under the YY Share Award Scheme on October 3, 2016 during his employment with Yue Yuen. The 33,000 awarded shares of Yue Yuen remain unvested and to be vested on October 2, 2018 subject to certain vesting conditions.

Save as disclosed herein and as stated in the sections "Share Option Scheme" and "Share Award Scheme" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2017, the register of interests in Shares and short positions of substantial Shareholders maintained by the Company pursuant to section 336 of the SFO showed that other than the interests disclosed in the section "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", the following Shareholders had notified the Company of relevant interests in the issued Shares:

Name of Shareholders	*notes*	Capacity/ Nature of interest	Number of Shares held	Percentage of the issued Shares
Major Focus Management Limited ("Major Focus")	(a)	Beneficial owner	3,311,090,560	62.02%
Yue Yuen	(a), (b)	Interest of a controlled corporation/ Beneficial owner	3,311,090,560	62.02%
Wealthplus	(b)	Interest of a controlled corporation	3,311,090,560	62.02%
Pou Chen	(b)	Interest of a controlled corporation	3,311,090,560	62.02%

notes:

All interests stated are long positions.

(a) 3,311,090,560 Shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.

(b) Pou Chen is deemed to be interested in these Shares under the SFO by virtue of its interests in more than one-third of the voting shares in Wealthplus, which in turn is deemed to be interested in these shares under the SFO by virtue of its interests in more than one-third of the voting shares in Yue Yuen. Wealthplus is wholly owned by Pou Chen and is interested in more than one-third of the voting shares of Yue Yuen.

Ms. Tsai Patty, Pei Chun, a Director, is also a director of Yue Yuen, Wealthplus and Pou Chen.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Save as disclosed above, as at December 31, 2017, the Directors were not aware of any other person (other than Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of the SFO, to be entered into the register referred to therein.

CONTINUING CONNECTED TRANSACTIONS

Purchase of footwear products from Yue Yuen

On November 11, 2016, the Company entered into a framework agreement with Yue Yuen (the "Framework Agreement"), pursuant to which the Company might, through its subsidiaries, joint ventures and associates (the "PS Sub Group"), purchase from Yue Yuen's subsidiaries, joint ventures and associates (the "YY Sub Group") and/or any factories operated and/or appointed by members of the YY Sub Group (the "YY Factories") footwear products for the period from January 1, 2017 to December 31, 2018 subject to the following annual caps.

Period	Annual Cap
January 1, 2017 to December 31, 2017	RMB143,000,000
January 1, 2018 to December 31, 2018	RMB200,000,000

The annual caps for each of the aforesaid periods were determined after taking into account (a) the unit price of the footwear products; (b) the historical purchase amounts of the footwear products; and (c) the expected increment of the purchase amounts of the footwear products from members of the YY Sub Group and/or the YY Factories.

Yue Yuen was a controlling shareholder of the Company and holding approximately 61.75% of the then issued Shares and was therefore a connected person of the Company as at November 11, 2016. Accordingly, the Framework Agreement and the transactions contemplated therein constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Ms. Tsai Patty, Pei Chun, a Director and also a director of Yue Yuen, is considered to have a material interest in the Framework Agreement by virtue of her directorship.

Details of the transactions were set out in the announcement of the Company dated November 11, 2016.

During the year ended December 31, 2017, the total amount of transaction orders placed under the Framework Agreement was approximately RMB19 million. The determination of prices and terms of the transaction orders conducted has followed the pricing policies and guidelines as described in the announcement.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Annual Review of Continuing Connected Transactions

Pursuant to Rule 14A.55 of the Listing Rules, the INEDs have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms; and

(c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company's independent auditor was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued an unqualified report containing its findings and conclusions in respect of the above continuing connected transactions and confirmed that nothing has come to their attention in relation to the above continuing connected transactions of the matters set out in Rule 14A.56 of the Listing Rules.

RELATED AND CONNECTED PARTY TRANSACTIONS

Details of related and connected party transactions for the year are set out in Note 32 to the consolidated financial statements.

Save as disclosed herein and above in the section "Continuing Connected Transactions", the Company has not entered into other transactions with its connected parties which are required to be disclosed in the Annual Report in accordance with Chapter 14A of the Listing Rules.

With regard to the related party transactions which also constitute connected transactions or continuing connected transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable.

REVIEW OF ACCOUNTS

The audit committee of the Company (the "Audit Committee") has reviewed, with management and the external auditor of the Company, the Group's consolidated financial statements for the year ended December 31, 2017, the accounting principles and practices adopted by the Group and has discussed auditing, risk management and internal controls, and financial reporting matters.

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 year.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's five largest customers was less than 30% of the Group's total sales for the year.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 51% and 98% of the Group's total purchases for the year, respectively.

None of the Directors or the close associates of the Directors or the Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued Shares) have an interest in any of the Group's five largest customers or suppliers at any time during the year.

EMOLUMENT POLICY

The Group's emolument policy for employees is set up by the Board. The emoluments of the employees are determined on the basis of their merit, qualifications and competence, with reference to prevailing salary levels in the market. In addition, the Group provides other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programs to employees based on their respective personal career development.

The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme and Share Award Scheme to provide its Directors and eligible employees with incentives and to recognise their contributions and ongoing efforts. Details of which are set out in the sections "Share Option Scheme" and "Share Award Scheme", and Note 30 to the consolidated financial statements.

PENSION SCHEME

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries of the Group are required to contribute to the retirement benefit schemes to fund the benefits at a defined percentage of employees' payroll. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group has also enrolled all its qualifying employees in Hong Kong into a Mandatory Provident Fund Scheme ("MPF Scheme"). The assets of the MPF Scheme enrolled are held separately from those of the Group in trust under the management of independent trustees. In accordance with the relevant ordinances and regulations of MPF Scheme, the employer and its employees both are required to make contributions to the scheme at rate specified.

The Group contributed approximately RMB260.4 million to the above-mentioned schemes for the year ended December 31, 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required by the Listing Rules throughout the year ended December 31, 2017 and up to the date of this report.

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2017 have been audited by Messrs. Deloitte Touche Tohmatsu, certified public accountants, who will retire and, being eligible, offer themselves for re-appointment as independent auditor of the Company at the 2018 AGM.

On behalf of the Board

Wu, Pan-Tsu
Chairman
Hong Kong
March 23, 2018

The Board and the management of the Company recognise the importance of maintaining good corporate governance practices and procedures, hence corporate transparency and accountability can be practised. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and thereby enhancing Shareholders' value. The Board is committed to achieving a high standard of corporate governance and to leading the Group to grow in an efficient manner directed by the Group's vision and mission.

CORPORATE GOVERNANCE PRACTICES

During the year ended December 31, 2017, the Company has applied the principles of and has complied with all code provisions contained in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules, except for the two deviations as explained below.

(I) There was no segregation of duties between the roles of the Chairman and CEO during the period from January 6, 2017 to February 5, 2017. This is a deviation from code provision A.2.1 of the CG Code. Further details are stipulated in the section "Chairman and Chief Executive Officer" in this report.

(II) There was no company secretary (the "Company Secretary") for the period from January 19, 2017 to May 11, 2017. This is a deviation from code provision F.1.1 of the CG Code. Further details are stipulated in the section "Company Secretary" in this report.

BOARD OF DIRECTORS

The Board

The Company is committed to the view that the Board should include a balanced composition of executive, non-executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

Currently, the Board comprises the following seven Directors:

Executive Directors
Mr. Wu, Pan-Tsu (Chairman)
Mr. Lee, Shao-Wu (CEO)*

Non-executive Directors
Ms. Tsai Patty, Pei Chun
Mr. Li I-nan

Independent Non-executive Directors
Mr. Chen, Huan-Chung
Mr. Hsieh, Wuei-Jung
Mr. Shan Xue

* Mr. Lee, Shao-Wu was appointed as an executive Director and acting CEO with effect from February 6, 2017 after the resignation of Mr. Kwan, Heh-Der as an executive Director and CEO on January 6, 2017. He was then re-designated as an executive Director and the CEO on March 24, 2017.

BOARD OF DIRECTORS (Continued)

The Board (Continued)

The biographical data of the Directors are set out in "Biographical Data of Directors and Senior Management" section on pages 22 to 25. Save as disclosed in that section, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Group's operation and financial performance, and performing the corporate governance duties.

The management is delegated with the authority and responsibility for the day-to-day operations of the Group under the leadership and supervision of the CEO. The CEO, working with the management team, is responsible for overseeing and managing the businesses of the Group, including the implementation of policies and strategies delegated and adopted by the Board and assuming full accountability to the Board for the operations of the Group.

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs to discuss and review the overall strategy as well as the operation and financial performance of the Group and other duties of the Board. Seven Board meetings and one Shareholders' meeting were held during the year. The Chairman also during the year held a meeting with the NEDs (including the INEDs) without CEO's presence. The attendance record of Directors is set out in the table herein. The annual meetings schedule is made available to Directors in advance so that the Directors are given the opportunity to schedule for attending the meetings. For regular board meeting, notice of at least 14 days is given to all Directors to ensure that all Directors are given an opportunity to attend and to include matters for discussion in the agenda. Agenda and Board papers are normally sent to all Directors at least 3 days before each meeting to enable them to make informed decisions with adequate data. All Directors have full access to information of the Group and are able to obtain independent professional advice in performing their duties at the expense of the Company in appropriate circumstances or upon their request.

Minutes of all Board and committees meetings are kept by the Company Secretary. Draft minutes are circulated to all Directors or committee members for review and comment in a timely manner and final version for their records. Minutes are recorded in sufficient detail of the matters considered by the Board and decisions reached. The final versions of minutes/resolutions of the Board and the committees are available for inspection by Directors. Any matters which are material and/or substantial Shareholder(s) or Directors and their close associates (as defined in the Listing Rules) with a material interest in or may cause potential conflicts of interests are discussed at physical Board meetings (instead of by circulating written resolutions of Directors) and relevant Directors will abstain from voting on the resolutions approving such transactions and are not counted in the quorum of the meetings.

BOARD OF DIRECTORS (Continued)

The Board (Continued)

The table below sets out the number of meetings of the Board and its committees, individual attendance by the Board and committee members at these meetings and the annual general meeting during the year:

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Annual General Meeting	Chairman and NEDs Meeting
	Number of meeting(s) attended/held					
Executive Directors						
Wu, Pan-Tsu	7/7	N/A	2/2	N/A	1/1	1/1
Lee, Shao-Wu[1]	5/5	N/A	N/A	N/A	1/1	N/A
Kwan, Heh-Der[2]	N/A	N/A	N/A	N/A	N/A	N/A
Non-executive Directors						
Tsai Patty, Pei Chun	7/7	6/6	N/A	N/A	1/1	1/1
Li I-nan	7/7	N/A	N/A	4/4	1/1	1/1
Independent Non-executive Directors						
Chen, Huan-Chung	7/7	6/6	2/2	4/4	1/1	1/1
Hsieh, Wuei-Jung	7/7	N/A	N/A	4/4	1/1	1/1
Shan Xue	5/7	3/6	2/2	N/A	0/1	1/1

notes:

1. Mr. Lee, Shao-Wu was appointed as an executive Director and acting CEO with effect from February 6, 2017. He was then re-designated as an executive Director and CEO on March 24, 2017.
2. Mr. Kwan, Heh-Der resigned as an executive Director and CEO with effect from January 6, 2017.

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Wu, Pan-Tsu and the CEO is Mr. Lee, Shao-Wu.

Save as disclosed below, the roles and responsibilities of the Chairman and CEO are separate during the year and set out in writing in the Statement of Policy on Corporate Governance of the Company. The Chairman is responsible for the leadership, governance to and effective running of the Board. The CEO is responsible for overseeing the overall strategy, planning and leading the management in the day-to-day operations of the Group.

For the period from January 6, 2017 to February 5, 2017, there was no segregation between the roles and responsibilities of the Chairman and CEO. Upon the resignation of the former CEO, Mr. Kwan, Heh-Der, on January 6, 2017, the role and responsibilities of the CEO were temporarily assumed by the Chairman until Mr. Lee, Shao-Wu, the existing CEO, was appointed as the acting CEO on February 6, 2017.

This is a deviation from code provision A.2.1 of the CG Code which stipulates that the roles of the Chairman of the Board and CEO should be separate and should not be performed by the same individual. The Company believes that it was only a temporary measure while the Company was actively searching for a replacement to fill in the position. As such, the Board does not consider that no segregation of the roles for such a short period had impaired the balance of power and authority between the Board and the management of the Company given there is a division of responsibilities for each of the individual business operation segments of the Group.

BOARD OF DIRECTORS (Continued)

Non-executive Directors and Independent Non-executive Directors

All NEDs (including INEDs) are appointed for a specific term of three years. All Directors including INEDs are subject to retirement by rotation and re-election at least once every three years in accordance with the provisions of the Listing Rules and the Bye-laws.

At all times during the year ended December 31, 2017, the Company has complied with the requirements under Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three INEDs, representing at least one-third of the Board and with at least one of them possessing appropriate professional accounting and financial management expertise.

The Company has received from each of the INEDs, namely Mr. Chen, Huan-Chung, Mr. Hsieh, Wuei-Jung and Mr. Shan Xue, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Although Mr. Chen, Huan-Chung has been serving the Company as an INED for more than 9 years, he does not have any executive or management role in the Company nor has he been under the employment of any member of the Group. The Board considers that he has made considerable contributions to the Company with his relevant experience and knowledge throughout his years of service and he has maintained an independent view in relation to the Company's affairs. The Company considers that all INEDs are independent in accordance with the independence guidelines as set out in the Listing Rules and will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

Appointment and Re-election of Directors

The appointment of a new Director is made on the recommendation of the Nomination Committee and by approval of the Board or by the Shareholders in a general meeting.

In assessing potential candidates for the Board, the Nomination Committee considers the diversity perspectives, such as, gender, age, cultural and education background, professional experience, skills, knowledge and length of service; and the Director succession plan adopted by the Company. Notwithstanding the diversity perspectives, all appointments to the Board are based on merit, having regard to the ability of candidates to complement and expand the skills, knowledge and experience of the Board as a whole. The recommendations of the Nomination Committee are then put to the full Board for decision. All newly appointed Directors are subject to re-election by the Shareholders at the first general meeting following their appointments.

Besides that, at least one-third of Directors shall retire from office every year at the Company's annual general meeting. All Directors are subject to retirement by rotation at least once every three years and re-election in accordance with the provisions of the Listing Rules and the Bye-laws. The key terms and conditions of the Directors' appointments are set out in their respective letter of appointment and/or service contract.

BOARD OF DIRECTORS (Continued)

Directors' Induction and Training

Each newly appointed Director is provided with a tailored induction to ensure that he or she has a proper understanding of the operations and business of the Group and is fully aware of his or her responsibilities under applicable legal requirements and the business and corporate governance policies of the Group.

The Company continuously updates the Directors on the Group's business and the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

Pursuant to Code Provision A.6.5 of the CG Code, the Directors should participate in continuous professional development to develop and refresh their knowledge and skills. According to the records provided by the Directors, the Directors had participated in the following trainings during the year:

Name of Directors	Attending briefings/ seminars/ conferences/forums	Reading/studying training or other materials
Executive Directors		
Wu, Pan-Tsu	✓	✓
Lee, Shao-Wu*	✓	✓
Kwan, Heh-Der**	N/A	N/A
Non-executive Directors		
Tsai Patty, Pei Chun	✓	✓
Li I-nan	✓	✓
Independent Non-executive Directors		
Chen, Huan-Chung	✓	✓
Hsieh, Wuei-Jung	✓	✓
Shan Xue	✓	✓

* Mr. Lee, Shao-Wu was appointed as an executive Director and acting CEO with effect from February 6, 2017. He was then re-designated as an executive Director and CEO on March 24, 2017.

** Mr. Kwan, Heh-Der resigned as an executive Director and CEO with effect from January 6, 2017.

BOARD COMMITTEES

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively the "Board Committees") to oversee various aspects of the Group's affairs.

Audit Committee

The Audit Committee has been in place since May 2008 with specific written terms of reference, which are available for viewing on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of one NED and two INEDs: Mr. Chen, Huan-Chung (Chairman), Ms. Tsai Patty, Pei Chun and Mr. Shan Xue. Mr. Chen, Huan-Chung is an INED possessing the appropriate professional accounting and financial management expertise as required under the Listing Rules.

The primary functions of the Audit Committee are, inter alia, to assist the Board in fulfilling its responsibilities, to maintain appropriate relationship with external auditors, to review the Group's financial control, risk management and internal control, to review the annual and interim reports and other financial information provided by the Company to its Shareholders, the public and others, and to deal with other matters within the scope of its terms of reference.

The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Group.

The following is the summary of work performed by the Audit Committee during the year:

- reviewed and recommended the quarterly results, and interim and annual reports of the Group to the Board for approval;
- reviewed and discussed the various audit issues as reported by the external auditor;
- recommended the re-election of the external auditor;
- reviewed the internal control or internal audit issues as reported by the Company's internal audit department (the "Internal Audit Department") covering the investigation findings and recommendations;
- reviewed and recommended amendments to the terms of reference for the Audit Committee to the Board for approval;
- reviewed the adequacy and effectiveness of the Company's financial controls, risk management and internal control systems;
- reviewed the continuing connected transactions of the Group for the year; and
- monitored the engagement/re-appointment, services provided by and remuneration of the external auditor and its independence and objectivity.

The Audit Committee held six meetings during the year. The attendance record of the members of the Audit Committee meetings is set out in the table under "Board of Directors" section.

BOARD COMMITTEES (Continued)

Remuneration Committee

The Remuneration Committee has been in place since May 2008 with specific written terms of reference, which are available for viewing on the websites of the Stock Exchange and the Company.

The Remuneration Committee currently consists of one NED and two INEDs: Mr. Hsieh, Wuei-Jung (Chairman), Mr. Chen, Huan-Chung and Mr. Li I-nan.

The primary functions of the Remuneration Committee include making recommendations to the Board on remuneration policy, structure and packages of the Directors and senior management of the Group and other related matters. A remuneration policy for Directors has been established. In recommendation of the remuneration package of Directors, the Remuneration Committee considers the qualifications and experience of each Director and also remuneration policies of other comparable listed companies of similar business and size, time commitment and responsibilities of the Directors, employment conditions of the Group and the desirability of performance-based remuneration. The Remuneration Committee also ensures that the levels of remuneration should be sufficient to attract and retain the Directors to run the Company successfully but would avoid paying more than necessary for this purpose. No Directors or any of their respective associates are involved in determining their own remunerations.

The following is the summary of work performed by the Remuneration Committee during the year:

- reviewed and recommended the remuneration of Directors for the year ended December 31, 2016 to the Board for approval;

- reviewed and recommended the remuneration packages of an ED and a senior management personnel of the Company to the Board for approval;

- reviewed and recommended the renewal of terms of appointment of a NED and two INEDs;

- reviewed the effectiveness of the Remuneration Committee and recommended amendments to its terms of reference to the Board for approval;

- recommended the grant and cancellation of share awards of the CEO and other employees of the Group to the Board for approval; and

- reviewed the status of the Share Option Scheme and the Share Award Scheme.

The Remuneration Committee held four meetings during the year. The attendance record of the members of the Remuneration Committee meetings is set out in the table under "Board of Directors" section.

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee has been in place since December 2011 with specific written terms of reference, which are available for viewing on the websites of the Stock Exchange and the Company.

The Nomination Committee currently consists of one ED and two INEDs: Mr. Wu, Pan-Tsu (Chairman), Mr. Chen, Huan-Chung and Mr. Shan Xue.

The primary functions of the Nomination Committee are to assist the Board in identification of suitable individuals qualified to become Board members, review the structure, size, composition and diversity of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The following is the summary of work performed by the Nomination Committee during the year:

- recommended the appointment of an ED and a senior management personnel of the Company to the Board for approval;
- assessed the independence of INEDs;
- reviewed the retirement and nominated the re-election of retiring Directors at the 2017 AGM;
- reviewed and recommended amendments to the terms of reference for the Nomination Committee to the Board for approval; and
- reviewed the structure, size, composition and diversity of the Board.

The Nomination Committee held two meetings during the year. The attendance record of the Nomination Committee meetings is set out in the table under "Board of Directors" section.

Board Diversity

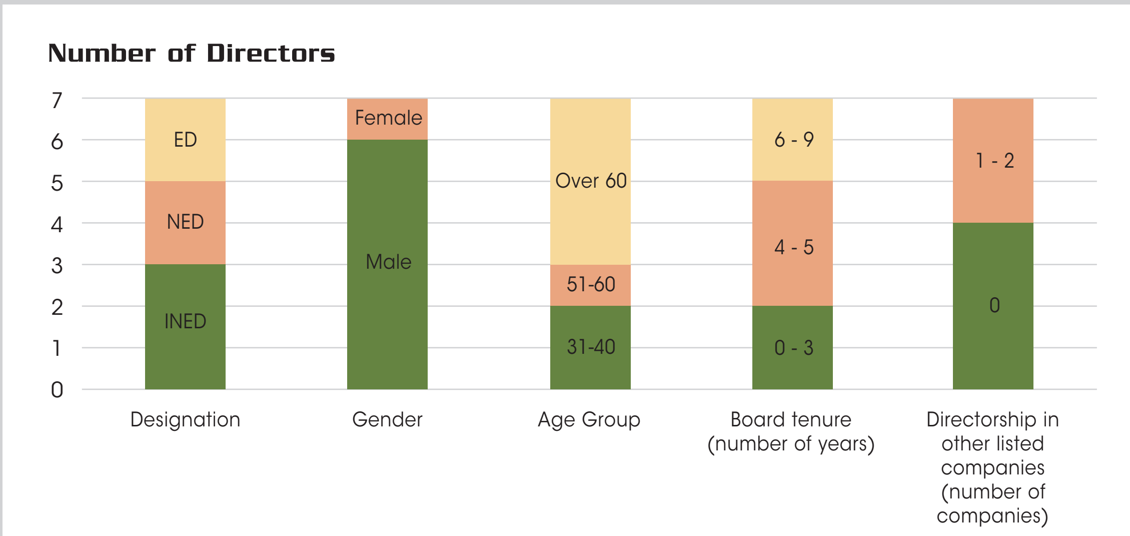
On August 13, 2013, the Board has adopted a Board Diversity Policy. The Company considers increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All appointments of Directors will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The policy is available for viewing on the website of the Company.

The Nomination Committee is also responsible to review the Board Diversity Policy, the measurable objectives and monitor the implementation of the Board Diversity Policy.

BOARD COMMITTEES (Continued)

Board Diversity (Continued)

An analysis of the Board's current composition based on the measurable objectives of the existing Directors is set out below:



Academic Background		Experience/Expertise	
Banking	14%	Sportswear Industry	43%
Legal	14%	Accounting Expertise	29%
Economics/ Finance	43%	Equity Investment/ Financial Services	86%
Others	29%	Global Operation	57%

CORPORATE GOVERNANCE FUNCTION

The Board has adopted a Statement of Policy on Corporate Governance and is collectively responsible for performing the corporate governance duties including:

(a) to develop, review and implement the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the Shareholders' communication policy to ensure its effectiveness.

INDEPENDENT AUDITOR'S REMUNERATION

During the year ended December 31, 2017, the remuneration paid or to be payable to Messrs. Deloitte Touche Tohmatsu ("Deloitte"), the Company's external auditor, in respect of audit services rendered is approximately RMB3,677,000 (2016: approximately RMB4,871,000 and in respect of non-audit services rendered is approximately RMB1,144,000 (2016: approximately RMB1,560,000). The non-audit services fees include the review of interim financial statements, professional services rendered in connection with profits tax and consolidation system implementation.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities with respect to the financial statements of the Group and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

A statement made by the external auditor of the Company, Deloitte, with regard to their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 83 to 88.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. Following specific enquiry by the Company to all Directors, each of them has confirmed that he/she has complied with the required standards set out in the Model Code throughout the year ended December 31, 2017.

The Company has also established and adopted internal guidelines for securities transactions by relevant employees (the "Employees Guidelines") which are on no less exacting terms than the Model Code. Specified employees who are likely to be in possession of unpublished inside information related to the Company and its securities must comply with the Employees Guidelines.

COMPANY SECRETARY

There was no Company Secretary for the period from January 19, 2017 up to May 11, 2017 upon the resignation of the former Company Secretary, Ms. Chong Yim Kuen, on January 19, 2017. The day-to-day tasks of the Company Secretary were carried out by personnel at the Company who possess relevant experience to deal with such tasks. This is a deviation from code provision F.1.1 of the CG Code which stipulates that the Company Secretary should be an employee of the issuer or external service provider. Mr. Fan Kam Wing ("Mr. Fan") was appointed as the new Company Secretary on May 12, 2017.

Mr. Fan confirms that he has complied with all the required qualifications, experience and training requirements as specified under the Listing Rules during the year under review.

SHAREHOLDERS' RIGHTS

1. Procedures by which Shareholders may convene a special general meeting

1.1 Shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company as at the date of the deposit of the requisition are entitled to require the Board to convene a special general meeting by depositing a requisition at the registered office of the Company for the attention of the Board or the Company Secretary.

1.2 The requisition must specify the purposes of the meeting, signed by the requisitionists and may consist of several documents in like form each signed by one or more of those requisitionists.

1.3 The signatures and the requisition will be verified by the Company's share registrar. The Board will proceed to convene a special general meeting for the transaction of any business specified in the requisition within 21 days from the date of deposit of such requisition if it has been validly raised.

1.4 If the Board does not within 21 days from the date of the deposit of a valid requisition, proceed duly to convene such meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

SHAREHOLDERS' RIGHTS (Continued)

2. Procedures for putting forward enquiries to the Board

Shareholders may put forward enquiries to the Board through the Company Secretary, whose contact details are as follows:

The Company Secretary
Pou Sheng International (Holdings) Limited
22nd Floor, C-Bons International Center
108 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

Tel. No.: +852 3182 5800
Fax No.: +852 3182 5808

3. Procedures for putting forward proposals at Shareholders' meeting

3.1 In general, subject to paragraph 3.2 below, no resolution may be proposed at a Shareholders' meeting (whether it is a special general meeting or an annual general meeting) if such resolution is not included in the notice convening the general meeting. However, if the proposal is to amend an existing ordinary resolution set out in the notice convening the general meeting and such amendment is within the scope of the notice, such amendment may be made if approved by the Shareholders by ordinary resolution.

3.2 On the requisition in writing of either (i) any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates, or (ii) not less than 100 Shareholders, the Company shall be under a duty to:

(a) give to Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and/or

(b) circulate to Shareholders entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

3.3 Notice of any such intended resolution under paragraph 3.2 shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholders by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company.

SHAREHOLDERS' RIGHTS (Continued)

3. Procedures for putting forward proposals at Shareholders' meeting (Continued)

3.4 The requisition under paragraph 3.2 must be signed by the requisitionists and deposited at the registered office of the Company (i) in the case of a requisition requiring notice of a resolution, not less than 6 weeks before the meeting; and (ii) in the case of any other requisition, not less than 1 week before the meeting.

INVESTOR RELATIONS AND COMMUNICATION

The Company endeavors to maintain good relationship with the Shareholders and potential investors. To ensure effective ongoing dialogue with the Shareholders, the Board has adopted the Shareholders Communication Policy on March 5, 2012 which is regularly reviewed to ensure its effectiveness.

Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of communication channels including interim and annual reports, announcements and circulars published in accordance with the Listing Rules. Such published documents, together with the latest corporate information and news, are also available for viewing on the Company's website.

Shareholders are encouraged to attend the Company's general meetings, at which the Chairman of the Board, the chairmen of the Board Committees (or in their absence, another member of the Board Committees), appropriate management executives and/or external auditors are available to answer the Shareholders' questions.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year.

INTERNAL CONTROL AND RISK MANAGEMENT

Responsibility

The Board has the overall responsibility to evaluate and determine the nature and extent of risks the Group is willing to take in achieving the Group's objectives. It is also responsible for the introduction and the on-going maintenance and review of appropriate and effective risk management and internal control systems of the Group. The Board has delegated to the management with defined structure and scope of authority, to conduct reviews on and maintenance of all material controls to ensure compliance with relevant legislations and regulations.

The Company has established its own Internal Audit Department which is independent of the Company's management in assessing and monitoring the control on the risk management and internal control systems of the Company. On quarterly basis, Head of Internal Audit reports on reviews of the business processes and activities, including action plans to address any identified control weaknesses to the Audit Committee. If the Internal Audit Department suspects the weakness will materially affect the Group, they will report to the Audit Committee when necessary on timely basis. Regular follow up actions will be carried out until condition is improved.

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Responsibility (Continued)

The Board has entrusted the Audit Committee with the responsibility to review the financial controls, risk management and internal control systems of the Group. The Audit Committee, on behalf of the Board, reviews the Internal Audit Department's work and findings through internal audit reports on a quarterly basis. It reports to the Board especially on any material matters including but not limited to financial, operational and compliance controls that have arisen from the Audit Committee's review on the risk management and internal control processes on a quarterly basis. The Board has also conducted an annual review of the effectiveness of the Group's risk management and internal control systems, including changes in the nature and severity of significant risks for the year, the Group's ability to cope with external environmental changes, the ability to monitor the scope and quality of the risk and internal control systems, internal audit work, the major weaknesses detected and their related impacts, the Group's financial reports and compliance with the relevant regulations, etc.

Risk Management Framework

The Company has put in place the policy and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risk. The procedures are designed to identify, evaluate, manage and minimise risks that could adversely impact the achievement of the Group's business objectives but do not provide absolute assurance against material misstatement, errors, losses, fraud or non-compliance.

The Group's risk management and internal control systems are characterised by a clear governance structure, policy procedures and reporting mechanism to facilitate the management of the Group's business risk.

Responsible Unit	**Function**
Board	• Has overall responsibility for the Group's risk management system • Final decision, guidance and instruction on the risk management system and its mitigation
Audit Committee	• Oversee the implementation of the control on risk management • Report the results of risk management to the Board
Internal Audit Department	• Co-ordinate the operation of risk management mechanism • Conduct independent review on the mechanism • Oversee the control and follow up of the risk and report the result to the Audit Committee

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Risk Management Framework (Continued)

Responsible Unit	Function
Internal risk management committee	• Establish and continuously modify the risk management system • Execute identification and estimation of risks • Manage, monitor and control risks • Report on risk management
Risk management unit	• Implement risk management system • Co-ordinate and assist the internal risk management committee • Implement mitigation of risks • Arrange training for and introduce risk management
Functional and operation unit	• Communicate between risk management unit and departments • Guide, structure and co-ordinate risk management work • Identify risks, assess and mitigation review, and investigate on risk management work and its improvement

Process

The Group's methodology for its risk assessment comprises four core stages:

a) Risk Identification
Department/functional heads identify risks in the operations they are responsible for as well as risks they believe are relevant to the Group as a whole. All the identified risks are consolidated into a risk inventory.

b) Risk Assessment
Risks in the risk inventory are evaluated by assessment participants from the Group using predefined risk assessment criteria associated with two risk dimensions – i) impact of each risk; and ii) the Group's vulnerability to each risk. The risk scoring and prioritization process is then performed.

c) Risk Response
The prioritised risk ranking is then submitted to the internal risk management committee for review. Risk owners are assigned for each selected risk, with more significant risks being assigned to more senior individuals. Risk owners also formulate risk mitigation plans for the significant risks identified and relating to their areas of responsibility.

d) Risk Monitoring and Reporting
Risk monitoring and reporting are key components of the enterprise risk management system as they enable the Board of Directors, the Audit Committee, the internal risk management committee and department/functional heads to determine whether the system is functioning effectively. This includes ensuring that risks are identified, prioritised and communicated to those responsible for taking actions to address them, and that such actions have been taken and are being operated effectively.

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Process (Continued)

Risk owners are responsible for monitoring the implementation and effectiveness of risk mitigation plans. They provide periodic updates to the internal risk management committee regarding the progress of the implementation of their risk mitigation plans and on the performance of these plans, according to the frequency specified in each plan. Risk management monitoring activities and the effectiveness of the implementation of risk mitigation plans are made subject to review by the Internal Audit Department and are included in its internal audit plans.

Control Effectiveness

In respect of the year ended December 31, 2017, after reviewing the effectiveness of the risk management and internal control systems as reported by the Audit Committee, the Board considers the risk management and internal control systems be effective and adequate.

Inside Information

The Company has adopted an inside information policy in compliance with the SFO under which procedures are established for handling and disseminating inside information and to guard against possible mishandling of inside information within the Group.

The Board has delegated to its disclosure committee the authority to consider matters associated with compliance with the Company's continuous disclosure obligations. The disclosure committee members review the materiality of the relevant information and assess any possible impact on the Group in order to determine the appropriate course of actions and, if considered appropriate, a Board meeting may be convened to consider and decide whether or not the information constitutes inside information and disclosure shall be made immediately. The Board may seek independent professional advice, if and when appropriate, to ensure that the Company can timely comply with the disclosure requirements.

Upholding the business philosophy of "healthiness, leisure, sports, fashion, green", the Group strives to create value for shareholders, as well as to promote quality living and healthy lives, and in order to become a sustainable and joyful enterprise. To inform all stakeholders about the environmental, social and governance ("ESG") policies, measures and performance of the Group, we have prepared this ESG report (the "Report") pursuant to the Environmental, Social and Governance Reporting Guide (the "ESG Guide") as set out in Appendix 27 to the Listing Rules, and have complied with all "comply or explain" provisions set out in the ESG Guide.

This Report covers the retail of sportswear products, distribution of licensed products and sports services businesses for the period commenced from January 1, 2017 and ended on December 31, 2017. All principal subsidiaries, stores as well as the management and employees of all functions have participated in the preparation of this Report, so as to assist the Group in conducting operation review and identification of ESG issues, and to assess the materiality of such issues to our businesses and stakeholders. The table below summarises the ESG issues that are significant to the Group included herein:

Aspects of ESG Guide	Significant ESG Issues
A. Environmental	
A1. Emissions	Waste treatment and carbon emission
A2. Use of resources	Consumption of energy, water and packaging materials
A3. Environment and natural resources	Environmental impact management
B. Social	
B1. Employment	Employee remuneration, benefits, diversity and equal opportunity
B2. Health and safety	Occupational health and safety
B3. Development and training	Staff development and training
B4. Labour standards	Prevention of child labour or forced labour
B5. Supply chain management	Supply chain management
B6. Product responsibility	Product and service safety and quality, customer service and information privacy policy
B7. Anti-corruption	Anti-bribery and anti-corruption
B8. Community investment	Community charity

Note: As a retailer of sportswear and distributor of licensed products, the Group has no significant gas emission or hazardous waste produced during the reporting period. Hence the relevant disclosure requirements under the ESG Guide (KPI A1.1, A1.3 and A1.5) are not applicable to the Group.

Unless otherwise specified, the data set out under "A. Environmental" in this Report only covers the retail of sportswear products and distribution of licensed products businesses of the Group, but excluding the sports services which only account for an insignificant portion of the overall business of the Group.

A. ENVIRONMENTAL

A1 Emissions

The Group is always dedicated to protecting the environment and promoting green living. Thus, it selects the product mix very carefully and exercises strict control over the safety and eco-quality of products, thereby assuring our nature-loving stakeholders that no harm will be done to the Earth and to stick up for a healthy green Earth together.

As a retailer of sportswear and distributor of licensed products, the Group does not engage in business operation that directly generates hazardous wastes and air, water and land pollution, which are usually regulated under laws and regulations.

Waste treatment

The Group actively implements green measures and all of its subsidiaries and stores are required to strictly comply with the internal environmental management system to reduce waste in the course of daily operation and business activities while maintaining compliance with the relevant statutory requirements strictly based on the waste management system. During the reporting period, the Group found no significant violation of environmental laws and regulations.

Non-hazardous waste produced by the Group comprised mainly renovation waste and domestic waste, which included paper, ink cartridges, toner cartridges, plastic bottles, paper cups and ink ribbons for printers. Total amount and intensity of non-hazardous waste produced by the Group during the reporting period are as follows:

Non-hazardous waste	2017	2016
Domestic waste		
Total amount (tonnes)	**62.40**	51.66
Intensity (tonnes/operation unit)	**0.0111**	0.0091
Renovation waste		
Total amount (tonnes)	**990**	990
Intensity (tonnes/operation unit)	**0.1769**	0.1742

Note: The above statistics included non-hazardous waste produced in the course of operation by various operating units of the Group (including: directly operated stores, department store counters, sports cities and offices) located in mainland China, Taiwan and Hong Kong, but excluded those produced by customers or from other sources over which the Group had no direct control.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Waste treatment (Continued)

We are dedicated to maintain strict compliance with the waste management system and adopt waste separation. Upon separation, the waste is handed over to qualified treatment companies for processing and recycling. We engage contractors to collect and transport renovation waste to the disposal sites as designated by the municipal construction waste office.

In term of waste reduction, we mainly exercise control at the source, i.e. minimise resources consumption and wastage, thereby reducing waste production. To this end, the Group launched the following initiatives during the reporting period:

- Adopted electronic office platform for paperless operation and reused used paper, which lowered the usage of new paper by 5%;
- Replaced bottled water and disposable cups with eco-friendly cups at most of our conferences and receptions. By not using disposable cups, around 8,000 paper cups were saved in 2017, which is the equivalent of one big tree;
- Collected and stored reusable materials and equipment (such as shelves, props, air conditioners and televisions) which were demolished when stores shut down or underwent renovation at our regional warehouses for recycling and reuse at next store opening; and
- Recycled used paper and toner cartridges.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Carbon emission

Our main sources of carbon emission included energy consumption in the forms of electricity, gasoline and diesel, as well as paper consumption. We will continue to monitor the environmental impacts of our business operation and implement a wide range of conservation measures to reduce carbon emissions. Details are set out in the following section "Use of Resources". Carbon emission resulting from our business operation during the reporting period is as follows:

	2017	2016
Carbon dioxide equivalent		
Emission (tonnes)	**47,725.17**	58,895.68
Intensity (tonnes/operation unit)	**8.5269**	10.3617

Note: Carbon dioxide emission equivalent is calculated based on the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), the Reporting Guidance on Environmental KPIs issued by the Stock Exchange and the Baseline Emission Factors for Regional Power Grids in China promulgated by the Department of Climate Change under the National Development and Reform Commission of the PRC and the electricity emission factors by the Bureau of Energy under the Ministry of Economic Affairs of Taiwan.

A. ENVIRONMENTAL (Continued)

A2 Use of Resources

In pursuit of green operation, the Group has long been monitoring resources consumption of its subsidiaries and stores.

We are dedicated to enhance energy efficiency and reduce wastage. We encourage employees to switch off the lighting system, computers and electronic equipment in idle to save energy, minimise the use of paper, communicate and hold meetings via videoconferencing and other means in place of business trips to reduce business flights.

The Group not only promoted energy saving initiatives to employees, but also established a variety of energy consumption indicators for all subsidiaries and stores, which were under regular monitoring to ensure efficient use of energy. At the same time, the Group organised promotion, education and training for employees in this regard.

Apart from raising employees' green awareness, the Group is dedicated to promote green awareness of customers as well; such as using lesser packaging materials and encouraging consumers to bring their own eco-bags.

Energy consumption

Total energy consumption and intensity of the Group during the reporting period are as follows:

Energy type	2017	2016
Electricity		
Consumption (kWh)	**68,666,339**	84,174,863
Intensity (kWh/operation unit)	**12,268.4186**	14,809.0892
Gasoline		
Consumption (litre)	**45,834**	47,460
Intensity (litre/operation unit)	**8.1890**	8.3498
Diesel		
Consumption (litre)	**33,945**	53,746
Intensity (litre/operation unit)	**6.0649**	9.4557

Note: The above statistics included major energy consumption by various operating units of the Group (including: directly operated stores, department store counters, sports cities and offices), but excluded energy consumption which the Group had no direct control.

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

Energy consumption (Continued)

The Group implemented the following energy saving and emission reduction measures during the reporting period:

- Gradually replacing aging light tubes with LED lighting at offices, which reduced electricity consumption by approximately 15%;

- Adopted outdoor lightboxes made of LED resin and other energy-saving materials;

- Turned off outdoor lightboxes and spotlights for billboards (accounting for 20% of power consumption of store lighting) in the morning and turned them on only at night;

- Turned off air-conditioning and power connection during lunch breaks and all lightings and computers, etc. before leaving the offices; conducted regular inspections and monitoring by dedicated staff, which reduced electricity consumption by approximately 10%;

- Implemented light zoning at stores when cleaning the stores before and after opening hours, which reduced electricity consumption by 3-5%;

- Installed energy-saving lightings and equipment as possible when renovating offices and adopted space planning that reduce energy consumption;

- Adopted video conferencing and multi-party teleconferencing for communication with clients and subsidiaries, which reduced business trips by approximately 20%. During the current financial year, over half of the meetings of the Board and its committees were conducted through video or teleconferencing;

- Set air conditioning temperature strictly in line with the national requirements (i.e., not lower than 26°C) and performed regular inspections, which reduced electricity consumption by approximately 5%; and

- Unplugged electrical appliances that were fully charged to reduce power wastage and reserve battery life, which saved electricity consumption by approximately 1%.

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

Water consumption

The main water consumption of the Group is for staff's domestic utilisation. To support environmental protection, the Group provides direct drinking water instead of bottled water for most offices, so as to reduce secondary contamination and environmental impact. Total water consumption and intensity of the Group during the reporting period are as follows:

	2017	2016
Water		
Consumption (m^3)	**85,739**	94,505
Intensity (m^3/operation unit)	**15.3187**	16.6265

Note: The above statistics include water consumption of various operating units of the Group (including: directly operated stores, department store counters, sports cities and offices), but excluded the consumption borne by the landlord.

The Group implemented the following measures to reduce water consumption during the reporting period:

- Posted signs and notices by the washbasins to raise awareness towards water conservation;
- Carried out inspection by dedicated staff to check if the taps were closed and whether there was any leakage, which reduced water consumption by 5%; and
- Installed sensors at water taps to control water consumption, which reduced water consumption by approximately 5%.

Use of packaging materials

We strive to reduce use of packaging materials. Since 2013, we have replaced paper bags with eco-shopping bags at most of our stores. In 2017, our consumption of packaging materials mainly comprised shopping bags offered to customers, which included plastic bags, eco-bags and paper bags. Total consumption and intensity of packaging materials used by the Group during the reporting period are as follows:

Packaging materials	**2017**	2016
Shopping bags		
Consumption (tonnes)	**1,078**	1,132
Intensity (tonnes/operation unit)	**0.1926**	0.1992

A. ENVIRONMENTAL (Continued)

A3 Environment and natural resources

The Group closely monitors the potential environmental impacts caused by its subsidiaries and stores, with the aim of minimising the damages to the environment as a result of our operation.

Environmental impact management

Apart from the aforementioned measures for non-hazardous waste and resources consumption, during the reporting period, the Group took actions to manage other significant environmental impacts caused by our operation as well, including dusts, odours and noises from renovation works. Meanwhile, the lightboxes installed outside street shops and sports cities are mainly in two forms: (1) lightboxes made of LED resin for signboards displaying brand names and logos; and (2) spotlights used to illuminate the billboards and signboards at nights.

To better control and reduce the environmental impacts, the Group has adopted the following principal measures:

- *Construction materials:* we followed stringent criteria in selecting construction materials and contractors, so as to protect employees and customers from the harmful effects of odour and toxic substances after decoration.
- *Dusts and odours:* we erected site hoardings around the worksites and reduced airborne dusts and odours by water sprays.
- *Noises:* we erected site hoardings with rock wools around the worksites to reduce noises.
- *Lightboxes:* The Group regularly reviewed and considered shortening the operating hours of the lightboxes at night to reduce light pollution and energy consumption.

B. SOCIAL

B1 Employment

Employee remuneration and benefits

Talents are the Group's most valuable assets, hence nurturing them has become one of our major development goals. The philosophies of our talent development strategies are as follows:

- Enhancing soft power: Introduce and enhance our employees' recognition of our corporate core values, namely dedication, loyalty, innovation and service, and incorporate such values in the performance evaluation to set up standards for mind-sets and behaviours, so as to ensure that their attitudes and behaviours embody and conform to our corporate culture;

- Boosting hard power: Establish the organisational structure, staff evaluation system, recruitment platform and system, and formulate plans for the sustainable career development of employees based on the development strategies;

- Enhancing employees' knowledge and skills by on-going and well-planned talent nurturing system, so as to maximise efficiency and productivity;

- Incentive strategy characterised by high-compensation for talents with remarkable performance and high-contribution;

- Building of comprehensive employer brand; and

- Providing opportunities to achieve personal ambition to talents who share the same vision with the Group, making the Group the best and desirable employer.

The Group has a sound employment system in place, which is designed for systematic management of staff recruitment, remuneration and benefits, promotion, termination and dismissal. We conduct open recruitment online and recruit employees that meet the position requirements and our corporate culture based on the business nature and employment criteria of such positions. Furthermore, we sign, renew, terminate or dismiss labour contracts with employees in accordance with the relevant national and local laws and regulations. We also fulfil our obligations as agreed in the labour contracts.

The Group offers competitive, fair and just remuneration and benefits. We conduct salary market research annually, for the purpose of maintaining the competitiveness of the overall remuneration package, which is also the cornerstone of talent attraction and retention. We also review staff remuneration annually based on individual performance and the remuneration system of the Group. To share our success with staff, attract talents and retain employees, the Group has

B. SOCIAL (Continued)

B1 Employment (Continued)

Employee remuneration and benefit (Continued)

adopted two share-based incentive schemes, namely (1) the Share Option Scheme and (2) the Share Award Scheme, details of which are set out in "Share Option Scheme" and "Share Award Scheme" in the Directors' Report. Furthermore, the Group maintains social insurance as required by the labour laws and provides various benefits and allowances, such as mandatory provident fund, staff discounts and healthcare benefits.

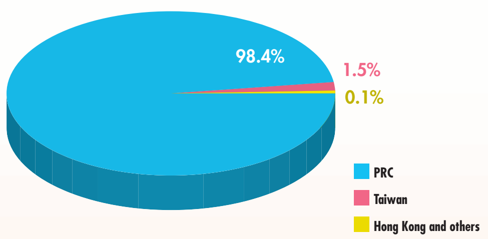
We believe a healthy working environment that emphasises on work-life balance can enhance employees' belongingness to the Group and bring us more vitality. Thus, the Group offers reasonable work hours and paid leaves to employees. Apart from maternal leaves and paternity leaves as required by local laws, employees are also entitled to marriage leaves, bereavement leaves and examination leaves. We organise a wide range of relaxing and socialising activities for our employees on a regular basis, which include travel trips, sports and recreation events, health, staff caring and community service activities.

Diversity and equal opportunity

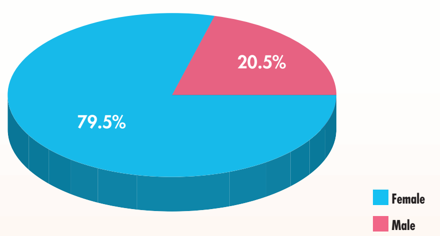
With equal opportunities in mind, the Group is committed to create a workplace that is inclusive and free from discrimination. It aims to treat all employees equally and respect their differences. In doing so, we do not discriminate our staff on the grounds of gender, race, ethnic origin, religion, political affiliation, disability or age. This covers all employment arrangements, such as employment, deployment, recruitment, training, promotion, conduct, rates of pay and benefits, so as to ensure all employees and job applicants are entitled to equal opportunities and fair treatment. In addition, the Group employs people with disabilities as appropriate pursuant to the Law of the PRC on the Protection of Disabled Persons.

During the reporting period, the Group found no significant non-compliance with laws and regulations regarding human resources management. As at December 31, 2017, the Group has a total of approximately 30,500 employees. Below sets out the details of our employee distribution:

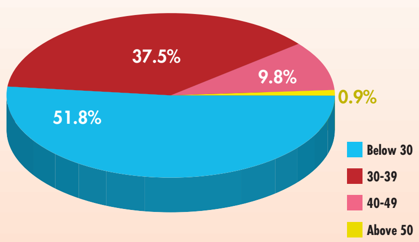
Region/Nationality



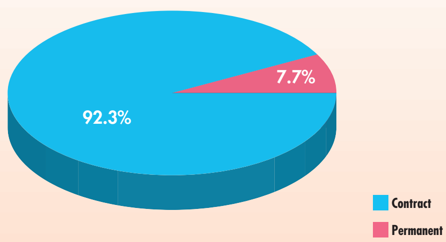
Gender



Age Group



Employment Type



B. SOCIAL (Continued)

B1 Employment (Continued)

Diversity and equal opportunity (Continued)

Below sets out the turnover of our employees by gender, age group and region/nationality in 2017:

By gender	
Male	89%
Female	64%

By age group	
Below 30	95%
30-39	45%
40-49	32%
Above 50	40%

By region/nationality	
Mainland China	70%
Taiwan	41%
Hong Kong and others	143%

B2 Health and safety

Occupational health and safety

The Group recognises its employees as the most valuable assets, hence it is dedicated to provide a desirable and safe working environment by implementing appropriate measures, such as regular body checks and health counselling to ensure their health and safety. As to employees who need to work under extreme temperature (for example, warehouse staff), the Group will provide subsidies and supports (offering cold drinks, warm clothes and reminding them to take rest) in strict compliance with relevant requirements. Dedicated electrical technicians and mechanics are assigned to subsidiaries of the Group for periodic safety inspection and prompt rectification of potential safety risks, so as to prevent accidents and protect our employees. All of our operation units have passed fire inspection and we actively cooperate with the shopping malls in regular emergency drills and replacing relevant equipment. The administration department also conduct regular safety inspection at offices and make improvements and recommendations when necessary.

We put emphasis on employees' mental and physical well-being. For example, the human resources department interviews employees and checks on their work and lives during regular store visits.

During the reporting period, the Group found no significant violation of laws and regulations regarding health and safety at workplace.

B. SOCIAL (Continued)

B3 Development and training

Staff development

We give priority to internal promotion and offer a platform for employees' career development. With reference to the job nature and individual ambitions, ability and development needs, we offer different career development plans. Meanwhile, employees of the finance department, human resources and administration department, information technology department and legal department are able to gain exposure to different business segments through job or project rotation, which allows them to broaden their horizons.

Staff training

We encourage continuous learning and offer specific on-the-job training, counselling and lectures to employees to enhance their capacity, professional skills and knowledge. This not only facilitates their on-going personal development and fulfilment of potential, but also supports the long-term growth of the Group. Our training for employees covers corporate culture, management capability, communication skills, time management and legal knowledge.

Besides, an e-learning platform named "Pou Sheng Academy" has been set up, which allows employees to assess with mobile communication devices and learn anywhere and anytime at their own pace.

The table below shows the percentage of employees trained and the average training hours per employee in 2017:

By Gender	% of Employee trained	Average Training Hours
Male	72%	14.3
Female	75%	14.9

By Employee Catergory	% of Employee trained	Average Training Hours
Senior	32%	4.0
Middle-level	52%	9.5
Supervisory-level	67%	13.2
General	47%	6.7
Shop	79%	16.0

The above statistics include all full-time, part-time and contract employees of the Group.

B. SOCIAL (Continued)

B4 Labour standards

Prevention of child labour or forced labour

All of our subsidiaries, stores and offices are in strict compliance with the local statutory requirements and expressly prohibit any forced or child labour.

The Group complies with the local labour laws and ensures that all employees must attain the local minimum legal working age. Job applicants are required to present identification documents at interviews for us to verify their ages and conduct background checks. The human resources department also carries out comprehensive recruitment screening procedures to ensure the information provided by the applicants is accurate and correct.

Moreover, the Group will regularly review its business operation to check if any child or forced labour is employed. During the reporting period, the Group found no significant violation of laws and regulations regarding the prevention of child or forced labour.

B5 Supply chain management

Supply chain management

In pursuit of close cooperation and mutual development with international and domestic leading brands, we adopt stringent criteria in selecting suppliers and require them to maintain high standards in terms of quality control, service quality and environmental policies. We implement stringent ecological quality and safety standards for supplies from suppliers and manufacturing technique. We also assess suppliers based on their quality, price, delivery timeliness, overall capabilities and experience. In addition, their operation must be in compliance with all relevant environmental and social regulations, and observe business ethics.

In the meantime, the Group insists on offering equal opportunities to all potential partners and participates actively in market competition to fulfil the various needs of different stakeholders. This allows it to enhance product quality, achieve cost minimization, rapidly respond to clients' needs and provide more options. The Group will continue to provide high quality products and omni-channel consumer experience to diverse customers centring on the concept of innovation and service offering, so as to establish its leading position as the best retailer in the sports-inspired and lifestyle industry in the PRC.

B6 Product responsibility

Product and service safety and quality

The Group's products and services do not involve any form of unfair commercial practices. We are committed to provide high-quality products as well as all-rounded consumer experience and services to diverse consumers in the sports-inspired and lifestyle industry. To safeguard consumers' health and safety, the Group upholds its commitment to quality and offers excellent and qualified products. Therefore, we carefully select our product and service mix and strictly control their safety. Our procurement and service procedures are designed to enhance information transparency and safety of products and services. We make sure that the labels and advertisements of our products truly reflect their features, quality standards and authenticity. Besides, we have made our customer rights policy publicly available, and implemented it in our operation, so

B. SOCIAL (Continued)

B6 Product responsibility (Continued)

Product and service safety and quality (Continued)

that our products and services will not jeopardise consumers' rights. The Group is in strict compliance with regulations and international standards relating to its products and services. Besides, it prohibits fraudulent, misleading, deceptive or any other behaviours that may undermine customers' confidence and their rights.

Customer service

We adopt a business model centring on customers' needs so as to provide products with highest quality and fulfil their requirements. In pursuing the ultimate goal of providing the best services, we carry out inspection in line with our commitment. In the event of complaints, an independent investigation will be conducted in accordance with the internal guidelines.

Information privacy

Brand vendor

The Group ensures strict compliance with the laws in maintaining high level of security and privacy protection of all brand information. We attach great importance to the privacy of such information, which include all intellectual property and confidential information related to the brand, such as design layouts, information of the brand vendor, trademark information, development and production information, operation manual and inspection results, as well as confidential information of any form with implied property interests or economic value. We are dedicated to safeguarding and protecting such information. We also require suppliers who are working with us to execute relevant agreements for brand privacy protection. Unless required by the laws or notice is given in advance, we will not transfer or disclose the information of suppliers or brand vendors to any entities other than members of the Group without the consent of the relevant parties. In addition, appropriate security system and measures are in place to prevent unauthorised use of such information. Once any suppliers or employees are found to be responsible for any leakage of information, we will strictly enforce the relevant provisions under the signed agreements or our internal regulations for reward and punishment.

Consumer

The Group holds a huge database of consumer and member information. Therefore, safeguarding the privacy of our members is one of our most concerned issues. The information technology department of the Group has been implementing the comprehensive data security system and standardised informationalization security management in compliance with the relevant national laws and regulations, regulatory requirements of the industry as well as relevant confidentiality provisions of the Company. As a result, the data collected by us is well-protected and the privacy of our customers is respected and secured.

As to the promotional and advertising messages of the Group, we will not send any commercial messages to our members without their consent or upon their refusal. The privacy information of our members is kept in strict confidence by the Group, and will not be disclosed, transferred, rented/sold to third parties without the consent of the members or otherwise prescribed by laws.

During the reporting period, the Group found no significant violation of laws and regulations regarding product responsibility.

B. SOCIAL (Continued)

B7 Anti-corruption

Anti-bribery and anti-corruption

"Loyalty" is one of the Group's core values. We define "honesty and integrity" as the commitment to follow the rules and regulations of the Group, dedication to do the right things and zero tolerance to corruption or any misconduct that is against the Group's interest.

We always endeavour to uphold the core value of integrity. The Group requires all supervisors and employees to observe personal and professional conduct, and not to participate in offering and taking of bribes, blackmail, fraud and money-laundering. Apart from maintaining strict compliance with anti-corruption and anti-bribery laws, we also incorporate relevant policy in the employee handbook, set up relevant reporting procedure and review the effectiveness of the internal management on a regular basis.

During the reporting period, the Group found no significant violation of relevant laws and regulations.

B8 Community investment

Community charity

Corporate social responsibility is always our priority. The Group has attaches great importance to community charity, with the aims of better serving the community and giving back to society at various levels. For years, it has been actively participated in community events such as promoting sports development for teenagers, disaster relief, poverty alleviation and donation for school establishment and operation. We also strive to carry out charity events more effectively by gradually integrating diverse resources and organising efforts, so as to boost community engagement and gain public recognition.

Leveraging its own business operation, the Group takes initiatives to support sports development for teenagers. Since 2015, the Group has been working with the "Yao Foundation", which was founded by the famous basketball player Mr. Yao Ming, to use basketball as a vehicle in promoting sports among teenagers, in particular those in deprived regions. By participating in the "Yao Foundation Hope Primary School Basketball Season" and providing sports equipment and subsidies, we helped teenagers to develop a sporty and happy living style.

In April 2017, the Group organised a basketball donation event at 100 YY SPORTS sports cities across 20 districts, with the aim of raising public (consumers) awareness and engagement of sports development for teenagers. For every purchase above a certain amount, consumers could leave their blessings and signatures on the basketballs that were designed by us under the name of YY SPORTS for the "Yao Foundation Hope Primary School Basketball Season". Following the event, we donated the basketballs with blessings and signatures to the hope primary schools in underprivileged and remote regions. During the one-month campaign, we donated approximately 5,000 basketballs to 328 schools in 23 cities, which were used in daily exercise and training. The basketballs were also used in the "2017 Hope Primary School Basketball Season".

In 2017, the Group continued to sponsor the basketball match U League, where over 30 colleges competed in 10 cities and more than 55,000 students participated in. It also sponsored the U League campus run event, namely Urunning, which took place in 10 cities and were joined by over 40,000 students of 30 colleges.

B. SOCIAL (Continued)

B8 Community investment (Continued)

Community charity (Continued)

From July to September 2017, the Group organised a 3-on-3 basketball tournament at 7 cities in collaboration with Adidas, which attracted more than 2,000 players from over 500 teams nationwide. In the second half of 2017, the Group, the sports authorities of Beijing and Yue Yuen Innovation and Entrepreneurship Charity Fund (裕元創新創業公益基金) organised the "Make Sports Your Life: Get in Touch with Professional Athletes" (讓運動融入生活 — 專業運動員走近大眾體育公益實踐活動) event in Beijing and garnered wide acclaim.

During the year, the Group followed up on the "More Smile at Zanhuang, Run Together with Dreams" charity program which was launched for the severe rainstorm and flood in Zanhuang County, Hebei Province last year. We collected new stationery and learning equipment for local secondary and primary students to improve and enrich their lives after schools and provided assistance to 361 underprivileged students in Zanhuang Country No. 2 Secondary School.

To conclude, in the financial year, the Group organized and participated in a wide range of charity events in a systematic manner, including but not limited to:

- 2017 Yao Foundation Hope Primary School Basketball Season;
- Win and Go Home 3v3 Basketball tournament;
- U League – College Basketball League;
- U League – Urunning Campus Run;
- "Raising the Sun of Tomorrow" charity campaign; and
- Charity events organised by different regional offices, including environmental protection campaigns.




Deloitte. 德勤

TO THE MEMBERS OF
POU SHENG INTERNATIONAL (HOLDINGS) LIMITED
寶勝國際(控股)有限公司
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Pou Sheng International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 89 to 193, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
We identified the impairment assessment of goodwill allocated to the business of distribution and retailing of sportswear and footwear products and leasing of large scale commercial spaces to retailers and distributors for concessionaire sales (the "Retail Business") as a key audit matter due to the complexity and significant judgments involved in the assessment process of the management of the Group. As disclosed in note 15 to the consolidated financial statements, the carrying amount of goodwill as at December 31, 2017 was RMB532,612,000. Determining whether goodwill is impaired requires the management's estimation of the value in use of the cash generating units ("CGUs") to which the goodwill has been allocated. In estimating the value in use of the Retail Business as a group of CGUs, key assumptions used by the management included discount rate, growth rates, budgeted sales and gross margin and their related cash inflow and outflow patterns. The management also engaged independent valuers to determine the discount rate. Retail Business as a group of CGUs containing goodwill did not suffer any impairment during the year ended December 31, 2017.	Our procedures in relation to the impairment assessment of goodwill included: • Evaluating the competence, capabilities and objectivity of the independent valuers; • Evaluating the assumptions underpinning the discounted cash flow models, including growth rate, budgeted sales and gross margin through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industry trend; • Involving our internal valuation experts to assess the discount rate applied underpinning the discounted cash flow models by performing re-calculations based on market data and certain company specific parameters, as well as evaluating the reasonableness of parameters applied by the independent valuers; • Evaluating the reasonableness of and reperforming the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use; and • Evaluating the historical accuracy of the forecasted future cash flows by comparing them to actual results in the current year on a sample basis and understanding the causes for the significant variances.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of net realisable value of finished goods	
We identified the assessment of net realisable value of finished goods as a key audit matter due to the significant judgments involved in the determination of the net realisable value of these finished goods by the management of the Group. As disclosed in notes 21 and 8 to the consolidated financial statements, the carrying amount of finished goods included in the inventories balances as at December 31, 2017 was RMB5,587,012,000 and the related net allowance for inventories associated with finished goods for the year ended December 31, 2017 was RMB88,203,000, respectively. As explained in note 4(b)(ii) to the consolidated financial statements, the management of the Group reviewed the aging of the inventories at the end of the reporting period and made allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The management of the Group estimated the net realisable value for those items based primarily on the latest invoice prices and current market conditions.	Our procedures in relation to assessment of net realisable value of finished goods included: • Comparing the estimated selling prices of finished goods in prior year to their actual selling price in the current year, on a sample basis, to evaluate the reasonableness of methodologies, judgments and assumptions adopted by the management of the Group on the assessment of net realisable value of finished goods; • Evaluating the accuracy of aging analysis of finished goods by checking, on a sample basis, to the invoices and other relevant supporting documents to assess the judgment of the management of the Group made for making allowance for obsolete and slow-moving finished goods based on the aging analysis; and • Comparing the actual selling prices of finished goods subsequent to year end, on a sample basis, to their carrying amounts to check whether the finished goods are stated at the lower of cost and net realisable value.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tse Fung Chun.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 23, 2018

FOR THE YEAR ENDED DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	5	18,833,313	16,236,384
Cost of sales		(12,239,725)	(10,467,944)
Gross profit		6,593,588	5,768,440
Other operating income and gains (losses)	6(a)	228,026	228,178
Selling and distribution expenses		(5,326,027)	(4,415,748)
Administrative expenses		(725,195)	(656,714)
Operating profit		770,392	924,156
Finance costs		(106,908)	(61,881)
Finance income		6,386	11,367
Finance costs – net	6(b)	(100,522)	(50,514)
Share of results of an associate		–	(7,225)
Share of results of joint ventures		(3,583)	(4,691)
Other gains (losses)	6(c)	(9,068)	(29,803)
Profit before taxation		657,219	831,923
Income tax expense	7	(242,187)	(262,312)
Profit for the year	8	415,032	569,611
Attributable to:			
Owners of the Company		394,322	560,579
Non-controlling interests		20,710	9,032
		415,032	569,611
		RMB cents	RMB cents
Earnings per share	11		
– Basic		7.57	10.72
– Diluted		7.50	10.61

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017 RMB'000	2016 RMB'000
Profit for the year	415,032	569,611
Other comprehensive income (expense)		
An item that will not be reclassified subsequently to profit or loss		
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties	6,381	–
An item that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	(1,238)	7,551
Other comprehensive income for the year	5,143	7,551
Total comprehensive income for the year	420,175	577,162
Attributable to:		
Owners of the Company	399,438	565,969
Non-controlling interests	20,737	11,193
	420,175	577,162

AT DECEMBER 31, 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Investment properties	12	94,700	–
Property, plant and equipment	13(a)	1,054,005	902,732
Deposits paid for acquisition of property, plant and equipment		51,181	55,224
Prepaid lease payments	13(b)	112,571	143,621
Rental deposits and prepayments		154,865	127,335
Intangible assets	14	502,435	614,678
Goodwill	15	532,612	532,450
Interests in joint ventures	17	39,003	51,791
Loans to joint ventures	17	3,000	17,500
Available-for-sale investment	19	2,190	2,156
		2,546,562	2,447,487
CURRENT ASSETS			
Inventories	21	5,589,344	4,400,649
Trade and other receivables	22	2,844,993	2,412,346
Taxation recoverable		2,207	1,526
Bank balances and cash	23(a)	487,004	482,635
		8,923,548	7,297,156
Assets classified as held for sale	24	–	299,133
		8,923,548	7,596,289
CURRENT LIABILITIES			
Trade and other payables	25	2,104,417	2,006,378
Taxation payable		137,746	64,664
Bank borrowings	26	2,532,169	1,375,826
Consideration payable for acquisition of a business		–	60,439
Bank overdrafts	23(b)	109,617	–
		4,883,949	3,507,307
Liabilities associated with assets classified as held for sale	24	–	230,309
		4,883,949	3,737,616
NET CURRENT ASSETS		4,039,599	3,858,673
TOTAL ASSETS LESS CURRENT LIABILITIES		6,586,161	6,306,160

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITY			
Deferred tax liabilities	20	144,632	172,649
NET ASSETS		6,441,529	6,133,511
CAPITAL AND RESERVES			
Share capital	27	46,530	46,523
Reserves		6,344,162	6,057,008
Equity attributable to owners of the Company		6,390,692	6,103,531
Non-controlling interests		50,837	29,980
TOTAL EQUITY		6,441,529	6,133,511

The consolidated financial statements on pages 89 to 193 were approved and authorised for issue by the Board of directors of the Company on March 23, 2018 and are signed on its behalf by:

Wu, Pan-Tsu
CHAIRMAN AND
EXECUTIVE DIRECTOR

Lee, Shao-Wu
CHIEF EXECUTIVE OFFICER
AND EXECUTIVE DIRECTOR

FOR THE YEAR ENDED DECEMBER 31, 2017

	Equity attributable to owners of the Company															
	Share capital RMB'000 (Note 27)	Share premium RMB'000	Special reserve RMB'000 (note (i))	Other reserve RMB'000 (note (ii))	Revaluation reserve RMB'000 (note (iii))	Merger reserve RMB'000 (note (iv))	Property revaluation reserve RMB'000	Shares held under share award scheme RMB'000	Share awards reserve RMB'000	Share-based compensation reserve RMB'000	Non-distributable reserve RMB'000 (note (v))	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2016	46,877	5,188,728	676,506	(1,445,655)	55,395	37,730	-	(76,411)	3,002	34,508	302,438	(18,487)	937,743	5,742,374	45,356	5,787,730
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	5,390	-	5,390	2,161	7,551
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	560,579	560,579	9,032	569,611
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	5,390	560,579	565,969	11,193	577,162
Repurchase of own shares	(453)	(64,780)	-	-	-	-	-	-	-	-	-	-	-	(65,233)	-	(65,233)
Purchase of shares under share award scheme	-	-	-	-	-	-	-	(61,864)	-	-	-	-	-	(61,864)	-	(61,864)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	6,846	486	-	-	-	7,332	-	7,332
Exercise of share options	99	20,147	-	-	-	-	-	-	-	(7,038)	-	-	-	13,208	-	13,208
Dividends recognised as distribution (Note 10)	-	-	-	-	-	-	-	-	-	-	-	-	(90,069)	(90,069)	-	(90,069)
Dividend paid to non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,569)	(26,569)
Capital injection to a subsidiary by an intermediate holding company before an acquisition by the Group under common control	-	-	-	-	-	54,448	-	-	-	-	-	-	-	54,448	-	54,448
Consideration payable for acquiring subsidiaries under common control	-	-	-	-	-	(62,634)	-	-	-	-	-	-	-	(62,634)	-	(62,634)
Transfer	-	-	-	-	-	-	-	-	-	-	98,660	-	(98,660)	-	-	-
At December 31, 2016	46,523	5,144,095	676,506	(1,445,655)	55,395	29,544	-	(138,275)	9,848	27,956	401,098	(13,097)	1,309,593	6,103,531	29,980	6,133,511
Gain on revaluation of properties transferred from property, plant and equipment and prepaid lease payments to investment properties	-	-	-	-	-	-	6,381	-	-	-	-	-	-	6,381	-	6,381
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	(1,265)	-	(1,265)	27	(1,238)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	394,322	394,322	20,710	415,032
Total comprehensive income (expense) for the year	-	-	-	-	-	-	6,381	-	-	-	-	(1,265)	394,322	399,438	20,737	420,175
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	9,617	3,017	-	-	-	12,634	-	12,634
Share awards vested	-	-	-	-	-	-	-	5,248	(3,093)	-	-	-	(2,155)	-	-	-
Exercise of share options	7	1,377	-	-	-	-	-	-	-	(493)	-	-	-	891	-	891
Dividends recognised as distribution (Note 10)	-	-	-	-	-	-	-	-	-	-	-	-	(92,667)	(92,667)	-	(92,667)
Acquisition of remaining interests in a subsidiary	-	-	-	(33,135)	-	-	-	-	-	-	-	-	-	(33,135)	33,135	-
Disposal of subsidiaries (Note 24)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,015)	(33,015)
Transfer	-	-	-	-	-	-	-	-	-	-	66,869	-	(66,869)	-	-	-
At December 31, 2017	46,530	5,145,472	676,506	(1,478,790)	55,395	29,544	6,381	(133,027)	16,372	30,480	467,967	(14,362)	1,542,224	6,390,692	50,837	6,441,529

notes:

(i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the group reorganisation in 2008.

(ii) The other reserve represents the difference between the fair value of the consideration paid or received and the relevant share of carrying value of the subsidiaries' net assets acquired from or disposed of to the non-controlling interests.

(iii) The revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the revaluation reserve will be transferred to accumulated profits upon disposals of these subsidiaries or the relevant assets, whichever is earlier.

(iv) The merger reserve represents the difference in the fair value of the consideration paid to Yue Yuen (as defined in Note 1) for the acquisition of subsidiaries controlled by Yue Yuen and the share capital and premium of the acquired subsidiaries.

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

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	657,219	831,923
Adjustments for:		
Depreciation of property, plant and equipment	316,630	207,280
Release of prepaid lease payments	3,971	4,081
Amortisation of intangible assets	112,317	43,049
Allowance (reversal of allowance) for inventories, net	88,203	(1,972)
Impairment loss recognised on trade receivables	8,730	18,872
Impairment loss recognised on other receivables	4,456	7,252
Interest expense	106,908	61,881
Interest income	(6,386)	(11,367)
Share of results of an associate	–	7,225
Share of results of joint ventures	3,583	4,691
Recognition of equity-settled share-based payments	12,634	7,332
Dividend income from an available-for-sale investment	(240)	(469)
Loss on disposal of a joint venture	5,105	–
Loss on disposal of subsidiaries	4,363	–
Loss on disposal of property, plant and equipment	56,274	18,192
Fair value changes on investment properties	(400)	–
Gain on disposal of an associate	–	(10,048)
Impairment loss on goodwill	–	14,047
Impairment losses on rental deposits and prepayments	–	9,928
Impairment losses on property, plant and equipment	–	2,512
Impairment loss recognised on interest in a joint venture	–	579
Impairment losses on loans to joint ventures	–	30,000
Fair value gain on consideration payable for acquisition of a business	–	(17,215)
Operating cash flows before movements in working capital	1,373,367	1,227,773
Increase in rental deposits and prepayments	(83,016)	(45,056)
Increase in trade and other receivables	(442,144)	(524,562)
Increase in inventories	(1,310,325)	(580,652)
Increase in trade and other payables	460,415	160,406
Cash (used in) generated from operations	(1,703)	237,909
Income tax paid	(197,983)	(249,332)
NET CASH USED IN OPERATING ACTIVITIES	(199,686)	(11,423)

FOR THE YEAR ENDED DECEMBER 31, 2017

	NOTE	2017 RMB'000	2016 RMB'000
INVESTING ACTIVITIES			
Placement of structured bank deposits		(1,170,000)	(1,850,000)
Purchase of property, plant and equipment		(523,685)	(454,854)
Advance to a non-controlling interest of a subsidiary		(80,000)	(90,000)
Repayment of consideration payable for acquisition of a business		(60,439)	–
Deposits paid for acquisition of property, plant and equipment		(51,181)	(55,208)
Addition of prepaid lease payment		(1,522)	(7,525)
Advance to a joint venture		(911)	(10,269)
Release of structured bank deposits		1,170,000	1,850,000
Repayment of advance to a non-controlling interest of a subsidiary		80,000	90,000
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	24	20,618	–
Repayment of advances to joint ventures		16,839	14,300
Proceeds from disposal of property, plant and equipment		11,103	37,467
Interest received		6,386	11,367
Proceeds from disposal of a joint venture		900	–
Dividends received from an available-for-sale investment		240	469
Repayment of long-term loan receivable		–	50,000
Release of pledged bank deposits		–	5,997
Deposit received for the JV Disposal (as defined in Note 24)		–	5,500
Proceeds from disposal of an associate		–	2,765
NET CASH USED IN INVESTING ACTIVITIES		(581,652)	(399,991)

	NOTE	2017 RMB'000	2016 RMB'000
FINANCING ACTIVITIES			
New bank borrowings raised		4,916,087	3,198,889
Advances from related and connected parties		1,185,927	1,613,479
Proceeds from issue of shares upon exercise of share options		891	13,208
Repayment of bank borrowings		(3,759,842)	(2,193,711)
Repayment of advances from related and connected parties		(1,475,216)	(1,615,472)
Interest paid		(106,908)	(61,881)
Dividends paid		(91,524)	(92,111)
Capital injection to a subsidiary by an intermediate holding company before an acquisition by the Group under common control		–	54,448
Dividend paid to a non-controlling interest of a subsidiary		–	(26,569)
Purchase of shares under share award scheme		–	(61,864)
Consideration paid for acquiring subsidiaries under common control		–	(62,634)
Shares repurchased		–	(65,233)
NET CASH FROM FINANCING ACTIVITIES		669,415	700,549
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(111,923)	289,135
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(2,707)	5,930
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		492,017	196,952
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		377,387	492,017
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		487,004	482,635
Cash and cash equivalents included in assets classified as held for sale	24	–	9,382
Bank overdrafts		(109,617)	–
		377,387	492,017

1. GENERAL INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company is Major Focus Management Limited, a company incorporated in the British Virgin Islands ("BVI"). The shares of an intermediate holding company of the Company, Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an exempted company incorporated in Bermuda with limited liability, are also listed on the Stock Exchange.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Group are set out in Note 5.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Amendments to HKAS 7 "Disclosure Initiative" (Continued)

Specifically, the amendments require the following activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after January 1, 2018.
2 Effective for annual periods beginning on or after January 1, 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after January 1, 2021.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investment are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Equity securities classified as available-for-sale investment carried at cost less impairment as disclosed in Note 19: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will continue to measure these securities at FVTOCI at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve under HKFRS 9. The directors of the Company do not anticipate that the initial application of HKFRS 9 will have a material impact on the amounts of fair value gains or losses relating to these securities to be adjusted to investment revaluation reserve as at January 1, 2018;

- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group during the year ended December 31, 2017, there would be no material impact on the accumulated amount of impairment loss to be recognised by the Group as at January 1, 2018 as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added to HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of RMB1,792,043,000 as disclosed in Note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Other than the above, the directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in a joint venture.

Business combinations

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

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

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated income statement and consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

For the purposes of impairment assessment, goodwill is allocated to each of the Group's cash-generating units ("CGU"), or groups of CGU, that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment. A CGU (or group of CGU) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGU) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU (or group of CGU) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill, and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGU). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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

Investments in joint ventures

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in joint ventures (Continued)

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Any retained portion of an investment in a joint venture that has not been classified as held for sale shall be accounted for using the equity method. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and the comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of joint ventures exceeds the Group's interest in those joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in joint ventures), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in joint ventures (Continued)

When the Group ceases to have significant influence over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint ventures and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the joint ventures at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in joint ventures is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) until disposal of the relevant joint venture.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-current assets held for sale

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

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

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

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Rental income, including rentals invoiced in advance, from land and buildings under operating lease is recognised on a straight-line basis over the period of the respective leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Customer loyalty programmes

The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair values (i.e. the amount for which the award credits could be sold separately).

The consideration allocated to award credits is recognised as revenue when award credits are redeemed and the Group fulfills its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

If at any time the unavoidable costs of meeting the obligations to supply the awards are expected to exceed the consideration received and receivable for them (i.e. the consideration allocated to the award credits at the time of the initial sale that has not yet been recognised as revenue plus any further consideration receivable when the customer redeems the award credits), the entity has onerous contracts. A liability shall be recognised for the excess in accordance with HKAS 37. The need to recognise such a liability could arise if the expected costs of supplying awards increase, for example if the entity revises its expectations about the number of award credits that will be redeemed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

Property, plant and equipment

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

Construction in progress are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy, if any. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised to write off the cost of assets other than construction in progress less their residual values, over their estimated useful lives, using the straight-line method. The estimated useful life, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Contingent rentals and concessionaire fees, which are not fixed but based on factors such as percentage of sales, are recognised as expenses in the periods in which they are incurred. Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interests as appropriate).

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Research and development expenditure

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plan, state managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

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

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

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share option scheme

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Equity-settled share-based payment transactions (Continued)

Share option scheme (Continued)

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to accumulated profits.

When the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The amount previously recognised in share-based compensation reserve will also be transferred to accumulated profits.

Share award scheme

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

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share awards reserve).

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under share awards scheme. Accordingly, the related expense of the granted shares is reversed from the share awards reserve. The difference arising from such transfer is debited/credited to accumulated profits. When share awards are forfeited after the vesting date, the amount previously recognised in share award reserve will be transferred to accumulated profits.

When the share awards are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The amount previously recognised in share awards reserve will also be transferred to accumulated profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loans to joint ventures and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investment or financial assets at fair value through profit or loss.

Available-for-sale equity investment that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investment, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL if:

- it has been incurred principally for the purpose of repurchasing in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in "fair value gain on consideration payable for acquisition of a business" under "other gains (losses)" in profit or loss.

Financial liabilities at amortised cost

Other financial liabilities, including trade and other payables, bank overdrafts, bank borrowings and consideration payable for acquisition of a business are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors of the Company have determined the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Group continues to recognise deferred taxes on changes in fair value of investment properties on the basis that the carrying amounts of these properties were recovered through use.

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

(b) Key sources of estimation uncertainty

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

(i) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the Retail Business (as defined in Note 5) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the Retail Business (as defined in Note 5) containing goodwill using a suitable discount rate. Where the expected future cash flows arising from the Retail Business (as defined in Note 5) differ from the original estimation, an impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 16. As at December 31, 2017, the carrying amount of goodwill is RMB532,612,000 (2016: RMB532,450,000).

(ii) Allowance for inventories

The management of the Group reviews the aging of the inventories amounting to RMB5,589,344,000 (2016: RMB4,400,649,000) at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise.

(iii) Estimated impairment of intangible assets

The management of the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment losses at the end of the reporting period. If any such indication exists, the recoverable amount of the relevant CGUs to which intangible assets have allocated, which is the higher of the value in use or fair value less costs of disposal, is estimated in order to determine the extent of the impairment loss. As at December 31, 2017, the carrying amount of intangible assets is RMB502,435,000 (2016: RMB614,678,000). The management of the Group determines that there is no impairment indication and there is no impairment of the Group's intangible assets as at December 31, 2016 and 2017.

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

(b) Key sources of estimation uncertainty (Continued)

(iv) Estimated impairment of interests in joint ventures

Management review the recoverable amounts of the Group's joint ventures. The amounts of the impairment losses in respect of each joint venture is measured as the difference between the carrying amounts of the joint ventures and their recoverable amounts. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2017, the carrying amount of interests in joint ventures is RMB39,003,000 (2016: RMB51,791,000).

(v) Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss/further impairment loss may arise. As at December 31, 2017, the carrying amount of trade receivables is RMB1,609,167,000 (net of allowance for doubtful debts of RMB100,252,000) (2016: carrying amount of RMB1,292,686,000, net of allowance for doubtful debts of RMB105,744,000).

(vi) Income taxes

As at December 31, 2017, the Group had unused tax losses of approximately RMB682.3 million (2016: approximately RMB797.4 million) available for offset against future profits and no deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The realisability of the deferred tax asset arising from the unused tax losses is mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material provision or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a provision or reversal takes place.

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

(b) Key sources of estimation uncertainty (Continued)

(vi) Income taxes (Continued)

In addition, the Group provides deferred tax liabilities in relation to the earnings expected to be distributed from its subsidiaries and joint ventures in the PRC and overseas. Deferred tax liabilities have not been provided on the distributable profits of these entities as the Group plans to retain in the respective entities for their daily operations and future developments. In case where the actual distribution of profits are larger than expected, material tax liabilities will arise, which will be recognised in profit or loss in the period in which such profits are declared or the future development plan of the Group is vanished, whichever is earlier.

(vii) Fair value measurements and valuation of investment properties

In estimating the fair value of investment properties, the Group uses market-observable data to the extent it is available. Where input of Levels 1 and 2 are not available, the Group engages independent qualified professional valuer to perform the valuation. The directors of the Company work closely with the independent qualified professional valuer to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties. Note 12 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties.

5. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the distribution and retailing of sportswear and footwear products and leasing of large scale commercial spaces to retailers and distributors for concessionaire sales ("Retail Business"). Information is reported on a regular basis to the chief operating decision maker, being the Board of directors of the Company, for the purposes of resource allocation and assessment of segment performance. As there is only one reportable segment, no segment information is presented other than entity-wide disclosures.

Revenue from major business products

The following is an analysis of the Group's revenue from its major business products:

	2017 RMB'000	2016 RMB'000
Sales of sportswear and footwear products	18,717,318	16,131,960
Commissions from concessionaire sales	115,995	104,424
	18,833,313	16,236,384

Information about major customers

The directors of the Company are not aware of any customer that individually contributed over 10% of the consolidated revenue from external customers for the year.

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods and information about its non-current assets by geographical location of the assets.

	Revenue from external customers		Non-current assets (note)	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
PRC	18,711,050	16,097,503	2,467,406	2,344,722
Hong Kong	7,994	12,993	1,537	4,120
Other locations	114,269	125,888	33,426	27,198
	18,833,313	16,236,384	2,502,369	2,376,040

note: Non-current assets exclude interests in joint ventures, loans to joint ventures and an available-for-sale investment.

6. OTHER INCOME AND GAINS (LOSSES)

(a) Other operating income and gains (losses)

	2017 RMB'000	2016 RMB'000
Included in the balance is the following items:		
Subsidies, rebates and other income from suppliers	148,423	133,829
Net exchange gain	11,573	1,676
Dividend income from an available-for-sale investment	240	469
Loss on disposal of property, plant and equipment	(56,274)	(18,192)
Impairment loss recognised on trade receivables (Note 22)	(8,730)	(18,872)
Impairment loss recognised on other receivables	(4,456)	(7,252)

(b) Finance income and costs

	2017 RMB'000	2016 RMB'000
Interest expenses on:		
– bank overdrafts and bank borrowings	(101,454)	(50,285)
– advances from related parties	(5,454)	(11,596)
	(106,908)	(61,881)
Interest income from:		
– bank deposits	3,800	5,481
– advances to related parties	1,541	3,698
– advance to a non-controlling interest of a subsidiary	1,045	1,199
– advance to a third party	–	989
	6,386	11,367
Finance costs, net	(100,522)	(50,514)

6. OTHER INCOME AND GAINS (LOSSES) (Continued)

(c) Other gains (losses) arising other than operating activities

	2017 RMB'000	2016 RMB'000
Loss on disposal of a joint venture (Note 17)	(5,105)	–
Loss on disposal of subsidiaries (Note 24)	(4,363)	–
Fair value changes on investment properties (Note 12)	400	–
Impairment losses on loans to joint ventures (Note 17)	–	(30,000)
Impairment loss on goodwill (Notes 15 and 24)	–	(14,047)
Impairment losses on property, plant and equipment (Notes 13 and 24)	–	(2,512)
Impairment losses on rental deposits and prepayments (Note 24)	–	(9,928)
Gain on disposal of an associate	–	10,048
Impairment loss recognised on interest in a joint venture (Note 24)	–	(579)
Fair value gain on consideration payable for acquisition of a business (note)	–	17,215
	(9,068)	(29,803)

note: During the year ended December 31, 2016, the consideration payable for acquisition of a business was accounted for as an extinguishment of the original financial liability which was measured at fair value and the fair value gain of RMB17,215,000 was recognised upon maturity; and a new financial liability at amortised cost was immediately recognised in the consolidated statement of financial position as at December 31, 2016 and was settled during the year ended December 31, 2017.

7. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Taxation attributable to the Company and its subsidiaries:		
Current year:		
Hong Kong Profits Tax (note (i))	–	–
PRC Enterprise Income Tax ("EIT") (note (ii))	272,701	235,309
Overseas income tax (note (iii))	–	752
	272,701	236,061
(Over) underprovision in prior years:		
Hong Kong Profits Tax	–	4
PRC EIT	(2,484)	36,551
Overseas income tax	–	(15)
	(2,484)	36,540
Current tax charge – total	270,217	272,601
Deferred tax credit (Note 20)	(28,030)	(10,289)
	242,187	262,312

7. INCOME TAX EXPENSE (Continued)

notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the relevant subsidiaries had no assessable profit for both years.

(ii) PRC

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant enterprise income tax law, implementation rules and notices in the PRC, except as follows:

Pursuant to《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui【2011】No. 58) and the Bulletin of the State Administration of Taxation【2012】No. 12 issued in 2011 and 2012, during the period from January 1, 2011 to December 31, 2020, any enterprise that is located in the Western Regions of the PRC and engaged in the business activities as listed in the "Catalogue of Encouraged Industries in Western Regions" (the "New Catalogue") as its major business from which the annual revenue accounts for more than 70% of its total revenue for the financial year, is entitled to pay EIT at the rate of 15% after its application is approved by the in-charge taxation authorities. Certain subsidiaries of the Company which are located in the specified provinces of Western Regions of the PRC and engaged in the business activities under the New Catalogue. The directors of the Company consider that the relevant subsidiaries are eligible for the preferential tax rate of 15% in both years.

(iii) Overseas

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2017 RMB'000	2016 RMB'000
Profit before taxation	657,219	831,923
Tax at income tax rate of 25% (note)	164,305	207,981
Tax effect of share of results of an associate and joint ventures	896	2,979
Tax effect of expenses not deductible for tax purposes	70,874	36,746
Tax effect of income not taxable for tax purposes	(3,365)	(15,653)
Effect of tax holidays granted to PRC subsidiaries	(21,132)	(16,903)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,424	1,304
Effect of tax losses not recognised	51,656	69,485
Utilisation of tax losses previously not recognised	(19,987)	(67,751)
(Over) underprovision of tax in prior years	(2,484)	36,540
Withholding income tax on unremitted earnings of overseas subsidiaries	–	7,584
Income tax expenses for the year	242,187	262,312

note: The income tax rate in the jurisdiction where the operations of the Group substantially based is used.

8. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and chief executives' emoluments (Note 9)	2,046	3,927
Retirement benefit scheme contributions, excluding directors and the chief executive	260,445	197,093
Equity-settled share-based payments, excluding directors and the chief executive	12,057	6,677
Other staff costs	1,827,536	1,499,285
Total staff costs	2,102,084	1,706,982
Auditor's remuneration	3,677	4,871
Depreciation of property, plant and equipment	316,630	207,280
Allowance (reversal of allowance) for inventories, net	88,203	(1,972)
Release of prepaid lease payments	3,971	4,081
Amortisation of intangible assets (included in selling and distribution expenses)	112,317	43,049
Research and development expenditure recognised as an expense	797	360
Share of taxation of joint ventures (included in share of results of joint ventures)	33	(28)

For the years ended December 31, 2016 and 2017, cost of inventories recognised as an expense represents cost of sales as shown in the consolidated income statement.

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS AND INTEREST OF DIRECTORS

(a) Directors' and chief executives' emoluments

Details of emoluments of each of the eight (2016: eight) individual directors of the Company for the year disclosed pursuant to the applicable Listing Rules and CO, are set out as follows:

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2017					
Executive directors:					
Lee, Shao Wu (note iii)	-	815	-	577	1,392
Kwan, Heh-Der (note i)	-	-	-	-	-
Wu, Pan-Tsu	-	-	-	-	-
Non-executive directors:					
Tsai Patty, Pei Chun	-	-	-	-	-
Li I-nan	132	-	-	-	132
Independent non-executive directors:					
Chen, Huan-Chung	261	-	-	-	261
Hsieh, Wuei-Jung	261	-	-	-	261
Shan Xue	-	-	-	-	-
	654	815	-	577	2,046

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS AND INTEREST OF DIRECTORS (Continued)

(a) Directors' and chief executives' emoluments (Continued)

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Equity-settled share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2016					
Executive directors:					
Kwan, Heh-Der (note i)	-	2,445	15	655	3,115
Wu, Pan-Tsu	-	-	-	-	-
Non-executive directors:					
Tsai David, Nai Fung (note ii)	-	-	-	-	-
Tsai Patty, Pei Chun	-	-	-	-	-
Li I-nan	128	-	-	-	128
Independent non-executive directors:					
Chen, Huan-Chung	257	-	-	-	257
Hsieh, Wuei-Jung	257	-	-	-	257
Shan Xue	170	-	-	-	170
	812	2,445	15	655	3,927

notes:

(i) Mr. Kwan, Heh-Der resigned as an executive director and the chief executive officer of the Company on January 6, 2017. His emoluments disclosed above included those for services rendered by him as the Chief Executive for the years ended December 31, 2016 and 2017.

(ii) Mr. Tsai David, Nai Fung retired as a non-executive director on August 12, 2016.

(iii) Mr. Lee, Shao Wu was appointed as an executive director on February 6, 2017. His emoluments disclosed above include those for services rendered by him as the Chief Executive for the period from the date of appointment to December 31, 2017.

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS AND INTEREST OF DIRECTORS (Continued)

(b) Emoluments of senior management

Of the six (2016: five) senior management of the Company for the year ended December 31, 2017, two (2016: two) of them were directors of the Company and their remuneration has been disclosed in Note 9(a). The emoluments of the remaining four (2016: three) individuals for the year are within the following bands:

	2017 Number of employees	2016 Number of employees
HK$500,001 to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$3,500,000	1	1
	4	3

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS AND INTEREST OF DIRECTORS (Continued)

(c) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group for the year ended December 31, 2017, nil (2016: one) was a director and the chief executive of the Company whose emoluments are included in Note 9(a). The emoluments of the five (2016: remaining four) individuals for the year are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other allowances	6,369	5,817
Bonus	3,904	2,850
Equity-settled share-based payment	1,349	740
	11,622	9,407

Their emoluments were within the following bands:

	2017 Number of employees	2016 Number of employees
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	2	1
HK$2,500,001 to HK$3,000,000	–	2
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	1	–
	5	4

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and the chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors nor the chief executive has waived any emoluments during both years.

9. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS AND INTEREST OF DIRECTORS (Continued)

(d) Transactions, arrangements or contracts in which directors of the Company have material interests

The Company and Yue Yuen entered into a framework agreement on August 29, 2014 together with a supplementary agreement on August 13, 2015, and a framework agreement on November 11, 2016, pursuant to which, the Company may, through its subsidiaries, purchase from Yue Yuen's subsidiaries, and/or any factories operated and/or appointed by members of the Yue Yuen's subsidiaries footwear products, for the period from April 7, 2014 to December 31, 2016 and for two years from January 1, 2017 to December 31, 2018, respectively, subject to the various annual caps. Details of relevant transactions are set out in Note 32(a).

During certain period in the year ended December 31, 2015, Mr. Tsai David, Nai Fung (retired on August 12, 2016) and Ms. Tsai Patty, Pei Chun were beneficiaries of trusts which hold shares in Yue Yuen. Mr. Kwan, Heh-Der (resigned on January 6, 2017) was interested in share awards of 45,000 shares in Yue Yuen which were vested and sold during the year ended December 31, 2016. Mr. Lee Shao-Wu (appointed on February 6, 2017) was interested in 78,000 shares and underlying shares in Yue Yuen, 33,000 of which were share awards remained unvested and subject to certain vesting conditions.

10. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends recognised as distribution during the year:		
2016 Final dividend of HK$0.02 per share (2016: 2016 Interim dividend of HK$0.02 per share)	92,667	90,069

Subsequent to the end of the reporting period, final dividend in respect of the year ended December 31, 2017 of HK$0.02 per share (2016: HK$0.02 per share) has been proposed by the directors of the Company and will be paid to the shareholders of the Company whose names appear on the register of members of the Company on Monday, June 11, 2018.

The proposed final dividend is subject to approval by the shareholders of the Company at the forthcoming 2018 annual general meeting.

11. EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
Earnings:		
Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	394,322	560,579

	2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,209,876,859	5,231,652,944
Effect of dilutive potential ordinary shares:		
– Share options	4,715,854	16,380,940
– Unvested awarded shares	41,694,148	33,690,061
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,256,286,861	5,281,723,945

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company (see Note 30(b)).

12. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At January 1, 2017	–
Transfer from property, plant and equipment (Note 13)	43,731
Transfer from prepaid lease payments	29,588
Revaluation gain on transfer from property, plant and equipment and prepaid lease payments	6,381
Additions	14,600
Net increase in fair value recognised in profit or loss (Note 6(c))	400
At December 31, 2017	94,700

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at December 31, 2017, the fair value of the Group's investment properties situated in the PRC has been arrived at based on a valuation carried out by APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation") which is independent qualified professional valuer not connected with the Group. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties. The market yield is determined by reference to the yields derived from analysing the sales transactions of similar properties in the PRC.

One of the key inputs used in valuing the investment properties situated in the PRC was the market yield, which ranged from 3.8% to 5.1%. A slight increase in the market yield used would result in a significant decrease in fair value measurement of the respective investment properties, and vice versa.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

All of the Group's investment properties are commercial properties located in the PRC and classified as Level 3 fair value hierarchy. There were no transfers into or out of Level 3 during the year.

13. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

(a) Property, plant and equipment

	Leasehold land and buildings RMB'000	Office and shopping mall buildings RMB'000	Factory buildings and warehouses RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture, fixture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At January 1, 2016	58,523	94,444	345,142	36,177	1,079,228	178,596	22,821	-	1,814,931
Additions	-	-	-	302	375,735	82,807	3,299	2,073	464,216
Disposals	-	-	(8,017)	(26)	(195,580)	(43,791)	(1,542)	-	(248,956)
Transfer to assets classified as held for sale (Note 24)	-	-	-	-	(51,332)	(13,851)	(865)	-	(66,048)
Exchange realignment	-	-	-	-	701	639	9	-	1,349
At December 31, 2016	58,523	94,444	337,125	36,453	1,208,752	204,400	23,722	2,073	1,965,492
Additions	-	-	5	1,559	492,914	72,139	1,331	10,961	578,909
Disposals	-	-	-	-	(263,556)	(20,805)	(2,575)	-	(286,936)
Transfer to investment properties (Note 12)	-	(56,456)	-	-	(1,566)	-	-	-	(58,022)
Exchange realignment	-	-	-	-	221	116	16	-	353
At December 31, 2017	58,523	37,988	337,130	38,012	1,436,765	255,850	22,494	13,034	2,199,796
DEPRECIATION AND IMPAIRMENT									
At January 1, 2016	13,547	14,375	141,202	34,538	775,168	115,058	13,616	-	1,107,504
Provided for the year	1,196	2,231	9,097	116	164,103	27,211	3,326	-	207,280
Impairment loss recognised in profit or loss upon transfer to assets classified as held for sale (Notes 6(c) and 24)	-	-	-	-	1,770	655	87	-	2,512
Transfer to assets classified as held for sale (Note 24)	-	-	-	-	(48,451)	(12,783)	(723)	-	(61,957)
Eliminated on disposals	-	-	(8,017)	(26)	(166,389)	(17,323)	(1,542)	-	(193,297)
Exchange realignment	-	-	-	-	472	239	7	-	718
At December 31, 2016	14,743	16,606	142,282	34,628	726,673	113,057	14,771	-	1,062,760
Provided for the year	1,249	1,961	9,074	330	262,396	38,336	3,284	-	316,630
Transfer to investment properties (Note 12)	-	(13,227)	-	-	(1,064)	-	-	-	(14,291)
Eliminated on disposals	-	-	-	-	(197,071)	(20,080)	(2,343)	-	(219,494)
Exchange realignment	-	-	-	-	87	98	1	-	186
At December 31, 2017	15,992	5,340	151,356	34,958	791,021	131,411	15,713	-	1,145,791
CARRYING VALUE									
At December 31, 2017	42,531	32,648	185,774	3,054	645,744	124,439	6,781	13,034	1,054,005
At December 31, 2016	43,780	77,838	194,843	1,825	482,079	91,343	8,951	2,073	902,732

13. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

(a) Property, plant and equipment (Continued)

During the year ended December 31, 2017, the Group changes the use of certain of its shopping mall buildings and have leased them out to independent third parties for rental income. Upon the transfer from property, plant and equipment, these properties are revalued with a gain on the revaluation of RMB6,381,000.

In the opinion of the directors of the Company, the leasehold land and building element of certain of the Group's properties in the PRC cannot be allocated reliably. Accordingly, they are presented on a combined basis as leasehold land and buildings above.

All buildings, office and shopping mall buildings and factory buildings and warehouses are erected on land with medium-term land use rights in the PRC.

The shopping mall buildings are held mainly for the Group's Retail Business.

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings/office and shopping mall buildings/ factory buildings and warehouses	2% – 3%
Plant and machinery	5% – 15%
Leasehold improvements	10% – 50%
Furniture, fixture and equipment	20% – 30%
Motor vehicles	20% – 30%

(b) Prepaid lease payments

	2017 RMB'000	2016 RMB'000
The carrying amount of the Group's prepaid lease payments are analysed as follows:		
Non-current assets	112,571	143,621
Current assets (included in trade and other receivables)	3,207	4,194
	115,778	147,815

14. INTANGIBLE ASSETS

	Customer relationship RMB'000	Brand names RMB'000	Licensing agreements RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST					
At January 1, 2016	53,404	467,340	99,683	444,843	1,065,270
Exchange realignment	–	–	431	–	431
At December 31, 2016	53,404	467,340	100,114	444,843	1,065,701
Written off	–	–	–	(30,542)	(30,542)
Exchange realignment	–	–	93	–	93
At December 31, 2017	53,404	467,340	100,207	414,301	1,035,252
AMORTISATION AND IMPAIRMENT					
At January 1, 2016	36,989	59,559	32,355	278,966	407,869
Provided for the year	6,179	–	10,079	26,791	43,049
Exchange realignment	–	–	105	–	105
At December 31, 2016	43,168	59,559	42,539	305,757	451,023
Provided for the year	5,096	70,305	10,125	26,791	112,317
Eliminated on written off	–	–	–	(30,542)	(30,542)
Exchange realignment	–	–	19	–	19
At December 31, 2017	48,264	129,864	52,683	302,006	532,817
CARRYING VALUE					
At December 31, 2017	5,140	337,476	47,524	112,295	502,435
At December 31, 2016	10,236	407,781	57,575	139,086	614,678

14. INTANGIBLE ASSETS (Continued)

All of the intangible assets were valued as of the respective dates of acquisitions by American Appraisal China Limited, or APAC Asset Valuation, firms of professional valuers, on the following basis:

Customer relationship	The Excess Earnings method under the Income Approach
Brand names	The Relief from Royalty method under the Income Approach
Licensing agreements	The Excess Earnings method under the Income Approach or the Relief from Royalty method under the Income Approach
Non-compete agreements	The "With and Without" method under the Income Approach

The management of the Group considers customer relationship, licensing agreements and non-compete agreements have finite useful lives and are amortised on a straight-line basis over the following periods:

Customer relationship	8 years
Licensing agreements	10 years
Non-compete agreements	5 to 20 years

Prior to March 2017, the brand names are considered by the management of the Group as having indefinite useful lives because they are expected to contribute to the generation of net cash inflows to the Group indefinitely. They are tested for impairment annually and whenever there is an indication that they may have been impaired.

Effective from March 2017, the estimated useful lives of brand names were revised to better reflect the useful lives of the intangible assets as follows:

	Old useful lives	New useful lives
Brand names	Indefinite	5 years (note)

note: Amortisation for brand names is provided on a straight-line basis over their estimated useful lives.

14. INTANGIBLE ASSETS (Continued)

The effects/expected effects of the above change in estimated useful lives in the current/future reporting periods are as follows:

	For the year ended December 31,				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Increase in amortisation charge	(70,305)	(84,369)	(84,369)	(84,369)	(84,369)
Increase in release of deferred tax liabilities	17,576	21,092	21,092	21,092	21,092
Net decrease in profit for the year	(52,729)	(63,277)	(63,277)	(63,277)	(63,277)

15. GOODWILL

	RMB'000
COST	
At January 1, 2016	545,748
Transfer to assets classified as held for sale (Note 24)	(14,047)
Exchange realignment	749
At December 31, 2016	532,450
Exchange realignment	162
At December 31, 2017	532,612
ACCUMULATED IMPAIRMENT	
At January 1, 2016	–
Impairment loss for the year (Note 6(c) and 24)	14,047
Transfer to assets classified as held for sale (Note 24)	(14,047)
At December 31, 2016 and 2017	–
CARRYING VALUE	
At December 31, 2017	532,612
At December 31, 2016	532,450

Particulars regarding impairment assessment on goodwill are detailed in Note 16.

16. IMPAIRMENT ASSESSMENT ON GOODWILL AND INTANGIBLE ASSETS

For the purpose of impairment assessment, brand names with indefinite useful lives of the Group prior to March 2017 (details as set out in Note 14) are allocated to the CGUs of Retail Business that are expected to benefit from the brand names to generate future economic benefits. The carrying amount of the brand names at December 31, 2016 allocated to these units represented retail business chains of stores in Northern China, the PRC ("Unit A") amounting to RMB157,086,000 and Zhejiang Province, the PRC ("Unit B") amounting to RMB250,695,000.

For the purpose of impairment assessment, goodwill of the Group as set out in Note 15 is allocated to Retail Business as a group of CGUs.

The basis of recoverable amount of each of Units A, B and the group of CGUs in the Retail Business has been determined based on the higher of its value in use calculation and fair value less cost of disposal (which can be referenced to disposal proceeds from anticipated disposal of the entity forming the CGUs), and assessed by the management as at December 31, 2016 and 2017.

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and discount rates of 15% (2016: 13%), determined by independent valuers using the Capital Assets Pricing Model, for each of the CGU of Units A, B and the group of CGUs in the Retail Business. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2016: 3%) for all of the above CGUs. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumption for the value in use calculation relates to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the CGU to fall below its carrying amount.

None of (i) goodwill allocated to Retail Business as a group of CGUs, nor (ii) brand names allocated to Units A and B had suffered any impairment during the years ended December 31, 2016 or 2017, except for an impairment loss of RMB14,047,000 was recognised on goodwill during the year ended December 31, 2016 that was allocated to the group of CGUs in the Retail Business and related to the disposal group classified as held for sale as set out in Note 24, which was determined by reference to the expected disposal proceeds from the buyer from its anticipated disposal.

17. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Cost of unlisted investments in joint ventures (note i)	90,427	100,927
Share of post-acquisition profits, net of dividends received	(29,478)	(27,190)
Impairment losses	(21,946)	(21,946)
	39,003	51,791
Loans to joint ventures (note ii)	3,000	17,500

In September 2017, the Group disposed of the entire interests in a joint venture to the previous joint venture partner for a consideration of RMB4,100,000 and recognised a loss on disposal of RMB5,105,000, calculated as the difference between the net disposal proceeds and the carrying amount of the joint venture. During the year ended December 31, 2017, proceeds of RMB900,000 in relation to the disposal has been received by the Group and an amount due from the previous joint venture partner of RMB3,200,000 is included in trade and other receivables in the consolidated statement of financial position as at December 31,2017.

notes:

(i) Included in cost of investments in joint ventures as at December 31, 2016 and 2017 was goodwill of RMB13,932,000 arising from the acquisition of a joint venture in prior years.

(ii) The loans to joint ventures are secured by the equity interests in the relevant joint ventures held by the other joint venture partners, interest bearing at the prevailing lending rate of People's Bank of China ("PBOC") and have no fixed terms of repayment. Before offering any new loans to joint ventures, the Group assesses the joint ventures' credit qualities and the intended usages of the loans by the joint ventures. The recoverability of the loans is reviewed throughout the tenure of the loans.

Included in the carrying amount of loans to joint ventures as at December 31, 2016 were impairment losses of RMB30,000,000 made during the year ended December 31, 2016 where there was objective evidence as observed by the directors of the Company that, as a result of (i) the Group's past experience of collecting payments, (ii) significant financial difficulty of the joint ventures and/or (iii) it becoming probable that the joint venture would enter winding up respectively, estimated future cash flows had been affected and the recoverability of cash flows had been reduced. Other than the above, no provision for impairment loss for other outstanding balance as at the end of the reporting period was considered necessary since there has been no past default history in respect of other joint ventures and the directors of the Company considers these counterparties are of good credit qualities based on their regular assessments. The loans are not expected to be repaid within one year and are classified as non-current.

17. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

The Group's material joint venture at the end of the reporting period is Sky Grace Investments Limited ("Sky Grace"). All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements. Details of the Group's material joint venture at the end of the reporting period are as follows:

Name of entity	Form of entity	Place of incorporation or establishment/ operation	Class of shares held	Proportion of issued and fully paid up capital indirectly held by the Company		Proportion of voting rights held by the Group		Principal activity
				2017	2016	2017	2016	
Sky Grace	Limited liability	Hong Kong	Ordinary	50%	50%	50%	50%	Investment holding

Under the relevant shareholders' agreements, decisions on certain matters of these entities require unanimous consent from all of the relevant joint venture partners. In the opinion of the directors of the Company, these certain matters relate to the activities that significantly affect the returns of each of these entities. Accordingly, neither the Group nor the other relevant joint venture partners has the ability to control the respective entities unilaterally and each of these entities is therefore considered as jointly controlled by the Group and the relevant joint venture partners. Therefore, the respective entities are accounted for as joint ventures of the Group.

The above table lists the joint venture of the Group which, in the opinion of the directors of the Company, principally affected the results or net assets of the Group. To give details of other joint ventures would, in the opinion of directors of the Company, result in particulars of excessive length.

17. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

Summarised financial information in respect of each of the Group's material joint venture and the aggregate of other joint ventures is set out below. The summarised financial information below represents amount shown in the joint ventures' financial statements prepared in accordance with HKFRSs.

	2017			2016		
	Sky Grace RMB'000	Others RMB'000	Total RMB'000	Sky Grace RMB'000	Others RMB'000	Total RMB'000
Financial information of consolidated income statement and consolidated statement of comprehensive income						
Revenue	231,826	278,848	510,674	226,053	389,837	615,890
(Loss) profit and total comprehensive (expense) income for the year	(2,803)	(26,192)	(28,995)	234	(29,642)	(29,408)
(Loss) profit and total comprehensive (expense) income for the year, attributable to the Group	(1,402)	(2,181)	(3,583)	117	(4,808)	(4,691)
The above financial information include the following:						
Depreciation and amortisation	(3,296)	(5,846)	(9,142)	(2,953)	(5,161)	(8,114)
Interest income	40	18	58	88	39	127
Interest expense	–	(3,454)	(3,454)	(261)	(3,878)	(4,139)
Income tax credit	–	66	66	–	55	55

No dividend was received from joint ventures for both years.

17. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

	2017			2016		
	Sky Grace RMB'000	Others RMB'000	Total RMB'000	Sky Grace RMB'000	Others RMB'000	Total RMB'000
Financial information of consolidated statement of financial position						
Non-current assets	4,936	5,635	10,571	3,950	7,560	11,510
Current assets	115,739	223,043	338,782	116,312	338,870	455,182
Current liabilities	(62,640)	(270,189)	(332,829)	(59,424)	(343,174)	(402,598)
Non-current liabilities	–	(40,000)	(40,000)	–	(40,000)	(40,000)
Net assets (liabilities) of the joint ventures	58,035	(81,511)	(23,476)	60,838	(36,744)	24,094
The above amounts of assets and liabilities include the following:						
Cash and cash equivalents	4,036	9,430	13,466	6,189	5,628	11,817
Current financial liabilities (excluding trade and other payables and provisions)	–	(100,800)	(100,800)	–	(125,235)	(125,235)
Non-current financial liabilities (excluding trade and other payables and provisions)	–	(40,000)	(40,000)	–	(40,000)	(40,000)
Reconciliation to the carrying amounts of interest in the joint ventures:						
Net assets (liabilities) attributable to the equity holders of the joint ventures	58,035	(81,511)	(23,476)	60,838	(36,744)	24,094
Proportion of the Group's ownership interests in the joint ventures	50%	50%	50%	50%	50%	50%
Net assets of interests in joint ventures attributable to the Group	29,017	18,000	47,017	30,419	29,386	59,805
Goodwill	13,932	–	13,932	13,932	–	13,932
Impairment losses of interests in joint ventures	(3,946)	(18,000)	(21,946)	(3,946)	(18,000)	(21,946)
Carrying amount of the Group's interests in the joint ventures	39,003	–	39,003	40,405	11,386	51,791

17. INTERESTS IN JOINT VENTURES/LOANS TO JOINT VENTURES (Continued)

The unrecognised share of loss of joint ventures is as follow:

	2017 RMB'000	2016 RMB'000
The unrecognised share of loss of joint ventures for the year	10,964	10,013
Cumulative unrecognised share of loss of joint ventures	58,722	47,758

There are no significant restrictions on the ability of the joint ventures to transfer funds to the Group in form of cash dividends or to repay loans or advances made by the Group.

18. INTERESTS IN SUBSIDIARIES

(a) Composition of the Group

At the end of the reporting period, the composition of the Company's subsidiaries are as follows. Majority of these subsidiaries operate in the PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Country/ place of incorporation	Principal country/ place of business	Number of subsidiaries	
			2017	2016
Retailing of sportswear	PRC	PRC	45	50
	Hong Kong	Hong Kong	1	1
	Taiwan	Taiwan	1	–
	BVI	Taiwan	1	–
Property leasing and management	PRC	PRC	6	6
Distribution of licenced products	PRC	PRC	1	1
	Taiwan	Taiwan	2	2
Manufacturing of sportswear	PRC	PRC	2	2
Marketing of sports apparel	Taiwan	Taiwan	1	1
Investment holding	PRC	PRC	2	2
	Hong Kong	Hong Kong	6	7
	BVI	Hong Kong	14	14
	BVI	Taiwan	1	1
			83	87

Particulars of the Company's principal subsidiaries as at December 31, 2016 and 2017 are set out in Note 35.

18. INTERESTS IN SUBSIDIARIES (Continued)

(b) Details of non-wholly-owned subsidiary that has material non-controlling interest

The Company's non-wholly-owned subsidiary that has material non-controlling interest at the end of the reporting period is Qingdao Pou Sheng (as defined in Note 35). The table below shows details of Qingdao Pou Sheng that has material non-controlling interest:

Name of subsidiary	Country of establishment/ operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Qingdao Pou Sheng	PRC	28%	28%	19,633	21,638	46,471	26,838
Individually immaterial subsidiaries with non-controlling interests				1,077	(12,606)	4,366	3,142
Total				20,710	9,032	50,837	29,980

Summarised financial information in respect of Qingdao Pou Sheng that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2017 RMB'000	2016 RMB'000
Financial information of consolidated income statement and consolidated statement of comprehensive income		
Revenue	1,084,066	918,702
Expenses and income tax	(1,013,945)	(841,424)
Profit for the year	70,121	77,278
Profit and total comprehensive income, attributable to		
– owners of the Company	50,488	55,640
– non-controlling interests	19,633	21,638
	70,121	77,278
Dividends paid to non-controlling interests	–	26,569

18. INTERESTS IN SUBSIDIARIES (Continued)

(b) Details of non-wholly-owned subsidiary that have material non-controlling interest (Continued)

	2017 RMB'000	2016 RMB'000
Financial information of consolidated statement of financial position		
Non-current assets	43,283	27,741
Current assets	500,538	385,266
Current liabilities	(377,852)	(317,159)
	165,969	95,848
Equity attributable to		
– owners of the Company	119,498	69,010
– non-controlling interests	46,471	26,838
	165,969	95,848
Financial information of consolidated statement of cash flows		
Net cash inflow from operating activities	26,042	121,346
Net cash outflow from investing activities	(15,455)	(115,381)
Net cash outflow from financing activities	(10,091)	(5,878)
Net cash inflow	496	87

19. AVAILABLE-FOR-SALE INVESTMENT

The amount represents unlisted equity securities issued by a private entity incorporated overseas and is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates was so significant that the directors of the Company are of the opinion that their fair value could not be measured reliably.

20. DEFERRED TAXATION

The followings are the major deferred tax liabilities recognised and movements thereon during current and prior years:

	Tax losses RMB'000	Undistributed earnings of PRC and overseas entities RMB'000	Fair value adjustments of intangible assets on business combination RMB'000	Total RMB'000
At January 1, 2016	(428)	19,320	163,990	182,882
Charge (credit) to profit or loss (Note 7)	428	–	(10,717)	(10,289)
Exchange realignment	–	1	55	56
At December 31, 2016	–	19,321	153,328	172,649
Credit to profit or loss (Note 7)	–	–	(28,030)	(28,030)
Exchange realignment	–	–	13	13
At December 31, 2017	–	19,321	125,311	144,632

As at December 31, 2017, the Group had unused tax losses of approximately RMB682.3 million (2016: approximately RMB797.4 million) available for offset against future profits and no deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of PRC subsidiaries amounting to approximately RMB4,619 million (2016: approximately RMB3,488 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Included in these accumulated profits of PRC subsidiaries are profits arising from PRC joint ventures that are equity accounted for in the Group's consolidated financial statements amounting to RMB35,000 (2016: RMB900,000). The Group is able to control the timing of the reversal of such temporary differences as these investment are made through PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

21. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	968	1,553
Work in progress	1,364	2,143
Finished goods	5,587,012	4,396,953
	5,589,344	4,400,649

22. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables (note i)	1,609,167	1,292,686
Deposits, prepayments and other receivables	1,235,826	1,119,660
	2,844,993	2,412,346
Deposits, prepayments and other receivables represent:		
Rental deposits and prepaid rentals	229,455	166,995
Prepayments paid to suppliers	367,229	381,054
Value-added tax recoverable	335,027	207,947
Amounts due from related parties (note ii)	12,514	30,152
Amount due from a non-controlling interest of a subsidiary (note iii)	20,000	20,000
Other prepaid expenses	150,549	120,073
Prepaid lease payments – current (Note 13(b))	3,207	4,194
Other deposits and receivables	117,845	189,245
	1,235,826	1,119,660

notes:

(i) Included in trade receivables are trade balances with joint ventures of RMB864,000 (2016: RMB3,135,000). Details of the relevant transactions are set out in Note 32.

(ii) The amounts represent amounts due from certain joint ventures of RMB12,450,000 (2016: RMB30,149,000) and certain entities controlled by Yue Yuen and its substantial shareholders of RMB64,000 (2016: RMB3,000), and are unsecured and expected to be recovered within one year. Except for the amount of RMB9,907,000 (2016: RMB24,435,000) due from a joint venture which carries fixed interest rate 6.72% (2016: ranging from 5% to 6.72%) per annum, the remaining balance is interest-free.

(iii) The amount is unsecured and expected to be recovered within one year and carries fixed interest rate of 6.53% (2016: 6.09%) per annum.

22. TRADE AND OTHER RECEIVABLES (Continued)

The Group generally allows an average credit period of 30 days to 60 days which are agreed with each of its trade customers. The aged analysis of the Group's trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates, is as follows:

	2017 RMB'000	2016 RMB'000
0 – 30 days	1,417,271	1,028,966
31 – 90 days	181,900	207,358
Over 90 days	9,996	56,362
	1,609,167	1,292,686

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB43,602,000 (2016: RMB82,302,000) which were past due at the end of the reporting period and for which the Group has not provided for impairment loss because management is of the opinion that the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances.

The aged analysis of trade receivables which are past due but not impaired is as follows:

	2017 RMB'000	2016 RMB'000
31 – 90 days	40,293	48,928
Over 90 days	3,309	33,374
	43,602	82,302

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that is neither past due nor impaired have no default payment history.

22. TRADE AND OTHER RECEIVABLES (Continued)

Movements in the allowance for doubtful debt are as follows:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	105,744	107,890
Impairment loss recognised on trade receivables (Note 6(a))	8,730	18,872
Amount written off as uncollectible	(14,222)	(21,018)
Balance at the end of the year	100,252	105,744

23. BANK BALANCES AND CASH/BANK OVERDRAFTS

(a) Bank balances and cash

The bank balances are interest-bearing at market interest rates. All deposits have an original maturity of three months or less.

During the year ended December 31, 2017, the bank deposits carried variable interest rates ranging from 0.01% to 3.40% (2016: 0.01% to 12.00%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2017 RMB'000	2016 RMB'000
United States dollars ("USD")	12,997	89,602
Hong Kong dollars	1,167	2,532
RMB	285	387
	14,449	92,521

(b) Bank overdrafts

At December 31, 2017, the bank overdrafts were unsecured and carried interest at market rates ranging from 4.35% to 4.87% (2016: 4.13% to 4.57%) per annum.

24. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE/ DISPOSAL OF SUBSIDIARIES

	2017 RMB'000	2016 RMB'000
Amount comprises:		
Interest in a joint venture (note i)	–	10,000
Assets related to the Disposal Group (note ii)	–	289,133
Total assets classified as held for sale	–	299,133
Liabilities associated with the Disposal Group (note ii)	–	230,309

notes:

(i) In 2016, the Group entered into a disposal framework agreement with the joint venture partners of a joint venture, pursuant to which the Group agreed to dispose of its investment in the relevant joint venture for a consideration of RMB10,000,000 (the "JV Disposal"). Therefore, the interest in the joint venture, which was expected to be sold within twelve months from December 31, 2016, has been classified as an asset held for sale and was presented separately in the consolidated statement of financial position as at December 31, 2016.

A deposit of RMB5,500,000 in relation to the JV Disposal had been received by the Group in prior year and the amount was included in trade and other payables in the consolidated statement of financial position as at December 31, 2016. The net proceeds of the JV Disposal were less than the carrying amount of the relevant asset, and accordingly, impairment loss of RMB579,000 was recognised during the year ended December 31, 2016.

During the year ended December 31, 2017, the JV Disposal has been completed upon which the remaining consideration of RMB4,500,000 together with the advance to the joint venture of RMB10,100,000 have been set-off by the additions of investment properties (transferred from the previous joint venture partner), which amount to RMB14,600,000 and represent a major non-cash transaction of the Group.

24. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE/ DISPOSAL OF SUBSIDIARIES (Continued)

notes: (Continued)

(ii) On December 15, 2016, the Group entered into a disposal agreement with Excel Effect Investments Limited, the non-controlling interest of Profit Concept Group Limited ("Profit Concept"), pursuant to which the Group agreed to dispose of its entire interests in Profit Concept and its subsidiaries (collectively referred to as the "Disposal Group"), which are principally engaged in retailing of sportswear, for a consideration of RMB30,000,000. Therefore, the assets and liabilities attributable to the Disposal Group, which were expected to be sold within twelve months from December 31, 2016, have been classified as assets held for sale and liabilities associated with assets classified as held for sale respectively, and were presented separately in the consolidated statement of financial position as at December 31, 2016.

The net proceeds of the anticipated disposal are less than the carrying amount of the relevant assets, and accordingly, impairment loss on goodwill of RMB14,047,000, rental deposits and prepayments of RMB9,928,000 and property, plant and equipment of RMB2,512,000 have been recognised, immediately before the initial classification of the assets classified as held for sale during the year ended December 31, 2016.

The major classes of assets and liabilities of the Disposal Group at December 31, 2016 are as follows:

	RMB'000
Inventories	105,256
Trade and other receivables	149,705
Bank balances and cash	9,382
Other assets	24,790
Total assets classified as held for sale	289,133
Trade and other payables representing total liabilities associated with assets classified as held for sale	(230,309)

24. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE/ DISPOSAL OF SUBSIDIARIES (Continued)

notes: (Continued)

(ii) (Continued)

The transaction was completed during the year ended December 31, 2017 and the aggregate amounts of assets and liabilities attributable to the Disposal Group on the date of disposal were as follows:

	RMB'000
Net assets disposed of:	
Inventories	138,683
Trade and other receivables	199,161
Bank balances and cash	9,382
Other assets	18,048
Trade and other payables	(297,896)
Total net assets	67,378
Less: non-controlling interests	(33,015)
	34,363
Loss on disposal of subsidiaries:	
Consideration received	30,000
Net assets disposed of	(34,363)
Loss on disposal	(4,363)
Net cash inflow arising on disposal:	
Cash consideration received	30,000
Less: bank balances and cash disposed of	(9,382)
	20,618

During the year ended December 31, 2017, the Disposal Group did not contribute significantly to the results and cash flows of the Group prior to the disposal.

25. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables (note i)	548,365	286,463
Bills payables	14,479	203,637
Receipt in advance from customers	592,873	457,015
Amounts due to related and connected parties (note ii)	6,611	295,900
Accrued staff costs	289,480	265,719
Sales discount and rebate payables	33,648	16,538
Other tax payables	111,877	66,967
Deposit received for sale of assets classified as held for sale (Note 24)	–	5,500
Other accruals and payables	507,084	408,639
	2,104,417	2,006,378

notes:

(i) Included in the amount are trade balances with joint ventures of RMB363,000 (2016: RMB204,000) and certain entities controlled by Yue Yuen of RMB10,702,000 as at December 31, 2016. Details of the relevant transactions are set out in Note 32.

(ii) The amounts represent amounts due to non-controlling interests of subsidiaries of RMB2,800,000 (2016: RMB2,800,000) and certain entities controlled by Yue Yuen and its substantial shareholders of RMB3,811,000 (2016: RMB293,100,000), and are unsecured and repayable on demand. Except for the amount of RMB290,000,000 due to an entity controlled by Yue Yuen's substantial shareholders as at December 31, 2016, which carried fixed interest rate of 3.4% per annum and is settled during the year ended December 31, 2017, the remaining balance is interest-free.

The aged analysis of the Group's trade and bills payables, presented based on the invoice date at the end of the reporting period, is as follows:

	2017 RMB'000	2016 RMB'000
0 – 30 days	558,534	445,442
31 – 90 days	976	6,148
Over 90 days	3,334	38,510
	562,844	490,100

The average credit period for payment of purchases of goods is ranging from 30 days to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

26. BANK BORROWINGS

The unsecured bank borrowings, interest-bearing at variable rates, are repayable within one year.

The Group's variable rate borrowings carry interests at margins over Hong Kong Interbank Offer Rate ("HIBOR"), London Interbank Offer Rate ("LIBOR") or prevailing rate of the PBOC, as appropriate. Interest is repriced every one to six months.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2017	2016
Effective interest rate:		
Variable rate borrowings	1.36% – 15.88%	1.45% – 11.90%

The Group's bank borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2017 RMB'000	2016 RMB'000
USD	224,364	150,075

27. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At January 1, 2016, December 31, 2016 and 2017	30,000,000,000	300,000
Issued and fully paid:		
At January 1, 2016	5,379,308,615	53,793
Exercise of share options	11,626,000	116
Repurchase of own shares (note)	(53,186,000)	(532)
At December 31, 2016	5,337,748,615	53,377
Exercise of share options	800,000	8
At December 31, 2017	5,338,548,615	53,385

27. SHARE CAPITAL (Continued)

	2017 RMB'000	2016 RMB'000
Shown in the consolidated financial statements	46,530	46,523

note:

During the year ended December 31, 2016, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of HK$0.01 each repurchased	Price per share Highest price paid HK$	Lowest price paid HK$	Aggregate consideration paid HK$'000
January 2016	53,186,000	1.50	1.37	76,313

The aggregate consideration paid of approximately HK$76,313,000 was equivalent to approximately RMB65,233,000.

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,537	1,864
Investments in subsidiaries, unlisted	1,473,357	1,302,860
	1,474,894	1,304,724
CURRENT ASSETS		
Other receivables	2,924	3,313
Amounts due from subsidiaries	5,301,262	4,478,131
Bank balances and cash	2,345	7,378
	5,306,531	4,488,822
CURRENT LIABILITIES		
Other payables	16,351	10,809
Amounts due to subsidiaries	720,867	803,787
Bank borrowings	1,160,941	704,982
	1,898,159	1,519,578
NET CURRENT ASSETS	3,408,372	2,969,244
NET ASSETS	4,883,266	4,273,968
CAPITAL AND RESERVES		
Share capital	46,530	46,523
Reserves (note)	4,836,736	4,227,445
	4,883,266	4,273,968

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

note:

Movement in the Company's reserves:

	RMB'000
At January 1, 2016	4,154,395
Profit and total comprehensive income for the year	269,322
Repurchase of own shares	(64,780)
Purchase of shares under share award scheme	(61,864)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	7,332
Exercise of share options	13,109
Dividends recognised as distribution (Note 10)	(90,069)
At December 31, 2016	4,227,445
Profit and total comprehensive income for the year	688,440
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	12,634
Exercise of share options	884
Dividends recognised as distribution (Note 10)	(92,667)
At December 31, 2017	4,836,736

29. OPERATING LEASES

(a) The Group as lessee

The Group made the following lease payments during the year:

	2017 RMB'000	2016 RMB'000
Operating lease rentals and concessionaire fees in respect of:		
Minimum lease payments:		
– street level stores	248,128	242,973
– shopping mall stores	428,881	266,984
– other properties	68,308	69,087
	745,317	579,044
Contingent rentals:		
– shopping mall stores	1,649,883	1,556,306
	2,395,200	2,135,350
Representing:		
– shopping malls/retail outlets/warehouses (included in selling and distribution expenses)	2,348,749	2,092,281
– offices (included in administrative expenses)	46,451	43,069
	2,395,200	2,135,350

At the end of the reporting period, the Group had commitments for non-cancellable future minimum lease payments for retail shops and other properties under non-cancellable operating leases which fall due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	659,038	529,800
In the second to fifth year inclusive	947,893	772,305
Over five years	185,112	159,128
	1,792,043	1,461,233

29. OPERATING LEASES (Continued)

(a) The Group as lessee (Continued)

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' revenue using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents payable.

Majority of the leases are negotiated for lease terms of 2 to 5 years.

(b) The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease receipts in respect of shopping mall counter areas rented out:

	2017 RMB'000	2016 RMB'000
Within one year	75,419	46,817
In the second to fifth year inclusive	142,931	65,775
Over five years	70,380	10,413
	288,730	123,005

In addition to the basic rental receipts as disclosed above, the lease agreements with the tenants also include provision for the payment of contingent rents to the Group. In general, these contingent rents are calculated with reference to the revenue generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents receivable. Rental income received by the Group during the year amounted to RMB115,995,000 (2016: RMB104,424,000), included in which was contingent rental income arising from contingent terms of lease contracts of RMB69,177,000 (2016: RMB68,230,000).

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a shareholders' resolution passed on May 14, 2008 and amended on March 7, 2012 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and will expire on May 13, 2018. Under the Share Option Scheme, the Board of directors of the Company may grant options to eligible persons, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

Without prior approval from the Group's shareholders, (i) the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at date of listing; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non-executive directors or any of their respective associates, in the twelve-month period up to and including the date of such grant.

Options are exercisable over the vesting periods to be determined by the Board of directors of the Company, but in no case after the tenth anniversary of the date of grant. The exercise price is determined by the Board of directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(a) Share Option Scheme (Continued)

The following tables disclose movements in the Company's share options under the Share Option Scheme during the two years ended December 31, 2017:

				Number of share options						
	Date of grant	Exercise price HK$	Exercisable period	Outstanding at January 1, 2016	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year (note)	Outstanding at December 31, 2016	Exercised during the year	Outstanding at December 31, 2017
Current and former employees/ consultants of Pou Sheng	21.01.2010	1.620	21.01.2011 - 20.01.2018	4,440,450	-	(1,079,000)	177,000	3,538,450	(16,000)	3,522,450
	21.01.2010	1.620	21.01.2012 - 20.01.2018	4,440,450	-	(1,045,000)	177,000	3,572,450	(45,000)	3,527,450
	21.01.2010	1.620	21.01.2013 - 20.01.2018	6,684,900	-	(874,000)	354,000	6,164,900	(39,000)	6,125,900
	21.01.2010	1.620	21.01.2014 - 20.01.2018	7,321,200	-	(942,000)	(808,000)	5,571,200	-	5,571,200
	20.01.2011	1.230	20.01.2012 - 19.01.2019	11,587,500	-	(2,075,000)	-	9,512,500	(25,000)	9,487,500
	20.01.2011	1.230	20.01.2013 - 19.01.2019	7,962,500	-	(1,750,000)	-	6,212,500	(75,000)	6,137,500
	20.01.2011	1.230	20.01.2014 - 19.01.2019	5,500,000	-	(1,236,000)	-	4,264,000	(300,000)	3,964,000
	20.01.2011	1.230	20.01.2015 - 19.01.2019	4,800,000	-	(1,125,000)	-	3,675,000	(300,000)	3,375,000
	07.03.2012	1.050	07.03.2013 - 06.03.2020	750,000	-	(375,000)	-	375,000	-	375,000
	07.03.2012	1.050	07.03.2014 - 06.03.2020	375,000	-	(375,000)	-	-	-	-
	07.03.2012	1.050	07.03.2015 - 06.03.2020	375,000	-	(375,000)	-	-	-	-
	07.03.2012	1.050	07.03.2016 - 06.03.2020	375,000	-	(375,000)	-	-	-	-
	14.11.2016	2.494	01.09.2017 - 01.09.2019	-	1,166,320	-	-	1,166,320	-	1,166,320
	14.11.2016	2.494	01.09.2018 - 01.09.2020	-	1,166,320	-	-	1,166,320	-	1,166,320
	14.11.2016	2.494	01.09.2019 - 01.09.2021	-	1,166,320	-	-	1,166,320	-	1,166,320
	14.11.2016	2.494	01.09.2020 - 01.09.2022	-	2,332,640	-	-	2,332,640	-	2,332,640
	14.11.2016	2.494	01.09.2021 - 01.09.2023	-	5,831,590	-	-	5,831,590	-	5,831,590
Total				54,612,000	11,663,190	(11,626,000)	(100,000)	54,549,190	(800,000)	53,749,190
Exercisable as at January 1, 2016, December 31, 2016 and December 31, 2017				54,237,000				42,886,000		43,252,320

note: Included the reverse of a total of 1,180,000 underlying shares comprised in the share options (which were previously mistakenly treated as lapsed) during the year ended December 31, 2016.

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(a) Share Option Scheme (Continued)

The fair value of the share options granted on November 14, 2016 (the measurement date), as at the date of grant, determined by APAC Asset Valuation using the Binomial Option Pricing Model, was HK$11,138,000 (equivalent to approximately RMB9,991,000). The key inputs into the Binomial Option Pricing Model were as follows:

Exercise price	HK$2.494
Closing share price at the date of grant	HK$2.41
Annual risk free rate	0.99 – 1.18%
Expected volatility	50 – 55%
Expected life of share options	2.8 – 6.8 years
Expected dividend yield	2.00%

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The closing price of the Company's shares immediately before the grant of the share options on November 14, 2016 was HK$2.55 per share.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.77 (2016: HK$2.31).

During the year ended December 31, 2017, the Group recognised a net expense of RMB3,017,000 (2016: RMB486,000) as equity-settled share-based payments in the consolidated income statement under the Share Option Scheme with reference to the share options' respective vesting periods and the share options lapsed prior to their vesting dates after recognising share option expenses.

(b) Share Award Scheme

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a board resolution passed on May 9, 2014 and amended on November 11, 2016. The objective of the Share Award Scheme is to recognise the contributions by certain persons, including directors of the Company and employees of the Group (the "Selected Participants") and to provide incentives to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on May 9, 2014 and, unless otherwise terminated or amended, will remain in force for 10 years.

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(b) Share Award Scheme (Continued)

The Share Award Scheme is operated through a trustee which is independent of the Group. After the notification and instruction by the Company, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year at which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company.

The directors of the Company would notify the trustee of the Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the Selected Participant. Vesting of the award shares will be conditional on the Selected Participants remaining an employee of the Group on a vesting date and the Board of Directors has not determined to vary or cancel such an award for any reason (including but not limited to exceptionally poor performance, misconduct or material breach of the terms of employment or rules or policies of the Company). An award shall automatically lapse forthwith when a Selected Participant has taken unpaid leave of absence and does not return to work before the expiry of 24 months from the original vesting date, or ceases to be an employee of the Group, or the subsidiary employing the Selected Participant ceases to be a subsidiary of the Company, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, or Selected Participant's employment is terminated for cause if the award has not been vested.

In 2016, 30,000,000 ordinary shares of the Company have been acquired at an aggregate cost of approximately HK$70,000,000 (equivalent to approximately RMB62,000,000). No ordinary shares was acquired by the Company during the year ended December 31, 2017. A total of 125,066,320 ordinary shares (2016: 130,000,000 ordinary shares) of the Company were held by the trustee of the Share Award Scheme as at December 31, 2017.

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(b) Share Award Scheme (Continued)

The following table discloses movements in the Company's share awards under the Share Award Scheme during the two years ended December 31, 2017:

	Date of grant	Vesting date	Number of share awards outstanding at January 1, 2016	Granted during the year	Lapsed/ cancelled during the year	Number of share awards outstanding at December 31, 2016	Granted during the year	Lapsed/ cancelled during the year	Vested during the year	Number of share awards outstanding at December 31, 2017
Director										
Kwan, Heh-Der (resigned on January 6, 2017)	01.09.2014	01.09.2017	1,200,000	-	-	1,200,000	-	(1,200,000)	-	-
	13.05.2016	31.08.2018	-	1,400,000	-	1,400,000	-	(1,400,000)	-	-
Lee Shao Wu	25.03.2017	25.03.2018	-	-	-	-	300,000	-	-	300,000
	25.03.2017	25.03.2019	-	-	-	-	300,000	-	-	300,000
	25.03.2017	25.03.2020	-	-	-	-	400,000	-	-	400,000
Employees	01.09.2014	01.09.2017	8,300,000	-	(1,200,000)	7,100,000	-	(3,000,000)	(4,100,000)	-
	21.03.2015	21.03.2018	8,548,000	-	(765,000)	7,783,000	-	(2,425,000)	-	5,358,000
	14.08.2015	14.08.2018	9,690,000	-	(1,360,000)	8,330,000	-	(220,000)	-	8,110,000
	24.03.2016	24.03.2019	-	5,130,000	(210,000)	4,920,000	-	(1,700,000)	-	3,220,000
	13.08.2016	13.08.2019	-	5,460,000	-	5,460,000	-	-	-	5,460,000
	12.11.2016	31.08.2019	-	600,000	-	600,000	-	-	-	600,000
	14.11.2016	01.09.2017	-	833,680	-	833,680	-	-	(833,680)	-
	14.11.2016	01.09.2018	-	833,680	-	833,680	-	-	-	833,680
	14.11.2016	01.09.2019	-	833,680	-	833,680	-	-	-	833,680
	14.11.2016	01.09.2020	-	1,667,360	-	1,667,360	-	-	-	1,667,360
	14.11.2016	01.09.2021	-	4,168,410	-	4,168,410	-	-	-	4,168,410
	25.03.2017	25.03.2020	-	-	-	-	5,026,000	(498,000)	-	4,528,000
	03.07.2017	03.07.2020	-	-	-	-	300,000	-	-	300,000
	14.11.2017	01.03.2018	-	-	-	-	270,000	-	-	270,000
	14.11.2017	01.03.2019	-	-	-	-	315,000	-	-	315,000
	14.11.2017	01.03.2020	-	-	-	-	315,000	-	-	315,000
	14.11.2017	12.12.2019	-	-	-	-	300,000	-	-	300,000
	14.11.2017	14.11.2020	-	-	-	-	3,800,000	-	-	3,800,000
Total			27,738,000	20,926,810	(3,535,000)	45,129,810	11,326,000	(10,443,000)	(4,933,680)	41,079,130

30. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(b) Share Award Scheme (Continued)

The fair values of the share awards as at the date of grant, determined by APAC Asset Valuation using the Black-Scholes Option Pricing Model, amounted to HK$11,357,000 (equivalent to approximately RMB9,897,000) (2016: HK$29,269,000 (equivalent to approximately RMB25,000,000)). The key inputs into the Black-Scholes Option Pricing Model are as follows:

Date of grant	November 14, 2017	July 3, 2017	March 25, 2017
Closing share price at the date of grant	HK$1.17	HK$1.48	HK$1.87
Annual risk free rate	0.83 – 1.26%	0.85%	0.62 – 1.14%
Expected volatility	54 – 57%	58%	48 – 59%
Expected life of share awards	0.3 – 3 years	3 years	1 – 3 years
Expected dividend yield	2.0%	3.0%	2.0%

Date of grant	November 14, 2016	November 12, 2016	August 13, 2016	May 13, 2016	March 24, 2016
Closing share price at the date of grant	HK$2.41	HK$2.55	HK$2.40	HK$2.07	HK$1.61
Annual risk free rate	0.50 - 1.07%	0.84%	0.48%	0.600%	0.845%
Expected volatility	51 - 57%	55%	55%	57%	54%
Vesting period	0.8 - 4.8 years	2.8 years	3 years	2.3 years	3 years
Expected dividend yield	2.0%	2.0%	2.0%	Nil	Nil

The Black-Scholes Option Pricing Model has been used to estimate the fair value of the share awards. The variables and assumptions used in computing the fair value of the share awards are based on the directors' best estimate. The value of a share award varies with different variables of certain subjective assumptions.

The closing prices of the Company's shares immediately before the grant of the share awards on March 25, 2017, July 3, 2017 and November 14, 2017 were HK$1.87, HK$1.40 and HK$1.47 (March 24, 2016: HK$1.67, May 13, 2016: HK$2.00, August 13, 2016: HK$2.40, November 12, 2016: HK$2.55 and November 14, 2016: HK$2.55) per share respectively.

During the year ended December 31, 2017, the Group recognised a net expense of RMB9,617,000 (2016: RMB6,846,000) as equity-settled share-based payments in the consolidated income statement under the Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed prior to their vesting dates after recognising share award expenses.

31. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a MPF Scheme for all its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

During the years ended December 31, 2016 and 2017, the Group did not forfeit any contributions for employees who left the plans prior to vesting fully in such contributions.

The total cost of RMB260,445,000 (2016: RMB197,108,000) charged to profit or loss represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

At the end of the reporting period, the Group had no significant obligation apart from the contribution as stated above.

32. RELATED AND CONNECTED PARTY DISCLOSURES

(a) Transactions and trade balances

The Group had the following related and connected party transactions and trade balances:

Relationship	Nature of transactions/balances	2017 RMB'000	2016 RMB'000
Yue Yuen and its affiliates	Purchase of footwear products by the Group (note)	23,133	43,302
	Interest expense paid by the Group (note)	821	1,275
	Rental expenses for offices paid by the Group (note)	3,815	1,565
	Trade payables of the Group at the end of the reporting period	–	10,702
Substantial shareholders of Yue Yuen and their affiliates	Interest expenses paid by the Group (note)	4,633	10,321
Joint ventures of the Group	Sales of sportswear products by the Group	8,081	11,777
	Interest income received by the Group	1,541	3,698
	Trade receivables of the Group at the end of the reporting period	864	3,135
	Trade payables of the Group at the end of the reporting period	363	204

note: Other than these transactions, none of the other transactions in the table above falls under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) under the Listing Rules.

(b) Non-trade balances

Details of the Group's non-trade balances with related and connected parties are set out in the consolidated statement of financial position and in Notes 17, 22 and 25.

32. RELATED AND CONNECTED PARTY DISCLOSURES (Continued)

(c) Compensation of key management personnel

	2017 RMB'000	2016 RMB'000
Short term benefits	17,945	18,625
Post employment benefits	15	15
Equity-settled share-based payments	1,814	1,814
	19,774	20,454

The remuneration of directors and key executives is determined having regard to the performance of the individuals.

(d) On November 14, 2016, the Group acquired from Yue Yuen, the entire equity interests in PCG Bros (Holdings) Co., Limited for a cash consideration of US$9,226,008.82 (equivalent to approximately RMB62,634,000).

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include the borrowings disclosed in Note 26, and equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, directors of the Company assess the annual budget prepared by the accounting and treasury department and consider and evaluate the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares as well as the issue of new debt or the redemption of the existing debt.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	2,231,567	1,939,766
Available-for-sale investment measured at cost less impairment	2,190	2,156
Financial liabilities		
Amortised cost	3,407,178	2,485,125

(b) Financial risk management objectives

The Group's major financial instruments include loans to joint ventures, an available-for-sale investment, trade and other receivables, bank balances and cash, trade and other payables, consideration payable for acquisition of a business, bank overdrafts and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 23), loans to joint ventures (Note 17), amount due from a joint venture (Note 22), bank overdrafts (Note 23) and bank borrowings (Note 26). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate amount due from a non-controlling interest of a subsidiary (Note 22) and amount due to an entity controlled by Yue Yuen's substantial shareholders (Note 25).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Fluctuations of HIBOR, LIBOR and prevailing rate quoted by the PBOC are the major sources of the Group's cash flow interest rate risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of the financial instruments set out above. The analysis is prepared assuming all of the above amounts outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points increase or decrease for bank balances in the PRC and 50 basis points for other financial assets and financial liabilities set out above are used and represent management's assessment of the reasonably possible change in interest rates for each of the two years ended December 31, 2017.

If interest rates on the above interest-bearing financial assets had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's profit for the year would increase/decrease by RMB423,000 (2016: increase/decrease by RMB439,000).

If interest rates on the above interest-bearing financial liabilities had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by RMB9,907,000 (2016: decrease/increase by RMB5,159,000).

In management's opinion, the sensitivity analysis does not necessarily represent the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk (Continued)

(ii) Foreign exchange risk

Certain subsidiaries of the Company have foreign currency bank balances and bank borrowings as detailed in Notes 23 and 26, respectively, which expose the Group to foreign exchange risk, whilst over 99% (2016: over 99%) of the Group's sales and purchases are denominated in the respective group entities' functional currency.

Sensitivity analysis

The following is the Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes the Group's USD bank balances and bank borrowings. Where RMB strengthens against USD by 5%, the Group's profit for the year would increase by RMB7,926,000 (2016: increase by RMB2,268,000), while a 5% weakening of RMB against USD, there would be an equal and opposite impact on the profit.

In management's opinion, the sensitivity analysis is not necessarily of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk

As at December 31, 2016 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's customer base is diverse and the trade receivables consist of a large number of customers. In order to minimise the credit risk arising from its open account sales, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are provided for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Credit risk (Continued)

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which covered over 99% (2016: over 98%) of its total receivables as at December 31, 2017.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

The Group relies on bank borrowings as a significant source of liquidity. Details of which are set out in Note 26.

With regard to the Group's liquidity risk, the management monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the contractual maturity of the Group's financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is based on the interest rate at the end of the reporting periods.

	Weighted average interest rate %	0 to 30 days RMB'000	31 to 90 days RMB'000	91 to 365 days RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at December 31, 2017						
Amortised cost						
Non-interest bearing	-	761,081	976	3,335	765,392	765,392
Variable interest rate instruments	4.47	1,646,672	825,574	181,803	2,654,049	2,641,786
		2,407,753	826,550	185,138	3,419,441	3,407,178

34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	0 to 30 days RMB'000	31 to 90 days RMB'000	91 to 365 days RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at December 31, 2016						
Amortised cost						
Non-interest bearing	-	774,641	6,148	38,510	819,299	819,299
Fixed interest rate instrument	3.40	-	-	299,860	299,860	290,000
Variable interest rate instruments	5.40	1,335,754	29,577	13,459	1,378,790	1,375,826
		2,110,395	35,725	351,829	2,497,949	2,485,125

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to changes if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

(i) Reconciliation of Level 3 Measurements

The following table presents the reconciliation of Level 3 Measurements of the consideration payable for acquisition of a business for the year:

	RMB'000
At January 1, 2016	74,301
Fair value gain, recognised in profit or loss (Note 6(c))	(17,215)
Transfer out of Level 3 (note)	(60,439)
Exchange realignment	3,353
At December 31, 2016 and 2017	–

note: During the year ended December 31, 2016, the consideration payable for acquisition of a business measured at fair value was derecognised on maturity date of December 19, 2016.

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(ii) There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments or any reclassification of financial instruments in the year.

(iii) Fair value of financial instruments that are recorded at amortised cost

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at December 31, 2016 and 2017:

Name of subsidiary	Country/ place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2017	2016	Principal activities
YY Sports Holdings Limited ("YY Sports") (note i)	BVI	US$1	100%	100%	Investment holding
A-Grade Holdings Limited	BVI	US$9,000	100%	100%	Investment holding
Baosheng Daoji (Beijing) Trading Company Limited# 寶盛道吉（北京）貿易有限公司 (note ii)	PRC	US$65,000,000	100%	100%	Retailing of sportswear
Brightup Group Limited	HK	HK$1	100%	100%	Investment holding
Charming Technology Limited	BVI	US$200	100%	100%	Investment holding
Dalian Shengdao Sports Production Development Company Limited# 大連勝道運動產業發展有限公司 (note ii)	PRC	RMB200,000,000	100%	100%	Retailing of sportswear
Dragonlight Group Limited	BVI	US$1	100%	100%	Investment holding
Dragonlight (China) Sporting Goods Co., Ltd.# 龍光（中國）體育用品有限公司 (note ii)	PRC	US$66,000,000	100%	100%	Investment holding

35. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2017	2016	Principal activities
Farsighted International Limited	BVI	US$100	100%	100%	Investment holding
Favour Mark Holdings Limited	HK	HK$19,152,135	100%	100%	Investment holding
Fujian Baomin Sporting Goods Co., Ltd. 福建寶閩體育用品有限公司 (note ii)	PRC	US$4,500,000	90%	90%	Retailing of sportswear
Guangzhou Baoyuen Trading Company Limited# 廣州寶元貿易有限公司 (note iii)	PRC	US$23,310,000	100%	100%	Retailing of sportswear
Guizhou Baosheng Sports Goods Company Limited# 貴州寶勝體育用品有限公司 (formerly known as Guiyang Baoxin Sports Goods Company Limited# 貴陽寶新體育用品有限公司) (note ii)	PRC	US$10,000,000	100%	100%	Retailing of sportswear
Guizhou Shengdao Sports Goods Development Company Limited# 貴州勝道體育用品開發有限公司 (note ii)	PRC	RMB70,000,000	100%	100%	Property leasing and management
Harbin Baosheng Sports Goods Company Limited# 哈爾濱寶勝體育用品有限公司 (note ii)	PRC	RMB22,000,000	100%	100%	Retailing of sportswear
Hebei Zhanxin Sports Development Company Limited# 河北展新體育發展有限公司 (note iv)	PRC	RMB18,180,000	100%	100%	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited# 合肥寶勛體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Hillside Investments Limited	HK	HK$200	100%	100%	Investment holding

35. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2017	2016	
Kunshan YYsports E-Commerce Co., Ltd 昆山勝道信息技術有限公司 (note ii)	PRC	US$3,000,000	100%	100%	Retailing of sportswear
Kun Shan Xin Dong Sports Co., Ltd 昆山信動體育用品有限公司 (note ii)	PRC	US$999,000	100%	100%	Retailing of sportswear
Kunshan Pouchi Sports Co., Ltd 昆山寶慈體育用品有限公司 (note ii)	PRC	US$13,500,000	100%	100%	Retailing of sportswear
Kunshan Taisong Trading Co., Ltd 昆山泰崧精品貿易有限公司 (note iii)	PRC	US$26,500,000	100%	100%	Distribution of licensed products
Nanning Pou Guan Sporting Goods Company Limited# 南寧寶冠體育用品有限公司 (note ii)	PRC	US$1,300,000	100%	100%	Retailing of sportswear
Nice Palace Investments Limited	HK	HK$200	100%	100%	Investment holding
Pau Yuen Trading Corporation# 寶原興業股份有限公司	Taiwan	NTD50,000,000	90%	90%	Distribution of licenced products
Pau Zhi Trading Corporation# 寶智企業股份有限公司	Taiwan	NTD5,000,000	90%	90%	Retailing of sportswear
PCG Bros (Holdings) Co. Limited	BVI	US$40,000	100%	100%	Investment holding
PCG BROS Sports Management Co. Ltd.# 寶悍運動平台股份有限公司	Taiwan	NTD180,000,000	100%	100%	Sports marketing and organisation of sports events
Pou Sheng (China) Investment Co., Ltd. 常勝投資有限公司 (note ii)	PRC	US$152,922,400	100%	100%	Investment holding
Pou Sheng International Sports Development Company Limited	HK	HK$100	100%	100%	Investment holding
Qingdao Pou Sheng International Sporting Goods Company Limited# ("Qingdao Pou Sheng") 青島寶勝國際體育用品有限公司 (note iii)	PRC	RMB20,000,000	72%	72%	Retailing of sportswear

35. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2017	2016	Principal activities
Qujing Shengdao Sports Goods Co., Ltd.# 曲靖勝道體育用品有限公司 (note iv)	PRC	RMB35,000,000	100%	60%	Property leasing and management
Rainbow Faith Investments Limited	HK	HK$200	100%	100%	Investment holding
Richwin Management Limited	BVI	US$1	100%	100%	Investment holding
Selangor Gold Limited	BVI	US$1,000	100%	100%	Investment holding
Shanghai Baoyuen Sports Goods Company Limited# 上海寶原體育用品商貿有限公司 (note ii)	PRC	US$30,000,000	100%	100%	Retailing of sportswear
Shanghai Shengdao Sports Goods Company Limited# 上海勝道體育用品有限公司 (note ii)	PRC	RMB5,100,000	100%	100%	Property leasing and management
Shengdao (Yangzhou) Sporting Goods Dev. Co., Ltd.# 勝道（揚州）體育用品開發有限公司 (note ii)	PRC	US$66,000,000	100%	100%	Investment holding
Shengdao (Chengdu) Trading Co. Ltd.# 勝道（成都）商貿有限公司 (note ii)	PRC	US$22,400,000	100%	100%	Retailing of sportswear
Shengyang Baoyi Trading Company Limited# 瀋陽寶益貿易有限公司 (note ii)	PRC	RMB40,000,000	100%	100%	Retailing of sportswear
Shanxi Baosheng Trading Company Ltd.# 陝西寶勝貿易有限公司 (note ii)	PRC	US$66,000,000	100%	100%	Retailing of sportswear
Taicang Shengdao Trading Company Limited# 太倉勝道商貿有限公司 (note ii)	PRC	US$5,000,000	100%	100%	Retailing of sportswear
Taiwan Taisong Trading Co. Ltd.# 台灣泰崧精品企業股份有限公司	Taiwan	NTD30,000,000	100%	100%	Distribution of licensed product

35. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/ place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2017	2016	Principal activities
Tianjin Baosheng Sports Goods Company Limited# 天津寶勝體育用品銷售有限公司 (formerly known as Tianjin Baoxin Sports Goods Company Limited 天津寶信體育用品有限公司) (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Treasure Chain International Limited	BVI	US$1	100%	100%	Investment holding
Wellmax Business Group Limited	BVI	US$9,000	100%	100%	Investment holding
Winning Team Holdings Limited	BVI	US$1	100%	100%	Investment holding
Wuxi Baoyuen Sports Goods Trading Company Limited# 無錫寶原體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Yue-Shen (Taicang) Footwear Co., Ltd. 裕盛（太倉）鞋業有限公司 (note ii)	PRC	US$17,100,000	100%	100%	Retailing of sportswear
Yue Ming International Limited	HK	HK$1	100%	100%	Retailing of sportswear
Yue Cheng (Kunshan) Sports Co., Ltd. 裕晟（昆山）體育用品有限公司 (note ii)	PRC	US$14,200,000	100%	100%	Manufacturing of sportswear
Yunnan Shengdao Sports Goods Company Limited# 雲南勝道體育用品有限公司 (note iv)	PRC	RMB87,500,000	100%	60%	Property leasing and management
Zhejiang Yichuan Sports Goods Chain Company Limited# 浙江易川體育用品連鎖有限公司 (note iv)	PRC	RMB164,000,000	100%	100%	Retailing of sportswear

The English names are for information purpose only.

35. PRINCIPAL SUBSIDIARIES (Continued)

notes:

(i) The Company directly holds the interest in YY Sports. All other interests shown are indirectly held by the Company.

(ii) These entities are wholly-foreign owned enterprises established/operated in the PRC.

(iii) These entities are sino-foreign owned enterprises established/operated in the PRC.

(iv) These entities are wholly-domestic owned enterprises established/operated in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividends payable RMB'000	Bank borrowings RMB'000	Amounts due to related and connected parties RMB'000 (Note 25)	Total RMB'000
At January 1, 2017	–	1,375,826	295,900	1,671,726
Financing cash flows	(91,524)	1,054,791	(294,743)	668,524
Foreign exchange translation	(1,143)	98	–	(1,045)
Interest expenses	–	101,454	5,454	106,908
Dividend declared	92,667	–	–	92,667
At December 31, 2017	–	2,532,169	6,611	2,538,780

37. EVENT AFTER THE END OF REPORTING PERIOD

As disclosed in the scheme document of Pou Chen Corporation ("Pou Chen") and the Company dated March 12, 2018 (the "Scheme Document"), on January 21, 2018, Pou Chen requested the board of directors of the Company to put forward the proposal (the "Proposal") to the scheme shareholders of the Company for the privatisation of the Company by way of a scheme of arrangement under Section 99 of the Bermuda Companies Act 1981 (the "Scheme"), subject to the fulfilment or waiver (as applicable) of certain conditions. If the Proposal is approved and implemented, (i) the Company will become a direct or indirect wholly-owned subsidiary of Pou Chen; and (ii) the listing of the shares of the Company on the Stock Exchange will be withdrawn.

For further details of the Proposal and the Scheme, please refer to the announcement dated January 21, 2018, jointly issued by the Company, Pou Chen and Yue Yuen, the subsequent announcements issued by the Company and/or Pou Chen, and the Scheme Document of Pou Chen and the Company dated March 12, 2018.

RESULTS

	For the year ended December 31,				
	2013 RMB'000	2014 RMB'000	2015 RMB'000 (restated)	2016 RMB'000	2017 RMB'000
Revenue	10,941,252	12,209,056	14,465,564	16,236,384	18,833,313
(Loss) profit for the year	(237,007)	39,997	383,135	569,611	415,032
Attributable to:					
Owners of the Company	(238,072)	28,656	396,592	560,579	394,322
Non-controlling interests	1,065	11,341	(13,457)	9,032	20,710
	(237,007)	39,997	383,135	569,611	415,032

ASSETS AND LIABILITIES

	As at December 31,				
	2013 RMB'000	2014 RMB'000	2015 RMB'000 (restated)	2016 RMB'000	2017 RMB'000
Total assets	8,851,832	8,277,550	8,626,667	10,043,776	11,470,110
Total liabilities	(3,413,105)	(2,814,557)	(2,838,937)	(3,910,265)	(5,028,581)
	5,438,727	5,462,993	5,787,730	6,133,511	6,441,529
Equity attributable to:					
Owners of the Company	5,341,599	5,372,484	5,742,374	6,103,531	6,390,692
Non-controlling interests	97,128	90,509	45,356	29,980	50,837
	5,438,727	5,462,993	5,787,730	6,133,511	6,441,529