



MAKE SPORTS YOUR LIFE



YYSPORTS
INTERACTIVE EXPERIENCE

SPORTS



2019 ANNUAL REPORT
二零一九年年報



POU SHENG INTERNATIONAL (HOLDINGS) LIMITED
實勝國際(控股)有限公司
(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)
(Stock Code 股份代號: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

- 2** Corporate Overview
- 5** Corporate Information
- 6** Chairman's Statement
- 12** Management Discussion and Analysis
- 21** Biographical Data of Directors and Senior Management
- 25** Directors' Report
- 51** Corporate Governance Report
- 70** Environmental, Social and Governance Report
- 89** Independent Auditor's Report
- 95** Consolidated Income Statement
- 96** Consolidated Statement of Comprehensive Income
- 97** Consolidated Statement of Financial Position
- 99** Consolidated Statement of Changes in Equity
- 101** Consolidated Statement of Cash Flows
- 104** Notes to the Consolidated Financial Statements
- 196** Financial Summary



CORPORATE OVERVIEW





胜道体育
SPORTS

YOUR LIFE



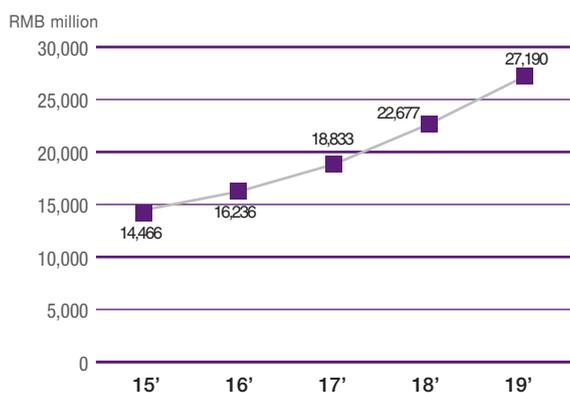
CORPORATE OVERVIEW

THE GROUP'S FINANCIAL HIGHLIGHTS

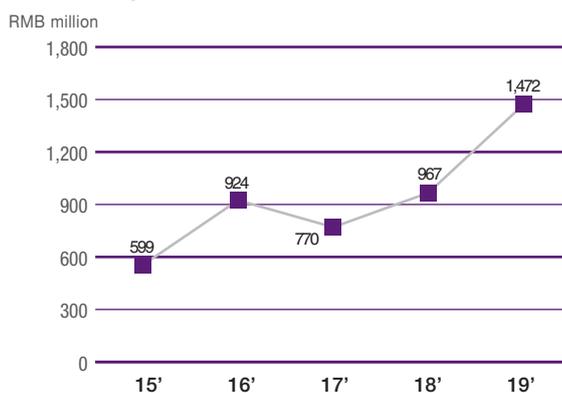
	For the year ended December 31,		Percentage Increase (Decrease)
	2019	2018	
Revenue (RMB'000)	27,189,765	22,677,375	19.9%
Operating profit (RMB'000)	1,471,932	966,881	52.2%
Profit attributable to owners of the Company (RMB'000)	833,275	542,888	53.5%
Basic earnings per share (RMB cents)	15.87	10.39	52.7%
Dividend per share			
Final dividend (proposed) (HK\$)	–	0.025	(100.0)%

KEY SHAREHOLDER VALUE INDICES

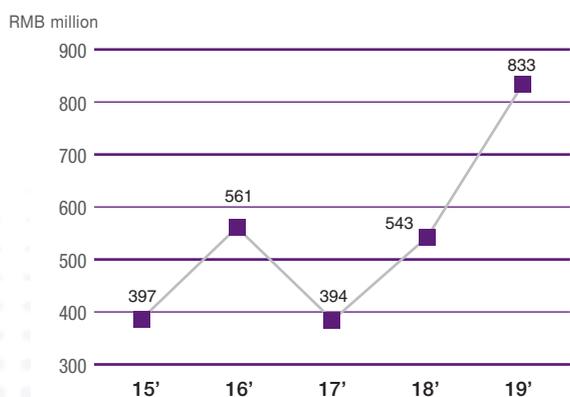
Revenue



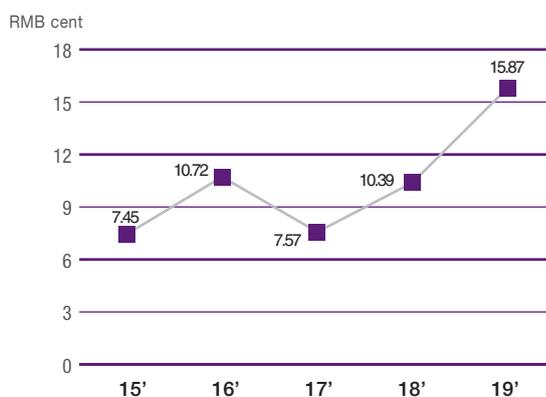
Operating Profit



Profit Attributable to Owners of the Company



Basic Earnings Per Share



The header image features a purple background with a white silhouette of a runner on the right. On the left, there are shelves filled with various styles of sneakers. On the right side, there are several circular data visualization elements, including a large one with 'ENERGY 76%' and a smaller one with '100%'.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Wu, Pan-Tsu (Chairman)
Lee, Shao-Wu (Chief Executive Officer)

Non-executive Directors

Tsai Patty, Pei Chun
Li I-nan

Independent Non-executive Directors

Chen, Huan-Chung
Hsieh, Wuei-Jung
Feng Lei Ming

AUDIT COMMITTEE

Chen, Huan-Chung (Chairman)
Tsai Patty, Pei Chun
Feng Lei Ming

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Wu, Pan-Tsu (Chairman)
Chen, Huan-Chung
Feng Lei Ming

DISCLOSURE COMMITTEE

Wu, Pan-Tsu (Chairman)
(appointed on March 22, 2019)
Lee, Shao-Wu
(appointed on March 22, 2019)

AUTHORISED REPRESENTATIVES

Wu, Pan-Tsu
Fan Kam Wing

COMPANY SECRETARY

Fan Kam Wing

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
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
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

Australia and New Zealand Bank (China)
Company Limited
Bank of America, N.A. Shanghai Branch
BNP Paribas (China) Limited
Citibank (China) Co., 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
Taishin International Bank Company Limited
United Overseas Bank Limited

WEBSITE

www.pousheng.com

STOCK CODE

3813





CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the annual results of Pou Sheng International (Holdings) Limited (the “Company” and together with its subsidiaries, the “Group”) for the financial year ended December 31, 2019, to the shareholders of the Company (the “Shareholders”).

2019 was a year of strong growth, supported by the improvements we have made both in terms of increasing efficiency and in offering more attractive and better-quality experiences and services to our customers. We also continued to make several impactful changes at the operational end of our business, elevating the efficiency of our operations.

The changes we are making are important as we discover that price competition is not a sustainable strategy for the business and is not the way for the Group to safeguard its leading position in the market. “Quality services offline, convenient socialising and communications online, and transactions via integrated omni-channel platforms” direct our planning and executions while we are achieving long-term quality growth by taking full advantage of rising demand for sports products and services among Chinese consumers.

Our ultimate aim is to serve customers better and offer not just excellent products but also memorable experiences and sports-related services. We are taking a two-pronged approach to this, directed at both our brick and mortar stores and our omni-channels. In terms of the former, we are introducing new store formats, the most exciting of which is the “Next Store”, the first of which will be launched in the first half of 2020. The new format store will sell sportswear and retail products via omni-channel approach, while dual-purpose as a service hub, offering sports related services such as training sessions and workshops prior to a fun sports event, healthy meal supplies before or during a sports event, and outfitting consultations and workshops before and after a sports event. All services are designed to serve a growing number of sports enthusiasts by turning sports fun and convenient.



CHAIRMAN'S STATEMENT



The “Next Store” will also support our omni-channel capabilities, an area in which we are making even more impressive progress. In 2016, omni-channel B2C sales made up just less than 1% of total sales. By the end of 2019, the share of total B2C sales attributed to omni-channel had risen to around 50%. We are aiming for omni-channel to attribute for 20% of total sales in the near future.

We also adopted the following initiatives throughout the year under review:

1. installing dashboard and other devices across key brick and mortar stores, which have proven to be effective for the efficient daily operation of our offline stores, by generating timely operation indicators that facilitate quick decision making;
2. more strongly connected inventory and product sharing networks, covering our offline stores and online platforms;
3. operating exclusive brand-authorized online stores on third party's online platforms;
4. organising full-year grassroots sports events and related services by our nationwide regional offices. These events are linked to the elite intellectual property sports events owned by the Company or licensed by well-known sports event companies, as well as owned and supported by local government;
5. launching pilot sports services stores with a fusion design concept - mixing the offline sports events related services with brands' products as a comprehensive solution to consumer's daily sport life; and
6. launching YYsports app and reformatting YYsports mini program for introducing ExP membership programmes with quality products and sports events-related services embedded in a bid to re-activate our existing members and attract consumers' interests through a high quality integrated omni-channel.

CHAIRMAN'S STATEMENT

Through these customer-facing initiatives, we aim to continue to transform our business from low conversion rate offline sales and overly discounted online sales, to a “normal price” model. Through the provision of more premium services and experiences, we also aim to achieve better customer loyalty and higher conversion rates.

We have also been making essential changes to the operational side of the business. One of the most important of these has been the expansion of our product-sharing platform, through which our directly operated brick and mortar stores and online platforms share sales information with our regional distribution centers and warehouses. The use of big data has enabled better offline-online integration, higher-margin sales and a more comprehensive full year sales pattern, making us less dependent on peak sales periods, such as the Double 11, Double 12 and 618 shopping holidays, as well as on promotions and discounting. Alongside the strategy, we are excited to launch a new dashboard system in key brick and mortar stores, generating real time in-store information and data that help establish an efficient and systematic operating system.

Each of these strategies will continue to progress as planned into 2020, which will make the Group's business more competitive, profitable and sustainable in the long-term.

In the short-term, however, we are encountering several challenges. The outbreak of the novel coronavirus (COVID-19) epidemic in China is having a pronounced impact on our brick and mortar business that will take some time to play out. It has caused the temporary closure of numerous retail stores and shopping malls and weak offline traffic, while impacting the demand for sports services and sports events. We are monitoring the situation closely.





CHAIRMAN'S STATEMENT

However, if we look at the bigger picture, the long-term prospects for the Group's business look robust. Demand for healthy and sports-related activities and lifestyles across the Greater China region is set to continue growing unabatedly. This trend will continue to be supported by the relevant Chinese government policies. In addition to the two-year action plan to increase national sports consumption earlier released by the General Administration of Sport of China (the nation's peak sports agency), the State Council of the People's Republic of China (the "State Council") recently released an "Outline for Building a Leading Sports Nation" aimed at developing the nation into a "modern sports power" by 2050. Parts of this plan involves providing greater accessibility to sports facilities while building a vibrant sports culture, all of which will support ongoing demand for sports and sports-related services. Relevant Chinese government authorities also forecast that the size of the sports industry is expected to increase to 4 percent of national gross domestic product by 2035 from the current 1 percent. At the same time, the State Council released a circular in September 2019 for stimulating sports consumption, which called for the extension of opening hours at public sports centres, the creation of pilot cities for sports consumption, and the promotion of a nationwide fitness program.

This means that there is an incredibly strong foundation for the continued growth in sports-related consumption in China, notwithstanding the temporary challenges the Group is facing in such external environment.

As we rise to face these challenges, I am extremely grateful for our dedicated staff and management, as well as the continued support from our business partners, financial institutions and Shareholders. On behalf of the board of directors of the Company, I would like to thank all our stakeholders for their invaluable support throughout the year.

Wu, Pan-Tsu
Chairman

Hong Kong
March 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS







MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business Model and Environment

In 2019, the Group continued to develop its leading position in the China sportswear market by providing quality products and sports services through its growing omni-channels, experience-rich brick and mortar (“B&M”) stores and leading sports services platform. It continued to improve the operational efficiency of its offline channels and enhance the functions and contents of its online channels. With this progress, the Group is continuing to improve its communication with customers, while getting closer to its vision and mission: “Make sports your life!” and “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.”.

Leveraging on its leading sports services platform and its unique sports events capabilities and related services in Greater China, the Group oversaw a full schedule of intellectual property (“IP”) sports events throughout 2019, which resulted in greater customer engagement and loyalty, while further enhancing the stories around brand owners’ products. These sports events ranged from marathons, trail runs, and qualification series, to warm up and training runs, and 3-on-3 basketball tournaments. These events were either organised solely by the Group, sponsored by sports brand owners, licensed by sports events companies, or organised in partnership with local governments across the Greater China region. This strategy also allows the Group to use the big data it generates to analyse each customer’s participation in sports events with their product purchase records, which further guided the changes being made on its business model, namely reducing B&M store density while still increasing sales with a higher sales conversion rate. In addition to these strategies, the Group also further enhanced its membership programme and re-launched its upgraded YYsports mobile application in Taiwan and Mainland China in 2019. The new app features diversified sports services content, interactive features, and other related services. It also supports in-depth customer relationship management (“CRM”) to further facilitate a seamless online and offline customer experience.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to manage its inventory at a healthy and relatively efficient level through the better planning of procurement practices, online and offline inventory-integrated sales, and making the best use of different online and offline sales channels to reinforce in-season sell-through and effective off-season clearance. The Group also sought to develop promotion plans with the support of its brand partners for better inventory control, while upgrading its B&M stores to offer a better shopping experience. The Group continued to make progress in digitising the business intelligence and performance index of its retail business through the implementation of a new dashboard system inside key B&M stores to establish a more efficient and systematic operations management system. The Group also improved sales efficiency by integrating and sharing the inventories of its regional stores and omni-channels. Moreover, through its strategic alliance with prominent online partners, the Group aims to sell products to consumers more efficiently by integrating the complementary resources among strategic partners and providing adequate product portfolios that are tailor-made for consumers at a reasonable price.

As of December 31, 2019, the Group's retail network consisted of 5,883 directly operated stores and 3,950 sub-distributor stores across the Greater China region.

Despite ongoing macroeconomic uncertainties, consumer spending in China remained robust in 2019. According to the statistics of the National Bureau of Statistics of China, consumer spending increased 8.0% year-on-year, reaching RMB41.16 trillion in 2019, while spending on sports and recreational products also increased by 8.0%. This increase in consumer spending, combined with rising disposable incomes and quickening athleisure trend such as growing fitness and health awareness in China, as well as higher sports participation rates, growing levels of sports service subscriptions, and supportive government policies, will continue to support growing demand for the Group's products and services well into the future. While this trend may be disrupted in the short-term by the outbreak of the Epidemic in China, which has heavily impacted consumer spending in first quarter of 2020 and it's expected the consumer spending momentum might need some time to recover and back on track. The Group will continue to execute scheduled business plans with extreme cautions and be agile to accommodate the uncertainties due to the impacts by the Epidemic. However, for the long-term, the Group remains optimistic that demand for sportswear and sports services in China will continue to grow in accelerated manner. The Group will continue to focus on opening and upgrading its experience-driven B&M stores, and enhancing its online B2C channels. It will soon also launch a new planned mega store concept that better integrates the Group's in-store sports services and networking elements with its online offerings and other sales channels, allowing it to fully capture the opportunities arising from athleisure trend.



MANAGEMENT DISCUSSION AND ANALYSIS

Nevertheless, the sports retailing environment in China remains highly competitive and fragmented. Although e-commerce will continue to enjoy strong growth momentum, offline retail channels will remain important and irreplaceable sales touchpoints, as consumers continue to seek a unique and personalised shopping experience for products and services. The Group will continue to invest heavily in upgrading its B&M stores while integrating offline stores with its digital channels to reinforce the consumer experience and stimulate higher-margin in-season sales. This will require more investment in hiring and retaining experienced frontline sales-staff, expanding larger-format stores with more experience-driven facilities and more well-rounded omni-channel platform. These investments remain essential for the Group to build its unique core competences, maintain its competitiveness and support its development. Through these aforementioned efforts, the Group is confident that it can overcome various challenges and manage rising costs, while capturing promising long-term opportunities.

Analysis of Performance

Financial Review

In 2019, the Group recorded revenue of RMB27,189.8 million, representing an increase of 19.9% compared with the 2018 financial year. Gross profit was RMB9,275.5 million, an increase of 22.1% when compared to the 2018 financial year. Profit attributable to owners of the Company in 2019 was RMB833.3 million, an increase of 53.5% compared to the 2018 financial year.

Revenue

The Group's total revenue in 2019 grew 19.9% to RMB27,189.8 million, as compared with the 2018 financial year. This growth was attributed to the growing athleisure trend and sports participation rate in China, the continuous development of the Group's retail business, as well as the rapid growth of its online business.

Gross Profit

The Group's gross profit in 2019 amounted to RMB9,275.5 million, with a gross profit margin of 34.1%. The gross profit margin improved by 0.6 percentage points compared to the 2018 financial year, which was attributed to enhanced sell-through and reduced discounts.

Selling & Distribution Expenses and Administrative Expenses

The Group's selling and distribution expenses and administrative expenses in 2019 were RMB8,180.8 million, an increase of 18.3% compared to the 2018 financial year. This was equivalent to 30.1% of total revenue, a decrease of 0.4 percentage points year-on-year. This improvement was due to heightened operating efficiency and better control of rental expenses, despite the Group's continued investments in new concept stores and stores upgrades, the optimisation of its distribution and digital channels, as well as in the motivation of its sales team.



MANAGEMENT DISCUSSION AND ANALYSIS

Operating Profit

The Group's operating profit in 2019 was RMB1,471.9 million, with an operating margin of 5.4%, compared to an operating profit of RMB966.9 million and operating margin of 4.3% in the 2018 financial year.

Profit for the Year

As a result of the aforementioned efforts, the Group recorded a net profit of RMB879.9 million in 2019, an increase of 56.9% compared to the net profit of RMB560.9 million in the 2018 financial year.

Working Capital Efficiency

The average inventory turnover period for 2019 was 150 days (2018: 149 days). The inventory turnover period remained stable, with the Group continuing to improve in-season sell-through, implement timely off-season promotions and further enhancing its procurement plans. The Group is continuing to diligently manage inventory levels to optimise working capital efficiency. The average trade receivables turnover period for 2019 was 21 days (2018: 27 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 for 2019 was 15 days (2018: 15 days).

Liquidity and Financial Resources

As at December 31, 2019, the Group had cash and cash equivalents of RMB613.6 million (December 31, 2018: RMB731.0 million) and working capital (current assets minus current liabilities) of RMB3,889.3 million (December 31, 2018: RMB4,628.0 million). Total bank and other borrowings were RMB3,546.0 million (December 31, 2018: RMB3,531.3 million) and are repayable within one year. Bank and other borrowings were mainly denominated in Renminbi and so were cash and cash equivalents.

The Group's gearing ratio as of December 31, 2019, represented by total interest-bearing borrowings (excluding lease liabilities) as a percentage of total equity, was 46.0% (December 31, 2018: 50.2%). The Group's net debt to equity ratio as of December 31, 2019, represented by total interest-bearing loans minus bank balances and cash as a percentage of total equity, was 38.1% (December 31, 2018: 39.8%).

In 2019, the net cash generated from operating activities was RMB1,827.5 million. The Group believes its liquidity requirements will be satisfied with a combination of capital generated from operating activities and future bank borrowings. The net cash used in investing activities in 2019 was RMB848.1 million, while the net cash used in financing activities was RMB1,098.0 million. In 2019, the Group raised and repaid bank borrowings of RMB5,079.6 million and RMB5,068.0 million respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

The Group's capital expenditure primarily comprised of payments for newly opened stores, upgrading existing store formats, expanding new concept and mega stores to provide better shopping experiences, as well as for new resources injected into its online and sports services platform. In 2019, the total capital expenditure was RMB807.1 million (2018: RMB531.7 million). As at December 31, 2019, 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, 2019, the Group had no significant hedging instruments for managing its foreign exchange exposure. 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.



PROSPECTS AND FUTURE DEVELOPMENTS

In the short-term, particularly in the first half of 2020, the Group's performance will be impacted by the outbreak of the Epidemic in China. This has resulted in the temporary closure of numerous stores and malls from Chinese New Year to first half of March 2020, resulting in lower offline traffic and weak consumption sentiment and negatively impacting overall retail sales across the nation. The Group's short-to-medium term performance may also be impacted by other global macroeconomic factors, including slowing global economic growth, as well as intense competition within its business environment. However, following the recent relief of the Epidemic in China, majority of our retail stores have gradually resumed operations from mid of March 2020.

However, the Group's management remains optimistic about the long-term growth opportunities in the China's sportswear and sports consumption markets, which are being supported by rising health awareness, growing sports participation rates, and the growth of the athleisure trend in the Greater China region. As consumption is likely to continue being the dominant driver of economic growth in China, sports consumption is expected to reach RMB1.5 trillion by 2020, according to a two-year national plan released by the General Administration of Sport of China and the National Development and Reform Commission in January 2019. These trends will continue to support the Group's omni-channel distribution strategy, as well as demand for sports training, sports events and other sports services, over the long-term.

Where possible, the Group will continue to organise and enhance its IP sports events across the Greater China region, as well as events licensed by sports event companies, organised in partnership with local governments, or in partnership with global brand partners. These include, but are not limited to, the following:

- "Go Wild" trail run tournament (IP event)
- "Dou Dao Di" 3 on 3 basketball league (IP event)
- HOOD to COAST marathon relay (licensed event)
- Kunshan Marathon, a cross Strait focused annual marathon event (lead organiser)
- The Beijing and Shanghai marathons and other regional marathons, in cooperation with brand partners
- YYsports online virtual running (strategic alliance with China's biggest running club company)
- Mini baseball training camp coached by Taiwan baseball superstar players (licensed event)
- Running, basketball, baseball, rock climbing, etc. training programs (local events, serving as series to top-level sports events)



MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2020, the Group will launch its first “Next Store” – service hub that incorporate a wide and diverse range of retail products, alongside training services, events, experiences, workshops and product and lifestyle consultations, which will greatly support its omni-channel capabilities. Each of these services will also be modularised, so that they can be easily entered into the Group’s other multi-brand and mono-brand stores as required. The Group will also continue to develop its digital platform and business intelligence system to better support its inventory management, optimise its resources and improve the efficiency of its working capital. In the future, the Group expects to integrate a significant percentage of its medium-large point of sales as mini-distribution centres to support its channels and logistics strategies. It will continue to integrate and upgrade its omni-channel sales and distribution network, CRM applications (such as loyalty programs and membership engagements) and operational systems, to support the execution of sports services and events across the Greater China region.

The Group will continue to expand the scale of its interaction with consumers to 365-day communications by cooperating with current and potential strategic partners and by connecting brands’ products to relevant sports events and services.

Despite the current challenges, leveraging the above strategies, the Group expects to further enhance its long-term performance and profitability, optimise its resources and maximise returns for its customers, partners, employees and shareholders.

HUMAN RESOURCES

As at December 31, 2019, the Group had approximately 36,100 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.



BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS

Mr. WU, Pan-Tsu

WU, Pan-Tsu, aged 67, has been an Executive Director of the Company since April 2012. He is also the Chairman of the Company, the chairman of the Nomination Committee and the Disclosure Committee of the Board. He once was the Acting Chief Executive Officer of the Company 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 specialising in corporate banking. After serving in the financial services industry for about 25 years, Mr. Wu joined Pou Chen Corporation ("PCC") in 2003 and currently serves as a president. PCC, a public company listed on the Taiwan Stock Exchange Corporation ("TSEC"), is a controlling shareholder of Yue Yuen Industrial (Holdings) Limited ("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 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 56, has been an Executive Director of the Company since February 2017. He is also the Chief Executive Officer of the Company (the "CEO") and a member of the Disclosure Committee of the Board. He once was the Acting CEO during the period from February to March 2017. Mr. Lee is also a director of certain 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 chief financial officer and vice president of administration center in 2004. Mr. Lee was an executive director of Yue Yuen and the head of strategic investment of PCC.



BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS (Continued)

Ms. TSAI Patty, Pei Chun

TSAI Patty, Pei Chun, aged 40, 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 PCC and Wealthplus Holdings Limited (“Wealthplus”). PCC, 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. 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.

Mr. LI I-nan

LI I-nan, aged 78, 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 Yue Yuen group. He was previously an executive director of Yue Yuen. He is currently the chairman of the board of directors 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 from National Chengchi University in Taiwan and a Master of Arts degree from the University of Southern California in the United States, respectively. Previously, Mr. Li was a non-executive director of Symphony Holdings Limited (“Symphony Holdings”), a publicly listed company in Hong Kong.

Mr. CHEN, Huan-Chung

CHEN, Huan-Chung, aged 64, 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. Mr. Chen has been an independent director and a member of the audit committee of PCC since June 2018 and once was a supervisor of PCC. PCC 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. 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 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 AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS (Continued)

Mr. HSIEH, Wuei-Jung

HSIEH, Wuei-Jung, aged 68, 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. FENG Lei Ming

FENG Lei Ming, aged 62, 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 September 2018. He holds a Master of Business Administration degree granted by the University of Memphis in Tennessee of the United States. Mr. Feng has extensive experience in the Hong Kong securities industry. He is currently the managing director of Pro-Health (China) Co., Ltd., a director and the legal representative of Pro-Health (Beijing) Biotech Co., Ltd. and a vice-president of Beijing Association of Taiwan Investment Enterprises. He was a responsible officer of Ablelink Capital Limited and an independent non-executive director of Symphony Holdings.



BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF SENIOR MANAGEMENT

Ms. CHANG, Su-Ching

CHANG, Su-Ching, aged 55, is currently in charge of Omni-channel Platform, Operation & Business Management Department and CEO Office of the Company, 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. LIAO, Yuang-Whang

LIAO, Yuang-Whang, also known as Daniel Liao, aged 50, was appointed as the Acting Chief Financial Officer of the Company in March 2020. He is also a director of certain subsidiaries and a joint venture of the Company. He obtained a Bachelor degree in Management Science from National Chiao Tung University in Taiwan in 1991 and a Master of Philosophy degree from University of Cambridge in the United Kingdom in 2000. Mr. Liao was the head of management accounting department of PCC. Before joining PCC, Mr. Liao held executive positions, including chief financial officer and chief executive officer, in several listed companies in Hong Kong. He also worked as investment director in private equity and vice president in corporate finance of Citibank Hong Kong and Taiwan. Mr. Liao has more than 20 years of experience in banking, finance and corporate governance.

Mr. WANG Jun

WANG Jun, aged 51, is the Executive Vice General Manager of Merchandise & Retail Business Unit of the Company and also a director of certain subsidiaries of the Company at the same time. He joined the Company as the Vice President of Brand and Merchandising 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, 2019.

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 footwear products, provision of sports services and provision of large scale commercial spaces to retailers and distributors for concessionarie sales.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2019 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 95 and 96.

The appropriations of profits of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 99 to 100.

DIVIDENDS

No dividend was paid, declared or proposed for the ordinary shares of the Company (the “Shares”) in respect of the year ended December 31, 2019 (2018: HK\$0.025 per Share), nor has any dividend been proposed since the end of the reporting period. The Directors do not recommend payment of any final dividend because they considered the recent economic and operational conditions may cause adverse impacts on the Group’s business operation, financial performance and position. The Directors believe that this measure is a prudent and responsible mean of preserving cash for long-term financial health of the Group.

The final dividend of HK\$0.025 per Share for the year ended December 31, 2018 was paid to the shareholders of the Company (the “Shareholders”) on June 24, 2019.

FIVE YEAR FINANCIAL SUMMARY

A financial summary of the Group for the past five financial years is set out on page 196.

DIRECTORS' REPORT

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 in 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 20.

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 minimisation. 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 its mitigating activities are discussed below. Details about the Group's financial risk management are set out in Note 33(b) to the consolidated financial statements.

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 system is regularly backed-up. Contingency and disaster recovery plans are in place to deal with any system failures.

The IT system might be subject to security breaches resulting in theft, leakage or corruption of key information, trade secrets and sensitive customer and personal data, which could have a severe impact on the Group's reputation.

An information security regime is established. Confidential files are encrypted and/or password protected. Under certain procedures, only relevant employees with authority are allowed to have access to the sensitive data, especially financial data. Extensive and resilient controls, and vulnerability assessments are undertaken before updates are released to reduce risk of security breaches.

Human Resources

Loss of key management personnel could cause disruption in delivery of the strategic objectives.

Effective retention system, succession plan, career development plan and systematic training are established to develop and train talents, and ensure effective continuation of leadership and expertise without any interruption respectively.

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 and maintain its high quality services.

The Group continues to seek to widen its talent pool. The performance management system is designed to provide fair reward, competitive remuneration structures and challenging development opportunities to attract talents and retain employees.

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
<p>Market The Group operates in a highly competitive market with a wide variety of retailers, which makes it difficult for the Group to stand out and build long-term relationships with customers.</p>	<p>The Group strives to improve the customer satisfaction continuously. Member exclusive and tailor-made offers are released to increase customers' loyalty. Innovative sports product-and-service experience-rich physical stores are launched to arouse consumer sentiments.</p>
<p>Location of physical stores plays a vital role in the Group's success as most of the Group's revenue is derived from sales of physical stores. Wrong store location could cause waste of upfront investments and disruption to the marketing strategies.</p>	<p>Objective scientific methods are employed in evaluation of store location selection. Close win-win relationships are built with nationwide landlords.</p>
<p>Strategy and Operation The Group's experience and determination for market development of emerging brands are limited. Wrong brand positioning could have a material adverse effect on the sales performance of those emerging brands.</p>	<p>Systematic and specialised talent nurturing programme is established. An integrated online-offline multi-brand hatching platform is built.</p>
<p>Majority of the revenue of the Group is derived from products of small number of top brands. Any strain in relationship with or failure of these top brands could have an adverse effect on the Group's business and financial condition.</p>	<p>The Group endeavors to strengthen its omni-sales channel capabilities and differentiate itself from other competitors by integrated sports product-and-service offerings and experience-rich physical stores in order to impress the top brands with its dedication and sincerity in being their most valuable partner.</p>
<p>Inventory management is very crucial to the success of the Group's business. Poor inventory management could affect the Group's ability to meet its customers' needs and jeopardise the profitability of the Group.</p>	<p>Rigor procurement policy and practices are established. Mutually compatible online-offline sales strategies are adopted to reinforce in-season sales-through and effective off-season clearance. In order to meet customers' needs timely and precisely, real-time data analysis system is employed.</p>
<p>Along with the expansion of the Group's online sales, logistics and courier supports have become important. Inefficient logistics and courier could cause a very high operation cost and loss of customers.</p>	<p>The Group makes significant investment in logistics and courier infrastructure. For effective cost control, warehouses and inventories are shared with other strategic partners and part of the logistics and courier supports are out-sourced.</p>

BUSINESS REVIEW (Continued) **Principal Risks and Uncertainties (Continued)**

Description and Impact of Risk and Uncertainty	Mitigation
<p>Legal 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.</p> <p>The Group makes a lot of agreements with various parties. Any breach of such agreements could cause the Group to incur significant monetary liabilities and loss of future business opportunities.</p>	<p>The Group actively seeks to identify and meet its regulatory obligations and to respond to new requirements. Corporate governance policy is established to ensure good governance and ethical practices and proper controls are in place.</p> <p>All the agreements are repeatedly scrutinised by different involving departments before signing and are well documented. Independent external advice is sought when required.</p>
<p>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.</p>	<p>The Group keeps monitoring the political and economic developments in the PRC on a proactive continuous basis to enable the Group to cope with the changes effectively. To arouse consumer sentiments, the Group keeps exploring and strengthening its brand and product portfolios, and sales strategies continuously.</p>

BUSINESS REVIEW (Continued)

Events after the Reporting Period

The information is provided in Note 36 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 20.

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 20.

Environmental Policies and Performance

The noticeable deterioration of the environment arising from climate change has prompted us to reduce our energy and resource consumption. The Group follows the local laws concerning environmental protection and, where there are no conflicts, the relevant environmental policies 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 70 to 88.

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.



DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

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 victimisation 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 be paragon and to make their best contribution towards the Company's success in every aspect 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, 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 forthcoming annual general meeting of the Company (the "2020 AGM") will be held on Friday, May 29, 2020 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

For the purpose of ascertaining entitlement to attend and vote at the 2020 AGM (the "Entitlement to 2020 AGM"), the register of members of the Company will be closed from Monday, May 25, 2020 to Friday, May 29, 2020, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the 2020 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 Friday, May 22, 2020. The record date for Entitlement to 2020 AGM will be Friday, May 29, 2020.

DONATIONS

During the year, the Group made donations totalling approximately RMB0.3 million (2018: RMB1.0 million).

SUBSIDIARIES AND JOINT VENTURES

Details of the principal subsidiaries and joint ventures of the Group as at December 31, 2019 are set out in Notes 35 and 17 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in 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, 11,166,000 Shares were issued upon the exercise of share 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\$13,734,180.

Details of the movement in share capital of the Company during the year are set out in Note 26 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, 2019, the Company’s reserves available for distribution consisted of contributed surplus of approximately RMB1,136.5 million (December 31, 2018: RMB1,136.5 million) plus accumulated profits of approximately RMB317.3 million (December 31, 2018: RMB476.4 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, 2019, 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 (2018: nil).

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 follows:

Executive Directors

Wu, Pan-Tsu (Chairman)
Lee, Shao-Wu (Chief Executive Officer)

Non-executive Directors

Tsai Patty, Pei Chun
Li I-nan

Independent Non-executive Directors (the “INEDs”)

Chen, Huan-Chung
Hsieh, Wuei-Jung
Feng Lei Ming

In accordance with the Bye-laws, Mr. Wu, Pan-Tsu, Ms. Tsai Patty, Pei Chun and Mr. Li I-nan will retire by rotation at the 2020 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 21 to 24.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange” and the “Listing Rules”, respectively) and the Bye-laws.

None of the Directors being proposed for re-election at the 2020 AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).



DIRECTORS' REPORT

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 duties 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, 2019. 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, 2019, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which (a) as 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 and underlying shares

(a) The Company

Ordinary shares of HK\$0.01 each of the Company

Name of Directors/ chief executive	Capacity	Number of Shares/underlying Shares held				Total	Percentage of the issued Shares ¹
		Personal interests	Family interests	Corporate interests	Other interests		
Tsai Patty, Pei Chun	Beneficial owner	19,523,000	-	-	-	19,523,000	0.36%
Lee, Shao-Wu	Beneficial owner	3,000,000 ²	-	-	-	3,000,000	0.06%

notes:

- The total number of issued Shares as at December 31, 2019 was 5,356,472,615.
- Included interests in 2,200,000 awarded Shares granted under the share award scheme of the Company (the "Share Award Scheme"), which are subject to certain vesting conditions and remain unvested as at December 31, 2019. 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 and underlying shares (Continued)

(b) *Associated Corporation – Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”)*

Ordinary shares of HK\$0.25 each of Yue Yuen

Name of Director/ chief executive	Capacity	Number of shares/underlying shares held				Total	Percentage of the issued shares of Yue Yuen ¹
		Personal interests	Family interests	Corporate interests	Other interests		
Wu, Pan-Tsu	Beneficial owner	40,000 ²	-	-	-	40,000	0.00%
Lee, Shao-Wu	Beneficial owner	78,000	-	-	-	78,000	0.00%

notes:

¹ The total number of issued shares of Yue Yuen as at December 31, 2019 was 1,612,183,986.

² 40,000 awarded shares granted by Yue Yuen under the share award scheme of Yue Yuen (the “YY Share Award Scheme”), which are subject to certain vesting conditions and remain unvested as at December 31, 2019. Details of the awarded shares are set out in the section “Arrangement to Acquire Shares or Debentures”.

Save as disclosed above, as at December 31, 2019, none of the Directors nor chief executives of the Company had or was deemed to have any interests or short positions 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) were 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) were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) were required to be 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 holding approximately 62% indirect equity interests in the Company. Yue Yuen's principal business is OEM/ODM footwear manufacturing. 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 held 40,000 unvested awarded shares of Yue Yuen, and Mr. Lee, Shao-Wu held 78,000 shares of Yue Yuen, they therefore were considered as having interests in Yue Yuen.

Notwithstanding the above, since the Company and Yue Yuen are separately listed entities and are mainly run by separate and independent management teams, 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 the field of footwear manufacturing business.

Save as disclosed above, as at December 31, 2019, 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 the Directors since the date of publication of the Company's 2019 interim report are set out below:

1. On December 4, 2019, Mr. Lee, Shao-Wu entered into a service agreement with the Company for renewal of his term of appointment as an executive Director and the chief executive officer of the Company for a further term of three years commencing from February 6, 2020 to February 5, 2023, subject to retirement by rotation and re-election at annual general meetings pursuant to the Bye-laws.
2. Details of change 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 incentives 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, certain terms of which were amended on March 7, 2012, and was valid and effective for a period of ten years from the date of adoption. The Share Option Scheme expired at the end of the day on May 13, 2018, after which no further share options should be offered or granted. However, the share options granted prior to the expiration of the Share Option Scheme shall continue to be valid and exercisable within their respective prescribed exercisable periods.

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

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 should 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, representing approximately 6.63% of the total number of issued Shares as at the date of this report). Unless approved by the shareholders of the Company and Yue Yuen, 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/she has to remain as an employee or director of the Group until the share options being vested on him/her.

SHARE OPTION SCHEME (Continued)

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 an offer is HK\$1.00 and the payment must be made within 28 days from the date on which the offer letter is delivered to the participant.

As at December 31, 2019, an aggregate of 30,750,000 Shares have been issued and an aggregate of 10,871,870 Shares may be issued upon full exercise of all share options granted under the Share Option Scheme. Out of an aggregate of 10,871,870 Shares which may be issuable under vested and unvested options, 2,707,640 Shares of which, representing approximately 0.05% of the issued Shares, are immediately issuable and 8,164,230 Shares are issuable upon vesting and full exercise of share options. As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 2,332,640, representing approximately 0.04% of the issued Shares.

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

Date of grant	Exercise price HK\$	Vesting period	Exercisable period	Number of underlying Shares comprised in the share options				
				Balance as at January 1, 2019	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Balance as at December 31, 2019
Employees								
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	1,011,500	-	(1,011,500)	-	-
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	1,307,500	-	(1,307,500)	-	-
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	1,887,500	-	(1,887,500)	-	-
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	2,104,500	-	(2,104,500)	-	-
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				17,974,190	-	(6,311,000)	(1,166,320)	10,496,870

DIRECTORS' REPORT

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, 2019	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Balance as at December 31, 2019
Former Employees								
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	5,600,000	-	(3,455,000)	(2,145,000)	-
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	2,795,000	-	(1,075,000)	(1,720,000)	-
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	912,500	-	(325,000)	(587,500)	-
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	587,500	-	-	(587,500)	-
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	-	-	375,000
Sub-total				10,270,000	-	(4,855,000)	(5,040,000)	375,000
Grand total				28,244,190	-	(11,166,000)	(6,206,320)	10,871,870

The weighted average closing price of the Shares immediately before the dates on which the share options were exercised during the year is HK\$1.50 per Share.

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

Further details of the Share Option Scheme are set out in Note 27(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 continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The scheme is valid and effective for a term of 10 years commencing on May 9, 2014. No further share awards should be granted upon termination or expiry of the term of the Share Award Scheme.

Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Board (the "Remuneration Committee") 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, individual performance and common key performance indicators) 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 (including vested and non-vested Shares) which may be awarded to a selected participant 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 dividend).

DIRECTORS' REPORT

SHARE AWARD SCHEME (Continued)

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

	Date of grant	Vesting period	Number of awarded Shares				Balance as at December 31, 2019
			Balance as at January 1, 2019	Granted during the year	Vested during the year	Lapsed/cancelled during the year	
Director							
Lee, Shao-Wu	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
	11.08.2018	11.08.2018-10.09.2019	200,000	-	(200,000)	-	-
	11.08.2018	11.08.2018-10.09.2020	300,000	-	-	-	300,000
	11.08.2018	11.08.2018-10.03.2021	500,000	-	-	-	500,000
	23.03.2019	23.03.2019-22.09.2020	-	200,000	-	-	200,000
	23.03.2019	23.03.2019-22.09.2021	-	300,000	-	-	300,000
	23.03.2019	23.03.2019-22.03.2022	-	500,000	-	-	500,000
Sub-total			1,700,000	1,000,000	(500,000)	-	2,200,000
Employees							
	24.03.2016	24.03.2016-23.03.2019	2,876,000	-	(2,796,000)	(80,000)	-
	13.08.2016	13.08.2016-12.08.2019	4,950,000	-	(4,800,000)	(150,000)	-
	12.11.2016	12.11.2016-30.08.2019	600,000	-	(600,000)	-	-
	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	4,154,000	-	-	(123,000)	4,031,000
	03.07.2017	03.07.2017-02.07.2020	300,000	-	-	-	300,000
	14.11.2017	14.11.2017-11.12.2019	300,000	-	(300,000)	-	-
	14.11.2017	14.11.2017-13.11.2020	3,200,000	-	-	-	3,200,000
	11.08.2018	11.08.2018-30.06.2019	140,000	-	(140,000)	-	-
	11.08.2018	11.08.2018-10.09.2019	3,678,800	-	(3,317,600)	(361,200)	-
	11.08.2018	11.08.2018-30.06.2020	210,000	-	-	-	210,000
	11.08.2018	11.08.2018-10.09.2020	5,518,200	-	-	(541,800)	4,976,400
	11.08.2018	11.08.2018-31.12.2020	350,000	-	-	-	350,000
	11.08.2018	11.08.2018-10.03.2021	9,197,000	-	-	(903,000)	8,294,000
	23.03.2019	23.03.2019-22.09.2020	-	2,453,200	-	(46,000)	2,407,200
	23.03.2019	23.03.2019-30.09.2020	-	112,000	-	-	112,000
	23.03.2019	23.03.2019-22.09.2021	-	3,679,800	-	(69,000)	3,610,800
	23.03.2019	23.03.2019-30.09.2021	-	168,000	-	-	168,000
	23.03.2019	23.03.2019-22.03.2022	-	6,133,000	-	(115,000)	6,018,000
	23.03.2019	23.03.2019-31.03.2022	-	280,000	-	-	280,000
	15.11.2019	15.11.2019-14.12.2020	-	750,000	-	-	750,000
Sub-total			42,143,450	13,576,000	(12,787,280)	(2,389,000)	40,543,170
Grand total			43,843,450	14,576,000	(13,287,280)	(2,389,000)	42,743,170

SHARE AWARD SCHEME (Continued)

The weighted average closing price of the Shares immediately before the dates on which the awarded Shares were granted during the year is HK\$1.73 per Share.

Further details of the Share Award Scheme are set out in Note 27(b) to the consolidated financial statements.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Mr. Wu, Pan-Tsu was awarded 40,000 ordinary shares of Yue Yuen under the YY Share Award Scheme on October 2, 2018. These awarded Yue Yuen shares remain unvested and to be vested on May 31, 2021 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, 2019, 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 their relevant interests in the issued Shares:

Long Positions in the 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	61.81%
Yue Yuen	(a), (b)	Interest of a controlled corporation/ Beneficial owner	3,311,090,560	61.81%
Wealthplus Holdings Limited ("Wealthplus")	(b)	Interest of a controlled corporation	3,311,090,560	61.81%
Pou Chen Corporation ("PCC")	(b)	Interest of a controlled corporation	3,311,090,560	61.81%

notes:

The total number of issued Shares as at December 31, 2019 was 5,356,472,615.

- (a) 3,311,090,560 Shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.
- (b) PCC 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. The entire issued share capital of Wealthplus is held by PCC.

Ms. Tsai Patty, Pei Chun, a Director, is also a director of Yue Yuen, Wealthplus and PCC. Mr. Chen, Huan-Chung, a Director, is also an independent director of PCC.

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

Save as disclosed above, as at December 31, 2019, the Directors were not aware of any other person (other than Directors or chief executives of the Company) who had or was deemed to have an interest or short position in the Shares or underlying Shares which were required 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 13, 2018, the Company entered into a framework agreement with Yue Yuen (the "YY Framework Agreement"), pursuant to which the Company might, through its subsidiaries, jointly controlled entities and associates (the "PS Sub Group"), purchase from Yue Yuen's subsidiaries, jointly controlled entities 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, 2019 to December 31, 2021 subject to the following annual caps:

Year	Annual Cap
January 1, 2019 to December 31, 2019	RMB30,000,000
January 1, 2020 to December 31, 2020	RMB35,000,000
January 1, 2021 to December 31, 2021	RMB40,000,000

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

Since Yue Yuen was a controlling Shareholder holding 3,311,090,560 Shares (being approximately 61.98% of the then issued Shares), it was a connected person of the Company as at November 13, 2018. Therefore, the YY Framework Agreement and the transactions contemplated thereunder 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, was considered to have a material interest in the YY Framework Agreement by virtue of her Yue Yuen directorship and had abstained from voting on the relevant resolutions approving the YY Framework Agreement. In addition, each of Mr. Wu, Pan-Tsu and Mr. Lee, Shao-Wu was interested in 40,000 unvested awarded shares and 78,000 shares in Yue Yuen respectively. For good corporate governance, Mr. Wu, Pan-Tsu and Mr. Lee, Shao-Wu had voluntarily abstained from voting on the relevant resolutions approving the YY Framework Agreement.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Purchase of footwear products from Yue Yuen (Continued)

Details of the transactions were set out in the announcement of the Company dated November 13, 2018.

During the year ended December 31, 2019, the total amount of transactions under the YY Framework Agreement was approximately RMB12.4 million. The determination of prices and terms of the transaction orders conducted has followed the pricing policies and guidelines as described in the announcement of the Company dated November 13, 2018.

Supply of products to Vipshop (China) Co., Ltd. (“Vipshop”)

On March 22, 2019, the Company entered into a framework agreement with Vipshop (the “2019 VIP Framework Agreement”), pursuant to which the Company and its subsidiaries, jointly controlled entities and associates (the “PS Group”) might from time to time supply sportswear, apparel, footwear and accessories products of brands which the PS Group is authorised to distribute (the “Products”) to Vipshop and its subsidiaries, jointly controlled entities and associates (excluding Kunshan Baowei Information Technology Co., Ltd. (“Baowei”, also an indirect non wholly-owned subsidiary of the Company for the purposes of the Listing Rules), the “VIP Group”) for sale on the online platform of the VIP Group for the period from January 1, 2019 to December 31, 2019 subject to the annual cap of RMB2,400,000,000.

The abovementioned annual cap was determined after taking into account (a) the final selling price of the Products; (b) the historical sale amounts of the Products through one of the online business platforms; and (c) the expected increase of the sale amounts of the Products to end customers.

In 2018, Vipshop became a substantial shareholder of Baowei holding 45% of its equity interests. Baowei had been considered as an insignificant subsidiary of the Company under Rule 14A.09 of the Listing Rules and therefore Vipshop was not a connected person of the Company. However, in 2019, due to continuous business growth of Baowei, the insignificant subsidiary exemption ceased to apply, and thereby, Vipshop became a connected person of the Company at the subsidiary level, and the 2019 VIP Framework Agreement and the transactions contemplated thereunder then became continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Details of the transactions were set out in the announcement of the Company dated June 27, 2019.

During the year ended December 31, 2019, the total amount of transactions under the 2019 VIP Framework Agreement was approximately RMB1,043.1 million. The total amount of the transactions contemplated under the 2019 VIP Framework Agreement from the month in which the 2019 VIP Framework Agreement and the transactions contemplated thereunder became continuing connected transactions for the Company up to and including December 31, 2019 was approximately RMB613.1 million. The determination of prices and terms of the transaction orders conducted has followed the pricing policies and guidelines as described in the announcement of the Company dated June 27, 2019.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Supply of products to Vipshop (China) Co., Ltd. (“Vipshop”) (Continued)

Since the 2019 VIP Framework Agreement was due to expire on December 31, 2019, on December 19, 2019, the Company entered into a new framework agreement with Vipshop (the “2020 VIP Framework Agreement”), pursuant to which the PS Group may supply the Products to the VIP Group for sale on the online platform of the VIP Group for the period from January 1, 2020 to December 31, 2020 subject to the annual cap of RMB2,000,000,000.

The abovementioned annual cap was determined after taking into account (a) the final selling price of the Products; (b) the historical sale amounts of the Products through the online platform of the VIP Group; and (c) the expected increase (taking into account significant growth between full year ended December 31, 2017 and eleven months ended November 30, 2019) of the sale amounts of the Products to the end customers through the online platform of the VIP Group.

Since VIP remained as a substantial shareholder of Baowei holding 45% of its equity interests, VIP continued to be a connected person of the Company at the subsidiary level. Therefore, the 2020 VIP Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Details of the transactions were set out in the announcement of the Company dated December 19, 2019.

None of the Directors had a material interest in the 2019 VIP Framework Agreement, 2020 VIP Framework Agreement and the transactions contemplated thereunder and hence no Director was required to abstain from voting on the relevant resolutions approving both the 2019 VIP Framework Agreement and 2020 VIP Framework Agreement.

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 Group;
- (b) on normal commercial terms; and
- (c) in accordance with the agreements 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 31 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 Board has reviewed, with management and Messrs. Deloitte Touche Tohmatsu, the independent auditor of the Company, the Group’s consolidated financial statements for the year ended December 31, 2019, 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, other than employment 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 48.0% and 95.9% 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 and reviewed by the Remuneration Committee and are decided by the Board, having regard to, inter alia, the Group's performance and financial position, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme (expired) 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 27 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 (the "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 the MPF Scheme, the employer and its employees both are required to make contributions to the scheme at rate specified.

The Group contributed approximately RMB428.2 million to the above-mentioned schemes for the year ended December 31, 2019.



DIRECTORS' REPORT

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, 2019 and up to the date of this report.

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2019 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 2020 AGM.

On behalf of the Board

Wu, Pan-Tsu
Chairman
Hong Kong
March 30, 2020

The header features a red-tinted background with a grid of various sneakers on the left and a white silhouette of a person running on the right. On the far right, there are several circular data visualization elements, including a large one with '76%' and 'ENERGY' and another smaller one with '100%' and 'HEALTHY'.

CORPORATE GOVERNANCE REPORT

The board of directors (the “Board”) of Pou Sheng International (Holdings) Limited (the “Company” and together with its subsidiaries, the “Group”) 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 the value of shareholders of the Company (the “Shareholders”). 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, 2019, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange” and the “Listing Rules”, respectively).

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 of the Company (the “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 (the “ED(s)”)

Mr. Wu, Pan-Tsu (Chairman)
Mr. Lee, Shao-Wu (Chief Executive Officer)

Non-executive Directors (the “NED(s)”)

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

Independent Non-executive Directors (the “INED(s)”)

Mr. Chen, Huan-Chung
Mr. Hsieh, Wuei-Jung
Mr. Feng Lei Ming

The header features a red-tinted background with a grid of sneakers on the left, a white silhouette of a runner in the center, and various circular data charts on the right. The charts include labels like 'QUALITY', 'ENERGY', and '100%'.

CORPORATE GOVERNANCE REPORT

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 21 to 24. 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 Chief Executive Officer (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. Six Board meetings and a Shareholders’ meeting were held during the year. The chairman of the Company (the “Chairman”) also during the year held a meeting with the INEDs without the presence of other Directors. 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 arrange their schedules to attend the meetings. For regular board meetings, 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 regular Board 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 of the Company (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.

CORPORATE GOVERNANCE REPORT

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 general meeting during the year:

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meeting	Remuneration Committee Meetings	Disclosure Committee Meeting*	Chairman and INEDs Meeting	General Meeting
Number of meeting(s) attended/held							
Executive Directors							
Wu, Pan-Tsu	6/6	N/A	1/1	N/A	Nil	1/1	1/1
Lee, Shao-Wu	6/6	N/A	N/A	N/A	Nil	N/A	1/1
Non-executive Directors							
Tsai Patty, Pei Chun	6/6	4/4	N/A	N/A	N/A	N/A	1/1
Li I-nan	6/6	N/A	N/A	4/4	N/A	N/A	1/1
Independent Non-executive Directors							
Chen, Huan-Chung	6/6	4/4	1/1	4/4	N/A	1/1	1/1
Hsieh, Wuei-Jung	6/6	N/A	N/A	4/4	N/A	1/1	1/1
Feng Lei Ming	6/6	4/4	1/1	N/A	N/A	1/1	1/1

* According to the terms of reference of the disclosure committee of the Company (the "Disclosure Committee"), the Disclosure Committee shall meet as and when circumstances require, and can discuss and deal with matters by electronic mail or telephone conference instead of convening meetings. During the year ended December 31, 2019, no Disclosure Committee meeting was held.

The header features a red-tinted background with a grid of sneakers on the left, a white silhouette of a runner in the center, and various circular data charts on the right. The charts include percentages like 5%, 16%, 78%, and 100%.

CORPORATE GOVERNANCE REPORT

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 the CEO are separate during the year and set out in writing in the Statement of Policy on Corporate Governance of the Company (the “Statement of Policy on Corporate Governance”). 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.

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 of the Company (the “Bye-laws”).

At all times during the year ended December 31, 2019, 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. Feng Lei Ming, 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 over 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.

BOARD OF DIRECTORS (Continued)

Appointment and Re-election of Directors

The appointment of a new Director is made on the recommendation of the nomination committee of the Company (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 gender, age, cultural background, qualifications (including professional qualifications, skills, knowledge and experience), reputation for integrity, independence, professional and educational background, potential time commitment for the Board and/or Board committee responsibilities, potential contributions to the Group, Director succession plan of the Group (the “Director Succession Plan”) and Board diversity policy of the Group (the “Board Diversity Policy”) and any measurable objectives for achieving diversity on the Board. 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.

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. During the year, the Company organised two briefing sessions relating to corporate governance and latest changes to Listing Rules on Backdoor Listings by Reed Smith Richards Butler for the Directors. If the Directors are not able to attend the briefing sessions, training handouts will be distributed to those Directors for their self-studying.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Directors' Induction and Training (Continued)

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	✓	✓
Non-executive Directors		
Tsai Patty, Pei Chun	✓	✓
Li I-nan	✓	✓
Independent Non-executive Directors		
Chen, Huan-Chung	✓	✓
Hsieh, Wuei-Jung	✓	✓
Feng Lei Ming	✓	✓

BOARD COMMITTEES

The Board has established the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the Nomination Committee and the Disclosure 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. Feng Lei Ming. Mr. Chen, Huan-Chung is an INED possessing the appropriate professional accounting and financial management expertise as required under the Listing Rules.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

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 the adequacy and effectiveness of the Company's financial controls, risk management and internal control systems;
- reviewed the ongoing connected transactions of the Group;
- reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and
- reviewed the audit and non-audit services provided by the external auditor.

The Audit Committee held four 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.

The header features a red background with a white silhouette of a runner on the right. On the left, there are shelves filled with various styles of sneakers. On the right side, there are several circular data visualization elements, including a large one with '70%' and 'ENERGY' inside, and smaller ones with '100%', '5%', and '16%'.

CORPORATE GOVERNANCE REPORT

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 (the “Senior Management”) and other related matters. A Remuneration Policy of the Group for the Directors and the Senior Management (the “Remuneration Policy”) 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 and Senior Management to the Board for approval;
- reviewed and recommended the remuneration packages and renewal of two appointment letters of a NED and an INED to the Board for approval;
- reviewed and recommended the remuneration package and renewal of the service agreement of an ED to the Board for approval;
- reviewed the effectiveness of the Remuneration Committee;
- recommended the grant, vest and cancellation of share awards of the Group to the Board for approval;
- reviewed the status of the share options under the Share Option Scheme and the share awards under the Share Award Scheme; and
- recommended the revised Remuneration Policy to the Board for approval.

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. Feng Lei Ming.

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:

- assessed the independence of INEDs;
- reviewed the retirement and nominated the re-election of retiring Directors at the 2019 AGM; and
- reviewed the structure, size, composition and diversity of the Board.

The Nomination Committee held a meeting during the year. The attendance record of the Nomination Committee meeting 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 composition of the Board reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Group's strategy and business. The policy is available for viewing on the website of the Company.

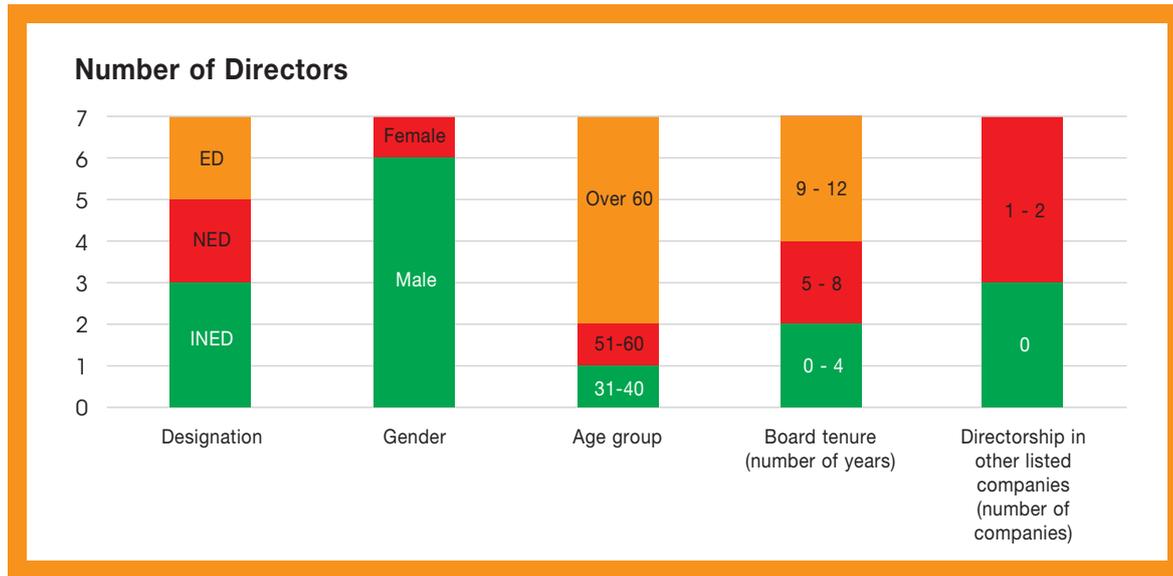
The Nomination Committee is also responsible to review the Board Diversity Policy, the measurable objectives and monitor the implementation of the Board Diversity Policy.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Board Diversity (Continued)

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



Academic Background

Banking



14%

Business Administration



43%

Economics / Finance



29%

Others



71%

Experience/Expertise

Sportswear Industry



57%

Accounting Expertise



14%

Equity Investment / Financial Services



100%

BOARD COMMITTEES (Continued)

Nomination Policy

On November 13, 2018, the Board has adopted a Nomination Policy for Directors (the “Nomination Policy”). The key objectives of the Nomination Policy include, inter alia, the following:

- (a) to guide the Board in relation to appointment/re-election of Directors; and
- (b) to devise a policy on the size and composition of the Board in order to ensure the diversity and balance of the Board in terms of skills, experience, knowledge and diversity of perspectives are appropriate to the requirements of the Company’s business.

The Nomination Policy shall be reviewed periodically to ensure that it remains relevant to the Company’s needs and reflects both current regulatory requirements and good corporate governance practice.

Director Succession Plan

The purpose of the Director Succession Plan is to ensure the orderly identification and selection of new directors in the event of an opening on the Board, whether such opening exists by reason of an anticipated retirement, an unanticipated departure, the expansion of the size of the Board, or otherwise. As provided in the terms of reference for Nomination Committee, the Nomination Committee shall make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the CEO.

Disclosure Committee

The Disclosure Committee has been in place since March 2019 with specific written terms of reference, which are available for viewing on the websites of the Stock Exchange and the Company.

The Disclosure Committee currently consists of two EDs: Mr. Wu, Pan-Tsu (Chairman) and Mr. Lee, Shao-Wu.

The primary functions of the Disclosure Committee are to assist the Board in considering matters associated with compliance with the Company’s continuous disclosure obligations and inside information provisions under the Securities and Futures Ordinance (the “SFO”).

The Disclosure Committee shall meet from time to time as and when circumstances require. In the ordinary course, the Disclosure Committee may discuss and deal with matters by way of communication through electronic mail and/or telephone conference. During the year, no Disclosure Committee meeting was held as the committee members mainly communicated through electronic mail and telephone conference.

The header image features a red-tinted background. On the left, there are shelves filled with various styles of sneakers. In the center, a white silhouette of a person is shown in a running or athletic pose. On the right side, there are several circular data visualization elements, including a large gauge showing '78%' and other smaller gauges with percentages like '100%', '5%', and '16%'.

CORPORATE GOVERNANCE REPORT

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 those set out in the Code Provision D.3.1 of Appendix 14 to the Listing Rules:

- (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.

The Board has reviewed and/or performed the abovementioned corporate governance function during the year and up to the date of this annual report.

INDEPENDENT AUDITOR'S REMUNERATION

During the year ended December 31, 2019, 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 RMB4,094,000 (2018: approximately RMB3,731,000 and in respect of non-audit services rendered is approximately RMB1,207,000 (2018: approximately RMB992,000). The non-audit services fees include the review of interim financial statements and professional services rendered in connection with profits tax, review of lease system 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 responsibilities for the audit of the Group's consolidated financial statements is set out in the Independent Auditor's Report on pages 89 to 94.

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 and its code of conduct regarding directors' securities transactions throughout the year ended December 31, 2019.

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.

DIVIDEND POLICY

The Company has adopted a Dividend Policy, pursuant to which the Company may declare and distribute dividends to the Shareholders, provided that the profit of the Company shall be enough for both self-development and returns to the Shareholders.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall take into account, inter alia, the Company's current and future operations and earnings, business development strategies, financial position, capital requirements and surplus, contractual restrictions, payments by subsidiaries of cash dividends to the Company, the amount of distributable profits based on the Bye-laws, the applicable laws and regulations, the Shareholders' request and intention, and other factors that the Board deems relevant.

Subject to the foregoing, the Company shall distribute as dividends approximately 20% to 30% of the net profits available for distribution in each financial year.

The header features a red-tinted background with a grid of sneakers on the left, a white silhouette of a runner in the center, and various circular data charts on the right. The text 'CORPORATE GOVERNANCE REPORT' is prominently displayed in white.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Fan Kam Wing, the Company Secretary, who is also the Financial Controller of the Group, confirmed 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.

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

SHAREHOLDERS' RIGHTS (Continued)

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.
- 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.

The header features a red-tinted background with a grid of sneakers on the left, a white silhouette of a runner in the center, and various circular data charts on the right. The charts include percentages like 5%, 16%, 78%, and 100%.

CORPORATE GOVERNANCE REPORT

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 was subsequently amended on March 22, 2019 and 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 a timely basis. Regular follow up actions will be carried out until condition is improved.

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 principal 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 management 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.

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

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 risks. 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 risks.

Responsible Unit	Function
Board	<ul style="list-style-type: none"> Has overall responsibility for the Group's risk management system Formulate final decision, guidance and instruction on the risk management system and its mitigation
Audit Committee	<ul style="list-style-type: none"> Oversee the implementation of the control on risk management Report the results of risk management to the Board
Internal Audit Department	<ul style="list-style-type: none"> 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 risk management committee	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Facilitate communication between risk management unit and departments Guide, structure and co-ordinate risk management work Identify risks, assess and review mitigation, and investigate risk management work and its improvement

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

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 prioritisation 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, 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.

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.

The header features a red-tinted background with a white silhouette of a person running. On the left, there are shelves filled with various styles of shoes. On the right, there are several circular data visualization elements, including a large gauge showing '76%' and a smaller one showing '100%'.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Control Effectiveness

In respect of the year ended December 31, 2019, 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 to 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Upholding the business philosophy of “healthiness, leisure, sports, fashion, green”, the Group strives to create value for its 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 (the “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 and footwear products, distribution of licensed products and sports services businesses of the Group for the period commenced from January 1, 2019 and ended on December 31, 2019. 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 (key performance indicators A1.1, A1.3 and A1.5) are not applicable to the Group.

A. ENVIRONMENTAL

A1 Emissions

The Group is always dedicated to protecting the environment and promoting green living. Thus, we select 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 the relevant environmental laws and regulations. During the reporting period, the Group found no significant violation of relevant environmental laws and regulations (such as Environmental Protection Law of the People's Republic of China).

Waste treatment

The Group actively implements green measures and all of its subsidiaries and stores are required to strictly comply with the Group's 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 (such as Shanghai Domestic Waste Management Regulations).

Non-hazardous waste produced by the Group comprised mainly renovation waste and domestic waste, which included paper, carton, 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	2019	2018
Domestic waste		
Total amount (tonnes)	140.8	89.2
Intensity (tonnes/operation unit)	0.0235	0.0155
Renovation waste		
Total amount (tonnes)	1,125	1,125
Intensity (tonnes/operation unit)	0.1874	0.1949

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.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Waste treatment (Continued)

We are dedicated to maintaining 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 implemented the following initiatives during the reporting period:

- Adopted electronic office platform for paperless operation and reused waste paper, which saved daily paper usage;
- Replaced bottled water and disposable cups with eco-friendly cups at most of our conferences and receptions. By not using disposable paper cups, 8,000 paper cups were saved per year, which is the equivalent of one big tree;
- Collected and stored usable 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 reuse at next store opening; and
- Recycled used paper and toner cartridges, used carton were collected by professional recyclers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Carbon emission

Our main sources of carbon emission included energy consumption in the forms of electricity, gasoline, diesel and natural gas. 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:

	2019	2018
Carbon dioxide equivalent		
Emission (tonnes)	59,904.67	57,554.29
Intensity (tonnes/operation unit)	9.9775	9.9730

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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, and in compliance with Energy Conservation Law of the People's Republic of China.

We are dedicated to enhancing energy efficiency and reduce wastage, so as to achieve the best usage of resources. 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 video conferencing 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 promoting 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	2019	2018
Electricity		
Consumption (kWh)	90,310,089	86,800,835
Intensity (kWh/operation unit)	15,041.6537	15,040.8655
Gasoline		
Consumption (litre)	66,994	52,201
Intensity (litre/operation unit)	11.1582	9.0453
Diesel		
Consumption (litre)	33,048	26,956
Intensity (litre/operation unit)	5.5043	4.6710
Natural gas		
Consumption (m ³)	2,071	2,037
Intensity (m ³ /operation unit)	0.3449	0.3530

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 5%;
- 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 much 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. air-conditioned temperature not lower than 26°C in summer and not higher than 25°C in winter) and performed irregular 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 1-2%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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:

	2019	2018
Water		
Consumption (m ³)	257,424	201,197
Intensity (m ³ /operation unit)	42.8754	34.8634

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 had no issue in sourcing water that is fit for purpose and 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 in water tanks, 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 packaging materials. Since 2013, we have replaced paper bags with eco-shopping bags at most of our stores. In 2019, 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	2019	2018
Shopping bags		
Consumption (tonnes)	1,506	1,316
Intensity (tonnes/operation unit)	0.2508	0.2280
Plastic wrap		
Consumption (tonnes)	2	7
Intensity (tonnes/operation unit)	0.0004	0.0012

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 highly efficient 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.





B. SOCIAL (Continued)

B1 Employment (Continued)

Employee remuneration and benefits (Continued)

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 (such as Labour Law of the People's Republic of China and Labour Contract Law of the People's Republic of China). 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 adopted two share-based incentive schemes, namely (1) the Share Option Scheme (expired in 2018) and (2) the Share Award Scheme, details of which are set out in "Share Option Scheme" and "Share Award Scheme" in the Directors' Report. The Group not only maintains social insurance as required by the labour laws, but also purchases commercial medical insurance as well as providing comprehensive medical coverage. The employees also have various benefits and allowances, such as mandatory provident fund and staff discounts.

Furthermore, 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.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

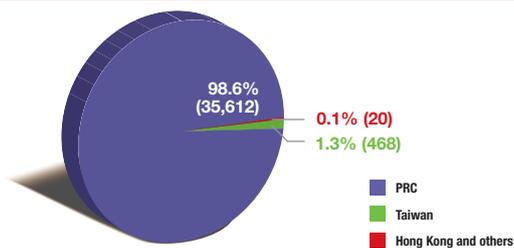
B1 Employment (Continued)

Diversity and equal opportunity

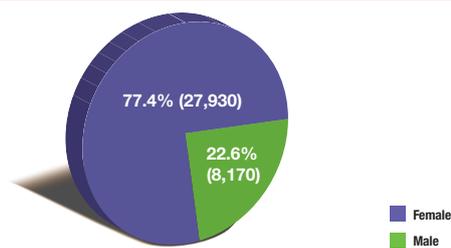
With equal opportunities in mind, the Group is committed to create a workplace that is inclusive and free from discrimination. It aims to treat all employees equally and respect their differences. In doing so, we do not discriminate our staff on the grounds of gender, race, ethnic origin, religion, political 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 (such as Trade Union Law of the People's Republic of China, Social Insurance Law of the People's Republic of China and Law of the People's Republic of China on the Protection of Women's Rights and Interests). As at December 31, 2019, the Group has a total of approximately 36,100 employees. Below sets out the details of our employee distribution:

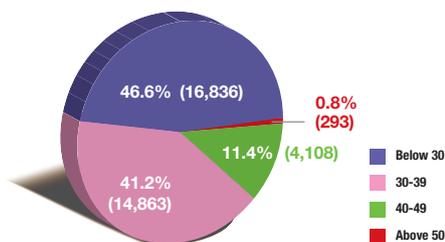
Region/Nationality



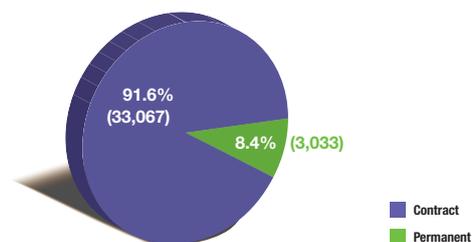
Gender



Age Group



Employment Type



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2019:

By gender		By age group		By region/nationality	
Male	70%	Below 30	80%	Mainland China	59%
Female	56%	30-39	43%	Taiwan	39%
		40-49	31%	Hong Kong and others	67%
		Above 50	43%		

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, health counselling and seminars to ensure their health and safety. As to employees who need to work under unusual temperature conditions (for example, warehouse), 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 formulates regulations governing safety and health, including 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 with 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 (such as Laws of the People's Republic of China on Prevention and Control of Occupational Diseases, Provisions on the Supervision and Administration of Occupational Health at Work Sites and Fire Protection Law of the People's Republic of China).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 programs and plans for each employee. 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 as well as keeping abreast of the latest market developments and trend. This does not only facilitate their on-going personal development, work performance and fulfilment of potential, but also supports the long-term growth of the Group. Our training for employees covers corporate constitution, corporate culture, management capability, career planning, professional knowledge and skills, etc.

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



B. SOCIAL (Continued)

B3 Development and training (Continued)

Staff training (Continued)

The table below shows the percentage of employees trained and the average training hours per employee in 2019:

By gender	% of employee trained	Average training hours	By employee category	% of employee trained	Average training hours
Male	46%	28.8	Senior	42%	13.6
Female	62%	31.2	Middle-level	68%	21.7
			Supervisory-level	72%	27.0
			General	49%	17.2
			Shop	58%	32.5

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

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 such as Provisions on the Prohibition of Using Child Labour 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 materials and manufacturing processes of suppliers. We also assess suppliers based on their quality, price, delivery timeliness, overall capabilities and experience objectively. In addition, their operation must be in compliance with all relevant environmental and social regulations, and observe business ethics.

B. SOCIAL (Continued)

B5 Supply chain management (Continued)

Supply chain management (Continued)

In the meantime, the Group insists on offering equal opportunities to all potential partners, participates actively in market competition and complies with Anti-Unfair Competition Law of the People's Republic of China to fulfil the various needs of different stakeholders. This allows us to enhance product quality, achieve cost minimisation, rapidly respond to customers' needs and provide more options to customers. The Group will continue to provide high quality products and omni-channel consumer experience to diverse consumers 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 assurance 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 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 (such as Advertising Law of the People's Republic of China, Product Quality Law of the People's Republic of China and Law of the People's Republic of China on the Protection of Consumer Rights and Interests). 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 and aspirations 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.

B. SOCIAL (Continued)

B6 Product responsibility (Continued)

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 (such as Contract Law of the People's Republic of China, Law of the People's Republic of China on Promoting the Transformation of Scientific and Technological Achievements, Law of the People's Republic of China on the Protection of Intellectual Property Rights and Trademark Law of the People's Republic of China). 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 and other partners 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

We deeply believe that protecting the personal information of the consumer is the key to establish a mutual trust relationship with the consumer. The Group holds a vast group of members and their personal 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 informationalisation 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 (such as Criminal Law of the People's Republic of China, Network Security Law of the People's Republic of China and Tort Law of the People's Republic of China).

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 other misconduct that is against the Group’s interest.

We always endeavour to uphold the core value of integrity. The Group requires all employees to observe personal and professional conduct. Apart from maintaining strict compliance with the laws and regulations (such as Criminal Law of the People’s Republic of China, Anti-Money Laundering Law of the People’s Republic of China, Interim Provisions on Banning Commercial Bribery and Regulations of the People’s Republic of China for Suppression of Corruption) to prevent bribery, extortion, fraud and money laundering, we also stipulate anti-bribery and anti-corruption policy and the relevant punishments in the employee handbook. We issue self-disciplinary requirements and set up relevant reporting channel and procedure, as well as reviewing the effectiveness of the internal management on a regular basis. These all help to ensure that the Group can uphold its professional morality, abide by its operation integrity and maintain a stable development. We encourage our employees to be self-disciplined and self-introspective, willing to come forward to admit their mistakes when there is wrong-doing, and correct the mistakes timely; to tell right from wrong, and not to have favoritism and defend others shortcomings; to have occupational morality, literacy, and conduct that can stand all tests; to match words to deeds, keep promises and able to develop trustworthy relationships with others. To ensure and regulate our employees to be honest and self-disciplined in external business interactions and internal business management activities, the Group also issues regulation on the gift giving/receiving. Anti-corruption and business ethics was one of the topics in management training and the management adopts a zero tolerance attitude to any fraudulent business activity.

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, the Group has been actively participated in community events such as promoting sports development, 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.

B. SOCIAL (Continued)

B8 Community investment (Continued)

Community charity (Continued)

To realise the vision of “Make sports your life!” and promote the public awareness in sports, the Group leverages its own business operation and takes initiatives to organise many sports charity activities. Following last year, the Group has organised 3v3 basketball tournament again with other well-known corporations in the year to facilitate the youth basketball development in China. The tournament is titled ““Dou Dao Di” 3 on 3 basketball league”.

Meanwhile, the Group collaborates with the visually-impaired concern groups to organize a community run for the blind activity, so that sports can lead the visually-impaired to go out and enjoy the fun from sports with others. The community run for the blind was deeply welcomed by the visually-impaired concern groups with more than 500 visually-impaired runners participated. The activity proactively transfers the positive energy of caring for and helping the disabled to the community.





B. SOCIAL (Continued)

B8 Community investment (Continued)

Community charity (Continued)

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

- “Dou Dao Di” 3 on 3 Basketball League;
- Shanghai Headquarter’s “All for One, One for All” staff blood donation campaign, with 10,400 ml of blood was donated; and
- Many charity events organised by different regional offices, e.g. “You Are My Eyes” the 2nd Charity Blind Run.





INDEPENDENT AUDITOR'S REPORT

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 95 to 195, which comprise the consolidated statement of financial position as at December 31, 2019, 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, 2019, 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 (“HSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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



INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill

We identified the impairment assessment of goodwill allocated to several groups of cash-generating units (“CGUs”) which are engaged in the business of distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for concessionaire sales as a key audit matter due to the complexity and significant judgments and estimates involved in the assessment process of the management of the Group.

As disclosed in note 16 to the consolidated financial statements, the carrying amount of goodwill as at December 31, 2019 was RMB533,247,000. Determining whether goodwill is impaired requires the management’s estimation of the recoverable amounts of the relevant groups of CGUs to which the goodwill has been allocated, which is the higher of value in use and fair value less costs of disposal.

In estimating the value in use of the above groups of CGUs, key inputs used by the management included discount rate, growth rates, budgeted sales and gross margin and their related cash inflow and outflow patterns. The management also engaged an independent valuer to determine the discount rate. The above groups of CGUs containing goodwill did not suffer any impairment during the year ended December 31, 2019.

Our procedures in relation to the impairment assessment of goodwill included:

- Evaluating the competence, capabilities and objectivity of the independent valuer;
- Evaluating the assumptions underpinning the discounted cash flow models, including growth rates, budgeted sales and gross margin through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industry trend;
- Involving our team of internal valuation experts to assess the discount rate applied underpinning the discounted cash flow models by performing re-calculations based on market data and certain company specific parameters, as well as evaluating the reasonableness of parameters applied by the independent valuer;
- Evaluating the reasonableness of 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 and understanding the causes for the significant variances.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter

How our audit addressed the key audit matter

Assessment of net realisable value of obsolete and slow-moving finished goods

We identified the assessment of net realisable value of obsolete and slow-moving finished goods as a key audit matter due to the significant judgments and estimates involved in the determination of the net realisable value of these obsolete and slow-moving finished goods by the management of the Group.

As disclosed in notes 20 and 8 to the consolidated financial statements, the carrying amount of finished goods included in the inventories balances as at December 31, 2019 was RMB8,021,487,000 and the net changes in allowance for finished goods credited to the consolidated income statement for the year ended December 31, 2019 was RMB61,026,000, respectively. Accumulated allowance made as at December 31, 2019 was RMB157,279,000.

As explained in note 4(b)(ii) to the consolidated financial statements, the management of the Group reviewed the aging and saleability of the inventories at the end of the reporting period and made allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The management of the Group estimated the net realisable value for those items based primarily on the inventories condition, the latest transaction prices and current market condition.

Our procedures in relation to assessment of net realisable value of obsolete and slow-moving finished goods included:

- Understanding the process performed by management of the Group on identification of obsolete and slow-moving finished goods;
- Based on historical sales data of finished goods of different conditions, developing a point estimate to evaluate the reasonableness of allowance for inventories due to net realisable value of potentially obsolete and slow-moving finished goods;
- Evaluating the accuracy of aging analysis of finished goods by utilising computer assisted audit techniques and checking, on a sample basis, to the invoices and other relevant supporting documents; and
- Performing retrospective review using data analytic on subsequent sales in 2019 for those inventories as at 31 December 2018.



INDEPENDENT AUDITOR'S REPORT

Other Information

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

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

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

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with HKSA's, 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.



INDEPENDENT AUDITOR'S REPORT

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 Woo King Wa.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 30, 2020

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	27,189,765	22,677,375
Cost of sales		(17,914,296)	(15,078,824)
Gross profit		9,275,469	7,598,551
Other operating income and gains (losses)	6(a)	377,306	281,307
Selling and distribution expenses		(7,168,952)	(6,099,595)
Administrative expenses		(1,011,891)	(813,382)
Operating profit		1,471,932	966,881
Finance costs		(247,522)	(149,843)
Finance income		8,335	6,260
	6(b)	(239,187)	(143,583)
Share of results of joint ventures		1,072	(929)
Other gain (loss)	6(c)	(9,351)	-
Profit before taxation		1,224,466	822,369
Income tax expense	7	(344,556)	(261,475)
Profit for the year	8	879,910	560,894
Attributable to:			
Owners of the Company		833,275	542,888
Non-controlling interests		46,635	18,006
		879,910	560,894
		RMB cents	RMB cents
Earnings per share	11		
– Basic		15.87	10.39
– Diluted		15.73	10.31

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 RMB'000	2018 RMB'000
Profit for the year	879,910	560,894
Other comprehensive (expense) income <i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on the translation of foreign operations	(505)	637
Reclassification upon deregistration of a subsidiary	–	1,247
Other comprehensive (expense) income for the year	(505)	1,884
Total comprehensive income for the year	879,405	562,778
Attributable to:		
Owners of the Company	832,905	544,307
Non-controlling interests	46,500	18,471
	879,405	562,778

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Investment properties	12	94,700	94,700
Property, plant and equipment	13	1,354,186	1,131,676
Right-of-use assets	14	2,931,822	–
Deposits paid for acquisition of property, plant and equipment		87,103	59,823
Prepaid lease payments		–	109,357
Rental deposits and prepayments		178,427	168,693
Intangible assets	15	283,311	378,648
Goodwill	16	533,247	532,808
Interests in joint ventures	17	253,415	38,074
Loan to a joint venture	17	–	3,000
Equity instrument at fair value through other comprehensive income	18	2,323	2,231
Deferred tax assets	19	9,313	–
		5,727,847	2,519,010
CURRENT ASSETS			
Inventories	20	8,021,487	6,694,022
Trade and other receivables	21	2,993,538	3,292,935
Taxation recoverable		5,159	546
Bank balances and cash	22	613,591	730,956
		11,633,775	10,718,459
Non-current assets classified as held for sale	17	29,160	–
		11,662,935	10,718,459
CURRENT LIABILITIES			
Trade and other payables	23(a)	2,660,829	2,097,581
Contract liabilities	23(b)	414,969	283,145
Taxation payable		262,256	178,453
Bank and other borrowings	24	3,545,995	3,531,259
Lease liabilities	25	889,552	–
		7,773,601	6,090,438
NET CURRENT ASSETS		3,889,334	4,628,021
TOTAL ASSETS LESS CURRENT LIABILITIES		9,617,181	7,147,031

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	85,658	111,494
Lease liabilities	25	1,825,445	–
		1,911,103	111,494
NET ASSETS			
		7,706,078	7,035,537
CAPITAL AND RESERVES			
Share capital	26	46,685	46,588
Reserves		7,565,889	6,820,979
Equity attributable to owners of the Company		7,612,574	6,867,567
Non-controlling interests		93,504	167,970
TOTAL EQUITY			
		7,706,078	7,035,537

The consolidated financial statements on pages 95 to 195 were approved and authorised for issue by the Board of directors of the Company on March 30, 2020 and are signed on its behalf by:

Wu, Pan-Tsu
CHAIRMAN AND
EXECUTIVE DIRECTOR

Lee, Shao-Wu
CHIEF EXECUTIVE OFFICER
AND EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2019

Equity attributable to owners of the Company																
	Share capital RMB'000 (Note 26)	Share premium RMB'000	Special reserve RMB'000 (note (i))	Other reserve RMB'000 (note (ii))	Revaluation reserve RMB'000	Merger reserve RMB'000 (note (iii))	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 (iv))	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2018	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
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	297	-	297	340	637
Reclassification upon deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	1,122	-	1,122	125	1,247
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	542,888	542,888	18,006	560,894
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	1,419	542,888	544,307	18,471	562,778
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	12,260	2,120	-	-	-	14,380	-	14,380
Transfer upon lapse of share options	-	-	-	-	-	-	-	-	-	(13,367)	-	-	13,367	-	-	-
Share awards vested	-	-	-	-	-	-	-	14,400	(7,888)	-	-	-	(6,512)	-	-	-
Exercise of share options	58	10,950	-	-	-	-	-	-	-	(3,889)	-	-	-	7,119	-	7,119
Realisation on deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	-	(959)	-	959	-	(347)	(347)
Dividends recognised as distribution (Note 10)	-	-	-	-	-	-	-	-	-	-	-	-	(87,298)	(87,298)	-	(87,298)
Capital contribution by non-controlling interests of subsidiaries	-	-	-	(1,633)	-	-	-	-	-	-	-	-	-	(1,633)	99,009	97,376
Transfer	-	-	-	-	-	-	-	-	-	-	77,108	-	(77,108)	-	-	-
At December 31, 2018	46,588	5,156,422	676,506	(1,480,423)	55,395	29,544	6,381	(118,627)	20,744	15,344	544,116	(12,943)	1,928,520	6,867,567	167,970	7,035,537
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	(370)	-	(370)	(135)	(505)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	833,275	833,275	46,635	879,910
Total comprehensive (expense) income for the year	-	-	-	-	-	-	-	-	-	-	-	(370)	833,275	832,905	46,500	879,405
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	-	-	-	-	-	-	-	-	17,992	1,814	-	-	-	19,806	-	19,806
Transfer upon lapse of share options	-	-	-	-	-	-	-	-	-	(3,735)	-	-	3,735	-	-	-
Share awards vested	-	-	-	-	-	-	-	14,133	(14,655)	-	-	-	522	-	-	-
Exercise of share options	97	18,414	-	-	-	-	-	-	-	(6,554)	-	-	-	11,957	-	11,957
Acquisition of remaining interest in a subsidiary	-	-	-	(2,388)	-	-	-	-	-	-	-	-	-	(2,388)	1,336	(1,052)
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(207,340)	(207,340)
Dividends recognised as distribution (Note 10)	-	-	-	-	-	-	-	-	-	-	-	-	(115,326)	(115,326)	-	(115,326)
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,000)	(14,000)
Capital contribution by a non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	90,000	90,000
Deemed disposal of partial interest in a subsidiary	-	-	-	(1,947)	-	-	-	-	-	-	-	-	-	(1,947)	9,038	7,091
Transfer	-	-	-	-	-	-	-	-	-	-	126,033	-	(126,033)	-	-	-
At December 31, 2019	46,685	5,174,836	676,506	(1,484,758)	55,395	29,544	6,381	(104,494)	24,081	6,869	670,149	(13,313)	2,524,693	7,612,574	93,504	7,706,078



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2019

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, after re-attribution of relevant reserve.
- (iii) 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.
- (iv) 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	1,224,466	822,369
Adjustments for:		
Depreciation of property, plant and equipment	473,732	383,399
Depreciation of right-of-use assets	888,960	–
Release of prepaid lease payments	–	3,214
Amortisation of intangible assets	104,876	123,849
Net changes in allowance for inventories	(61,026)	(62,590)
Impairment losses recognised on trade receivables, net of reversal	11,741	11,707
Impairment losses recognised on other receivables, net of reversal	562	15,943
Interest expenses	247,522	149,843
Interest income	(8,335)	(6,260)
Share of results of joint ventures	(1,072)	929
Recognition of equity-settled share-based payments	19,806	14,380
Dividend income from an equity instrument at fair value through other comprehensive income	(196)	(562)
Loss on deregistration of a subsidiary	–	1,247
Loss on disposal of property, plant and equipment	51,287	48,024
Reversal of impairment loss on loan to a joint venture	(636)	–
Impairment loss recognised on interest in a joint venture	9,987	–
Operating cash flows before movements in working capital	2,961,674	1,505,492
Decrease (increase) in prepayments	3,746	(29,924)
Increase in trade and other receivables	(176,181)	(463,465)
Increase in inventories	(1,263,601)	(1,042,156)
Increase in trade and other payables	583,975	312,878
Increase (decrease) in contract liabilities	3,491	(36,734)
Cash generated from operations	2,113,104	246,091
Income tax paid	(285,637)	(252,255)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	1,827,467	(6,164)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Placement of structured bank deposits	(900,000)	(555,000)
Payment for acquisition of property, plant and equipment/deposits paid for acquisition of property, plant and equipment and intangible assets	(807,125)	(531,695)
Advance to a non-controlling interest of a subsidiary	(102,000)	(80,000)
Payments for right-of-use assets	(13,541)	–
Payments for rental deposits	(58,064)	–
Redemption of structured bank deposits	900,000	555,000
Repayment of advance to a non-controlling interest of a subsidiary	88,000	80,000
Proceeds from disposal of property, plant and equipment	23,458	14,320
Deposits received from disposal of a joint venture	9,000	–
Interest received	8,335	6,260
Repayment of advances to joint ventures	3,635	4,026
Dividends received from an equity instrument at fair value through other comprehensive income	196	562
Advance to a joint venture	–	(58)
NET CASH USED IN INVESTING ACTIVITIES	(848,106)	(506,585)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 RMB'000	2018 RMB'000
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(5,067,960)	(5,894,856)
Repayments of lease liabilities, including related interests	(949,504)	–
Interest paid on bank and other borrowings	(134,253)	(149,843)
Dividends paid	(115,326)	(87,298)
Dividend paid to a non-controlling interest of a subsidiary	(14,000)	–
Acquisition of remaining interest in a subsidiary	(1,052)	–
New bank and other borrowings raised	5,079,632	6,892,856
Capital contribution by non-controlling interests	92,502	97,376
Proceeds from issue of shares upon exercise of share options	11,957	7,119
Advances from related parties	–	276,781
Repayment of advances from related parties	–	(276,772)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(1,098,004)	865,363
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(118,643)	352,614
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,278	955
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	730,956	377,387
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	613,591	730,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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 of the Company is Major Focus Management Limited, a company incorporated in the British Virgin Islands (“BVI”) and the ultimate parent of the Company is Pou Chen Corporation (“PCC”), a company listed on the Taiwan Stock Exchange Corporation. 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 Notes 5 and 35.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 “Leases” (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, January 1, 2019.

Applies HKFRS 16.C8(b)(ii) transition (lease-by-lease basis)

As at January 1, 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition, adjusted by any prepaid or accrued lease payments.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rates for certain leases of retail stores, warehouses and office buildings in PRC, Hong Kong and Taiwan were determined on a portfolio basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 16 “Leases” (Continued)

As a lessee (Continued)

Applies HKFRS 16.C8(b)(ii) transition (lease-by-lease basis) (Continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

Other than the reclassification of prepaid lease payments of RMB112,564,000 and rental prepayments amounting to RMB131,180,000, the Group recognised lease liabilities of RMB1,864,138,000 and related right-of-use assets of RMB1,864,138,000 at January 1, 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied in the PRC, Hong Kong and Taiwan range from 2.10% to 4.53%.

	RMB'000
Operating lease commitments disclosed as at December 31, 2018	2,218,146
Less: Recognition exemption – short term leases and leases with lease term ending within 12 months of the date of initial application	(166,436)
Recognition exemption – low value assets	(129)
	2,051,581
Lease liabilities discounted at relevant incremental borrowing rates as at January 1, 2019	1,864,138
Analysed as:	
Current portion	624,791
Non-current portion	1,239,347
	1,864,138

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 16 “Leases” (Continued)

As a lessee (Continued)

Applies HKFRS 16.C8(b)(ii) transition (lease-by-lease basis) (Continued)

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		1,864,138
Reclassified from rental prepayments	(a)	131,180
Reclassified from prepaid lease payments	(b)	112,564
		2,107,882

Notes:

- (a) Prepaid rent for retail stores, office buildings and warehouses, which the Group leased from third parties under operating lease were classified as prepayments as at December 31, 2018. Upon the application of HKFRS 16, the current and non-current portion of prepaid rent amounting to RMB98,052,000 and RMB33,128,000 respectively, were reclassified to right-of-use assets.
- (b) Upfront payments for leasehold land in the PRC were classified as prepaid lease payments as at December 31, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB3,207,000 and RMB109,357,000 respectively, were reclassified to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 16 “Leases” (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at January 1, 2019 RMB'000
Non-current Assets			
Prepaid lease payments	109,357	(109,357)	–
Right-of-use assets	–	2,107,882	2,107,882
Rental prepayments (previously included in rental deposits and prepayments)	33,128	(33,128)	–
Current Assets			
Prepaid lease payments (previously included in other receivables)	3,207	(3,207)	–
Rental prepayments (previously included in other receivables)	98,052	(98,052)	–
Current Liabilities			
Lease liabilities	–	624,791	624,791
Non-current liabilities			
Lease liabilities	–	1,239,347	1,239,347

note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRS 16 “Leases” (Continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. No material adjustment was made on refundable rental deposits received and advance lease payments.
- (b) Effective on January 1, 2019, the Group has applied HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”) to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

The application of HKFRS 16 by the Group as a lessor in the current period has had no material impact on the Group’s financial position as at December 31, 2019 and the results for the year ended December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business 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 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after January 1, 2021.

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.

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, 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the “Amendments to References to the Conceptual Framework in HKFRS Standards”, will be effective for annual periods beginning on or after January 1, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Other than disclosed above, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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 and certain financial instruments 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKFRS 16 (since January 1, 2019) or HKAS 17 (before application of HKFRS 16), 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”.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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.

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over 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 HKFRS 9 or, when applicable, the cost on initial recognition of an investment in a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses, other than business combination under common control, 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;
- 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);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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.

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in joint ventures (Continued)

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

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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

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

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties including retail stores, warehouses and office buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

Refundable rental deposits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities

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

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

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

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

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

The Group as a lessee (prior to January 1, 2019)

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.

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, 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)

Leases (Continued)

The Group as a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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 such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of HKFRS 16 on January 1, 2019, variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

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, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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 are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Ownership interests in leasehold land and building (Continued)

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” (upon application of HKFRS 16) or “prepaid lease payments” (before application of HKFRS 16) in the consolidated statement of financial position, except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised to write off the cost of assets 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.

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.

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 reported 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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, 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.

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 leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

Equity-settled share-based payment transactions

Share option scheme

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve).

At the end of each reporting period, service and non-market performance vesting conditions are included in the estimation about the number of share options that are expected to vest, 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.

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.

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.

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).

At the end of each reporting period, service and non-market performance vesting conditions are included in the estimation about the number of shares that are expected to vest, the Group revises its estimate of the number of share awards 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.

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 award 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 before the vesting date, the amount previously recognised in share awards reserve will be transferred to accumulated profits.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

Share award scheme (Continued)

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.

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 except trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 “Business Combinations” applies.

A financial asset is held for trading if:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(i) **Amortised cost and interest income**

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

(ii) **Equity instrument designated at FVTOCI**

Investment in an equity instrument at FVTOCI is subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and is not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investment, and will be transferred to accumulated profits.

Dividends from the investments in equity instrument is recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other operating income and gains (losses)" line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including amounts due from related parties, amount due from a non-controlling interest of a subsidiary, trade and other receivables, loan to a joint venture and bank balances and cash) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. Except for debtors that are credit-impaired, the ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

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

(i) **Significant increase in credit risk**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Group assumes that the credit risk on bank balances has not increased significantly since initial recognition if the relevant bank is determined to have low credit risk at the reporting date. A bank is determined to have low credit risk if i) it has a low risk of default, ii) the bank has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the bank to fulfil its contractual cash flow obligations.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

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

Where ECL for trade receivables is measured on a collective basis or cater for cases where evidence at the individual level may not yet be available, the trade receivables are grouped on the basis of past-due status:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

Financial liabilities and equity

Classification as debt or equity

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, including those through share award scheme, 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.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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 policies

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

(i) *Deferred taxation on investment properties*

For the purposes of measuring deferred taxes 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.

(ii) *Discount rates determination for lease liabilities*

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

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

(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) *Impairment assessment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amounts of a several groups of CGUs which are engaged in the business of distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for concessionaire sales 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 above groups of CGUs containing goodwill using a suitable discount rate. Where the actual cash flows are less than expected or changes in facts and circumstances which results in downward revision of future cash flows, an impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 16. As at December 31, 2019, the carrying amount of goodwill is RMB533,247,000 (2018: RMB532,808,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(b) Key sources of estimation uncertainty (Continued)

(ii) Allowance for inventories

The management of the Group reviews the aging and saleability of the inventories amounting to RMB8,021,487,000 (2018: RMB6,694,022,000) 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 of the Group estimates the net realisable value for such items based primarily on the inventories condition, latest transaction 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 and slow-moving inventory items. Where the actual transaction prices are less than expected, a loss may arise. The net changes in allowance for finished goods credited to the consolidated income statement for the year ended December 31, 2019 was RMB61,026,000 (2018: RMB62,590,000) upon review of saleability of the inventory balance remained at the end of the reporting period. Accumulated allowance made as at December 31, 2019 was RMB157,279,000 (2018: RMB218,190,000).

(iii) Income taxes

As at December 31, 2019, the Group had unused tax losses of approximately RMB741.2 million (2018: approximately RMB701.7 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 reliability 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 than expected, a material provision of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a provision takes place.

In addition, the Group provides deferred tax liabilities in relation to the earnings expected to be distributed from its subsidiaries in the PRC and overseas. Deferred tax liabilities have not been provided on all distributable profits of these entities as the Group plans to retain the profits in the respective entities for their daily operations and future developments. In case where the actual distribution of profits are larger than expected or changes in the Group's future development plan which affects the expected timing and amounts of future distributions, material tax liabilities may arise, which will be recognised in profit or loss in the period in which such events occur.

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

(b) Key sources of estimation uncertainty (Continued)

(iv) *Provision of ECL for trade receivables*

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on aging status of trade receivables as groupings of various debtors that have similar historical loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 33(b) and Note 21.

(v) *Estimated impairment of property, plant and equipment, right-of-use assets and intangible assets*

Property, plant and equipment, right-of-use assets and intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) if such event or indicators exist, whether the carrying value of an asset can be supported by the recoverable amount, which is the higher of value in use and fair value less costs of disposal; (3) the appropriate key inputs to be applied in estimating the recoverable amounts. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. The Group has material operational leasehold improvements and right-of-use assets used in the retail stores which are subject to impairment test in the event of trading performance is below expectation. In addition, intangible assets allocated to several groups of CGUs which are subject to impairment assessment test when indicator exists in any of the CGU within the groups of CGUs in which the relevant intangible assets have been allocated to. An impairment assessment was carried out against retail stores which are still underperformed after one year's operation since open. As at December 31, 2019, the Group performed impairment assessments on certain CGUs/groups of CGUs with impairment indicators. No impairment losses on right-of-use assets and property, plant and equipment and intangible assets were recognised respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

5. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for concessionaire sales (“the Retail Business”). The Group’s results and revenue are 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.

The following is an analysis of the Group’s revenue recognised at a point in time:

	2019 RMB’000	2018 RMB’000
Sales of sportswear and footwear products	27,052,466	22,545,025
Commissions from concessionaire sales	137,299	132,350
	27,189,765	22,677,375

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

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)	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
PRC	27,077,187	22,575,642	5,417,749	2,450,224
Hong Kong	–	–	–	1,094
Other locations	112,578	101,733	45,047	24,387
	27,189,765	22,677,375	5,462,796	2,475,705

note: Non-current assets exclude interests in joint ventures, loan to a joint venture, an equity instrument at FVTOCI and deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

6. OTHER INCOME AND GAINS (LOSSES)

(a) Other operating income and gains (losses)

	2019 RMB'000	2018 RMB'000
Included in the balance is the following items:		
Other income from suppliers	289,864	237,166
Net exchange loss	(610)	(16,780)
Dividend income from an equity instrument at FVTOCI	196	562
Loss on disposal of property, plant and equipment	(51,287)	(48,024)
Impairment losses recognised on trade receivables, net of reversal	(11,741)	(11,707)
Impairment losses recognised on other receivables, net of reversal (note)	(562)	(15,943)

note: During the year ended December 31, 2019, impairment losses of RMB562,000 (2018: RMB15,943,000) arising from other receivables were recognised based on the impairment assessment under ECL model, having considered the relevant other receivables are credit-impaired due to deteriorated operating results of relevant debtors leading to financial difficulties for repayment.

(b) Finance income and costs

	2019 RMB'000	2018 RMB'000
Interest expense on:		
– bank overdrafts and bank and other borrowings	(144,924)	(149,072)
– advances from related parties	(1,492)	(771)
– lease liabilities	(101,106)	–
	(247,522)	(149,843)
Interest income from:		
– bank deposits	6,431	4,672
– amount due from a joint venture	–	397
– advance to a non-controlling interest of a subsidiary	1,904	1,191
	8,335	6,260
	(239,187)	(143,583)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(c) Other gain (loss) arising other than operating activities

	2019 RMB'000	2018 RMB'000
Impairment loss on interest in a joint venture	(9,987)	–
Reversal of impairment loss recognised on loan to a joint venture	636	–
	(9,351)	–

7. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax (“EIT”) (note ii)		
– current year	374,172	293,749
– under(over)provision in prior years	5,551	(1,362)
Current tax charge - total	379,723	292,387
Withholding tax (note iii)	–	2,236
Deferred tax credit (Note 19)	(35,167)	(33,148)
	344,556	261,475

notes:

(i) Hong Kong

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

(ii) PRC

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

7. INCOME TAX EXPENSE (Continued)

(ii) PRC (Continued)

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

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	1,224,466	822,369
Tax at income tax rate of 25% (note)	306,117	205,592
Tax effect of share of results of joint ventures	(268)	232
Tax effect of expenses not deductible for tax purposes	39,837	26,613
Tax effect of income not taxable for tax purposes	(17,566)	(16,196)
Effect of tax holidays and concessions granted to the PRC subsidiaries	(27,420)	(23,260)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,708	1,748
Effect of tax losses not recognised	56,261	70,200
Utilisation of tax losses previously not recognised	(20,664)	(4,328)
Under(over)provision of tax in prior years	5,551	(1,362)
Withholding tax on distributed profits of a PRC subsidiary	–	2,236
Income tax expenses for the year	344,556	261,475

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

8. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and chief executives' emoluments (Note 9(a))	2,770	2,133
Retirement benefit scheme contributions, excluding directors and chief executives	428,230	316,706
Equity-settled share-based payments, excluding directors and chief executives	18,872	13,825
Other staff costs	2,547,958	2,100,815
Total staff costs	2,997,830	2,433,479
Depreciation of right-of-use assets	888,960	–
Auditor's remuneration	5,301	4,723
Depreciation of property, plant and equipment	473,732	383,399
Net changes in allowance for inventories	(61,026)	(62,590)
Release of prepaid lease payments	–	3,214
Amortisation of intangible assets (included in selling and distribution expenses)	104,876	123,849
Gross rental income from investment properties net of direct expenses	(4,266)	(3,893)

For the years ended December 31, 2019 and 2018, cost of inventories recognised as an expense represents cost of sales as shown in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(a) Directors' and chief executives' emoluments

Details of emoluments of each of the seven (2018: eight) 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	Equity- settled share- based payments RMB'000	Total RMB'000
For the year ended December 31, 2019				
<i>Executive directors:</i>				
Wu, Pan-Tsu	-	-	-	-
Lee, Shao-Wu	-	911	934	1,845
<i>Non-executive directors:</i>				
Tsai Patty, Pei Chun	-	-	-	-
Li I-nan	133	-	-	133
<i>Independent non-executive directors:</i>				
Chen, Huan-Chung	264	-	-	264
Feng Lei Ming	264	-	-	264
Hsieh, Wuei-Jung	264	-	-	264
	925	911	934	2,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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	Equity- settled share- based payments RMB'000	Total RMB'000
For the year ended December 31, 2018				
<i>Executive directors:</i>				
Wu, Pan-Tsu	-	-	-	-
Lee, Shao-Wu	-	876	555	1,431
<i>Non-executive directors:</i>				
Tsai Patty, Pei Chun	-	-	-	-
Li I-nan	127	-	-	127
<i>Independent non-executive directors:</i>				
Chen, Huan-Chung	254	-	-	254
Feng Lei Ming (note ii)	67	-	-	67
Hsieh, Wuei-Jung	254	-	-	254
Shan Xue (note i)	-	-	-	-
	702	876	555	2,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

The executive directors either did not receive any salary or is a member of a pension scheme outside Hong Kong, therefore, the Group was exempted from making contribution to the pension scheme in Hong Kong or other jurisdictions.

notes:

- (i) Mr. Shan Xue resigned as an independent non-executive director of the Company on September 30, 2018.
- (ii) Mr. Feng Lei Ming was appointed as an independent non-executive director of the Company on September 30, 2018. His emoluments disclosed above included those services rendered by him as an independent non-executive director for the period from the date of appointment to December 31, 2018.

(b) Emoluments of senior management

Of the six (2018: six) senior management of the Company for the year ended December 31, 2019, two (2018: two) of them were directors of the Company and their remuneration has been disclosed in Note 9(a). The emoluments of the remaining four (2018: four) individuals for the year are within the following bands:

	2019 Number of employees	2018 Number of employees
HK\$2,000,001 to HK\$2,500,000	–	2
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\$5,500,001 to HK\$6,000,000	–	1
HK\$7,500,001 to HK\$8,000,000	1	–
	4	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

(c) Five highest paid employees

Of the five employees with the highest emoluments in the Group for the year ended December 31, 2019, none of them (2018: none of them) are directors nor the chief executive of the Company. The emoluments of the five (2018: five) individuals for the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other allowances	9,130	7,693
Bonus	8,060	4,894
Equity-settled share-based payment	3,683	2,420
	20,873	15,007

Their emoluments were within the following bands:

	2019 Number of employees	2018 Number of employees
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	2	1
HK\$4,000,001 to HK\$4,500,000	2	–
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$7,500,001 to HK\$8,000,000	1	–
	5	5

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid employees (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

The Company and Yue Yuen entered into a framework agreements on November 11, 2016 and on November 11, 2018, respectively, 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 two years from January 1, 2017 to December 31, 2018 and for three years from January 1, 2019 to December 31, 2021, respectively, subject to the various annual caps.

Mr. Wu, Pan-Tsu was interested in 40,000 shares award in Yue Yuen in both 2019 and 2018, and all of them were remained unvested and subject to certain vesting conditions.

Mr. Lee, Shao-Wu was interested in 78,000 (2018: 78,000) shares in Yue Yuen.

10. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends recognised as distribution during the year:		
2018 Final dividend of HK\$0.025 per share (2018: 2017 Final dividend of HK\$0.020 per share)	115,326	87,298

Subsequent to the end of the reporting period, the directors resolved not to recommend payment of a final dividend in respect of the year ended December 31, 2019 (2018: HK\$0.025 per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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:

	2019 RMB'000	2018 RMB'000
Earnings:		
Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	833,275	542,888
	2019	2018
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,250,572,849	5,223,525,689
Effect of dilutive potential ordinary shares:		
– share options	393,059	4,225,868
– unvested awarded shares	47,156,369	39,093,273
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,298,122,277	5,266,844,830

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 27(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

12. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At January 1, 2018 and December 31, 2018 and 2019	94,700

The Group leases out various shopping mall spaces under operating leases. The leases typically run for an initial period of 2 to 15 years. The leases of retail stores contain minimum annual lease payment that are fixed over the lease term.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities.

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, 2019 and 2018, 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 an independent qualified professional valuer. 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 was the market yield, which ranged from 3.8% to 6.0% (2018: 3.5% to 5.5%). A significant increase in the market yield used would result in a significant decrease in fair value measurement of the respective investment properties, and vice versa.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

12. INVESTMENT PROPERTIES (Continued)

The Group as lessor

The Group had contracted with tenants for future minimum fixed lease payments under operating leases over non-cancellable period as follows:

	2019 RMB'000
Within one year	3,992
In the second year	3,971
In the third year	3,670
In the fourth year	3,670
In the fifth year	3,670
Over five years	24,771
	43,744
	2018 RMB'000
Within one year	4,266
In the second to fifth years inclusive	15,303
Over five years	28,441
	48,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

13. 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, 2018	58,523	37,988	337,130	38,012	1,436,765	255,850	22,494	13,034	2,199,796
Additions	-	34,705	1,417	711	413,152	62,529	2,582	7,957	523,053
Disposals	-	-	-	(2,788)	(326,919)	(14,255)	(2,401)	-	(346,363)
Transfer from construction in progress	-	-	20,991	-	-	-	-	(20,991)	-
Exchange realignment	-	-	-	24	417	252	7	-	700
At December 31, 2018	58,523	72,693	359,538	35,959	1,523,415	304,376	22,682	-	2,377,186
Additions	-	1,404	-	1,926	679,572	85,811	3,450	-	772,163
Disposals	-	-	-	(3)	(283,952)	(12,124)	(1,730)	-	(297,809)
Exchange realignment	-	-	-	-	788	634	53	-	1,475
At December 31, 2019	58,523	74,097	359,538	37,882	1,919,823	378,697	24,455	-	2,853,015
DEPRECIATION AND IMPAIRMENT									
At January 1, 2018	15,992	5,340	151,356	34,958	791,021	131,411	15,713	-	1,145,791
Provided for the year	1,249	1,368	11,451	290	314,940	52,163	1,938	-	383,399
Eliminated on disposals	-	-	-	(816)	(270,586)	(10,591)	(2,026)	-	(284,019)
Exchange realignment	-	-	-	3	226	108	2	-	339
At December 31, 2018	17,241	6,708	162,807	34,435	835,601	173,091	15,627	-	1,245,510
Provided for the year	1,249	1,986	11,617	149	398,248	58,490	1,993	-	473,732
Eliminated on disposals	-	-	-	(2)	(210,152)	(9,508)	(1,666)	-	(221,328)
Exchange realignment	-	-	-	-	571	338	6	-	915
At December 31, 2019	18,490	8,694	174,424	34,582	1,024,268	222,411	15,960	-	1,498,829
CARRYING VALUE									
At December 31, 2019	40,033	65,403	185,114	3,300	895,555	156,286	8,495	-	1,354,186
At December 31, 2018	41,282	65,985	196,731	1,524	687,814	131,285	7,055	-	1,131,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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.

In addition, the Group owns several office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The above items of property, plant and equipment 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% or shorter of the lease term
Plant and machinery	5% - 15%
Leasehold improvements	10% - 50% or shorter of the lease term
Furniture, fixture and equipment	20% - 30%
Motor vehicles	20% - 30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

14. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Retail stores RMB'000	Warehouses RMB'000	Office buildings RMB'000	Total RMB'000
As at January 1, 2019					
Carrying amount	112,564	1,828,410	92,003	74,905	2,107,882
As at December 31, 2019					
Carrying amount	109,357	2,642,088	94,681	85,696	2,931,822
For the year ended December 31, 2019					
Depreciation charge	3,207	824,860	30,905	29,988	888,960
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16					236,381
Expense relating to leases of low-value assets, excluding short-term leases of low value assets					215
Variable lease payments not included in the measurement of lease liabilities					1,816,331
Total cash outflow for leases					3,015,972
Additions to right-of-use assets, net of early termination					1,712,353

During the year ended December 31, 2019, the Group recognised RMB1,698,812,000 of right-of-use assets and the related lease liabilities, net of certain leases which were early terminated without any cash payments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

14. RIGHT-OF-USE ASSETS (Continued)

The Group leases various leasehold lands, retail stores, warehouses and office buildings for its operations. Majority of the lease contracts are entered into for lease term of 2 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for retail stores. As at December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense of approximately RMB93,000,000 during the year.

Leases of retail stores are either with only fixed lease payments or contain variable lease payment that are based on certain percentage of sales and minimum annual lease payment that are fixed over the lease term. Some variable payment terms include cap clauses. The payment terms are common in retail stores in PRC where the Group operates.

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

15. INTANGIBLE ASSETS

	Brand names RMB'000	Customer relationship RMB'000	Licensing agreements RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST					
At January 1, 2018	467,340	53,404	100,207	414,301	1,035,252
Written off	-	-	-	(265,201)	(265,201)
Exchange realignment	-	-	113	-	113
At December 31, 2018	467,340	53,404	100,320	149,100	770,164
Addition	-	-	-	9,434	9,434
Written off	-	(53,404)	-	-	(53,404)
Exchange realignment	-	-	252	-	252
At December 31, 2019	467,340	-	100,572	158,534	726,446
AMORTISATION AND IMPAIRMENT					
At January 1, 2018	129,864	48,264	52,683	302,006	532,817
Provided for the year	84,370	2,571	10,117	26,791	123,849
Eliminated on written off	-	-	-	(265,201)	(265,201)
Exchange realignment	-	-	51	-	51
At December 31, 2018	214,234	50,835	62,851	63,596	391,516
Provided for the year	84,370	2,569	10,129	7,808	104,876
Eliminated on written off	-	(53,404)	-	-	(53,404)
Exchange realignment	-	-	147	-	147
At December 31, 2019	298,604	-	73,127	71,404	443,135
CARRYING VALUE					
At December 31, 2019	168,736	-	27,445	87,130	283,311
At December 31, 2018	253,106	2,569	37,469	85,504	378,648

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

16. GOODWILL

	RMB'000
COST AND CARRYING VALUE	
At January 1, 2018	532,612
Exchange realignment	196
At December 31, 2018	532,808
Exchange realignment	439
At December 31, 2019	533,247

For the purpose of impairment assessment, goodwill of the Group is allocated to several groups of CGUs which are engaged in the business of distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for concessionaire sales.

The basis of recoverable amount of each of the above groups of CGUs has been determined based on the higher of its value in use calculation and fair value less costs of disposal and assessed by the management as at December 31, 2019 and 2018.

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and pre-tax discount rate of 17%, determined by an independent valuer, APAC Asset Valuation, for the groups of CGUs. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2018: 3%) for all of the above groups of 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 assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the CGUs' 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 above groups of CGUs to fall below its carrying amount.

None of goodwill allocated to the above groups of CGUs had suffered any impairment during the year ended December 31, 2019 or 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

17. INTERESTS IN JOINT VENTURES/LOAN TO A JOINT VENTURE/ NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2019 RMB'000	2018 RMB'000
Cost of unlisted investments in joint ventures (note i)	280,515	70,427
Share of post-acquisition losses, net of dividends received	(27,100)	(28,407)
Less: impairment losses	–	(3,946)
	253,415	38,074
Loan to a joint venture (note ii)	–	3,000

During the current year, the Group entered into a disposal framework agreement with the joint venture partner of Sky Grace Investments Limited (“Sky Grace”), pursuant to which the Group agreed to dispose of its investment in Sky Grace for a consideration of approximately RMB29,160,000 and recognised impairment loss on the joint venture of approximately RMB9,987,000, calculated as the difference between the carrying amount of the joint venture and the anticipated net disposal proceeds. Therefore, the interest of the Group in Sky Grace, which was expected to be sold within twelve months, has been classified as a non-current asset held for sale and was presented separately in the consolidated statement of financial position as at December 31, 2019.

At the end of the reporting period, the Group owned a jointly controlled entity established in PRC which engaged in online retailing of sportswear.

17. INTERESTS IN JOINT VENTURES/LOAN TO A JOINT VENTURE/ NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

notes:

- (i) Included in cost of investments in joint ventures as at December 31, 2018 was goodwill of RMB13,932,000 arising from the acquisition of a joint venture in prior years.

The cost of investments in the joint ventures as at December 31, 2019 also included balance arising from deemed disposal of a non-wholly owned subsidiary.

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

In the opinion of Directors, the jointly controlled entity is not material to the Group's results and total assets and accordingly no further information is disclosed.

18. EQUITY INSTRUMENT AT FVTOCI

The amount represents unlisted equity securities issued by a private entity incorporated overseas and is classified as equity instrument at FVTOCI because the directors of the Company consider these unlisted equity securities are held under long term investment strategy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

19. DEFERRED TAX LIABILITIES/ASSETS

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	(9,313)	–
Deferred tax liabilities	85,658	111,494
	76,345	111,494

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

	Undistributed earnings of PRC and overseas entities RMB'000	Fair value adjustments of intangible assets on business combination RMB'000	Right-of-use assets/ related lease liabilities RMB'000	Total RMB'000
At January 1, 2018	19,321	125,311	–	144,632
Credit to profit or loss (Note 7)	(2,236)	(30,912)	–	(33,148)
Exchange realignment	–	10	–	10
At December 31, 2018	17,085	94,409	–	111,494
Credit to profit or loss (Note 7)	–	(25,854)	(9,313)	(35,167)
Exchange realignment	–	18	–	18
At December 31, 2019	17,085	68,573	(9,313)	76,345

As at December 31, 2019, the Group had unused tax losses of approximately RMB741.2 million (2018: approximately RMB701.7 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 the 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 the PRC subsidiaries amounting to approximately RMB6,906 million (2018: approximately RMB6,243 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Finished goods	8,021,487	6,694,022

21. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	1,407,523	1,739,803
Deposits, prepayments and other receivables	1,586,015	1,553,132
	2,993,538	3,292,935
Deposits, prepayments and other receivables represent:		
Rental deposits and prepaid rentals	158,956	245,551
Deposits and prepayments paid to suppliers	923,107	657,299
Value-added tax recoverable	219,996	449,873
Amounts due from related parties (note i)	12,659	4,178
Amount due from a non-controlling interest of a subsidiary (note ii)	34,000	20,000
Other prepaid expenses	131,407	95,422
Prepaid lease payments	–	3,207
Other deposits and receivables (note iii)	105,890	77,602
	1,586,015	1,553,132

notes:

- (i) The amounts represent amounts due from certain joint ventures of RMB12,656,000 (2018: RMB2,108,000) and certain entities controlled by subsidiaries of Yue Yuen of RMB3,000 (2018: RMB2,070,000), and are unsecured and expected to be recovered within one year and interest-free.
- (ii) The amount is unsecured and expected to be recovered within one year and carries fixed interest rate of 6.53% (2018: 6.53%) per annum.
- (iii) The amounts include interest receivables of RMB495,000 (2018: RMB495,000) from a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

21. TRADE AND OTHER RECEIVABLES (Continued)

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit rating limits for each customer. Limits attributed to customers are reviewed periodically.

The Group generally allows 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:

	2019 RMB'000	2018 RMB'000
0 - 30 days	1,297,831	1,495,483
31 - 90 days	107,056	230,681
Over 90 days	2,636	13,639
	1,407,523	1,739,803

Included in the Group's trade receivable balance are debtors with aggregate carrying amount to RMB11,240,000 (2018: RMB53,036,000) which are past due 30-90 days at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. Out of the past due balances RMB1,077,000 (2018: RMB65,000) has been past due 90 days or more and is not considered as in default because it's the industry's practice that payments are usually made later than due dates. The Group does not hold any collateral over these balances. Trade receivables which are neither past due nor impaired are in good quality with satisfactory repayment history in the past.

Details of impairment assessment of trade and other receivables for the year ended December 31, 2019 and 2018 are set out in Note 33(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

22. 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, 2019, the bank deposits carried variable interest rates ranging from 0.01% to 2.85% (2018: 0.01% to 3.70%) 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:

	2019 RMB'000	2018 RMB'000
United States dollars ("USD")	5,165	17,536
Hong Kong dollars	822	1,576
RMB	311	398
	6,298	19,510

23. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

(a) Trade and other payables

	2019 RMB'000	2018 RMB'000
Trade and bill payables (note i)	772,913	650,909
Deposits from customers	413,052	344,464
Amounts due to related parties (note ii)	79,725	6,620
Accrued staff costs	549,122	361,434
Sales discount and rebate payables	69,570	48,809
Other tax payables	141,928	137,252
Other accruals and payables (note iii)	634,519	548,093
	2,660,829	2,097,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

23. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES (Continued)

(a) Trade and other payables (Continued)

notes:

- (i) The amounts include trade payable to Yue Yuen and its subsidiaries of RMB1,021,000 (2018: RMB5,596,000).
- (ii) The amounts represent amount due to a non-controlling interest of a subsidiary of RMB2,800,000 (2018: RMB2,800,000), subsidiaries of Yue Yuen and PCC of RMB3,389,000 (2018: RMB3,820,000) and a joint venture of RMB73,536,000 (2018: nil), and are unsecured and repayable on demand.
- (iii) The amounts mainly include the renovation costs payable, accrued insurance expense and other accrued expenses. The amounts also include other payables of RMB1,115,000 (2018: RMB611,000) and interest expense payables of RMB1,492,000 (2018: RMB771,000) to Yue Yuen and its subsidiaries and other payables of RMB2,274,000 (2018: RMB3,209,000) and interest payables of RMB21,204,000 (2018: 18,704,000) to PCC and its subsidiaries.

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:

	2019 RMB'000	2018 RMB'000
0 - 30 days	770,845	646,275
31 - 90 days	653	3,079
Over 90 days	1,415	1,555
	772,913	650,909

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

23. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES (Continued)

(b) Contract liabilities

	2019 RMB'000	2018 RMB'000
Sales of sportswear and footwear products	414,969	283,145

As at January 1, 2018, contract liabilities amounted to RMB319,879,000.

The Group receives prepayments from wholesale customers when they sign the sale and purchase agreements which are recognised as contract liabilities.

The contract liabilities are expected to be recognised as revenue within one year upon receipt.

All contract liabilities at the beginning of the year were recognised as revenue in current period upon the satisfaction of performance obligation, i.e. the delivery of goods to customers.

24. BANK AND OTHER BORROWINGS

(a) Bank borrowings

The bank borrowings amounting to RMB2,990,995,000 (2018: RMB2,600,259,000) are unsecured, interest-bearing at variable rates, and 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 lending rate of the PBOC, as appropriate. Interest is repriced every one to nine months.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings are as follows:

	2019	2018
Effective interest rate: Variable rate borrowings	1.50% - 5.00%	1.49% - 6.70%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

24. BANK AND OTHER BORROWINGS (Continued)

(a) Bank borrowings (Continued)

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:

	2019 RMB'000	2018 RMB'000
USD	–	205,896

(b) Other borrowings

As at December 31, 2019, the loans from subsidiaries and affiliates of PCC amounting to RMB555,000,000 and nil (2018: RMB864,000,000 and RMB67,000,000), respectively carried at fixed interest rate ranging from 3.90% to 4.00% (2018: 4.35%) per annum, are unsecured and repayable within one year.

25. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year	889,552
Within a period of more than one year but not more than two years	766,143
Within a period of more than two years but not more than five years	879,089
Within a period of more than five years	180,213
	2,714,997
Less: Amount due for settlement within 1 year shown under current liabilities	(889,552)
Amount due for settlement after 1 year shown under non-current liabilities	1,825,445

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

26. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At January 1, 2018, December 31, 2018 and 2019	30,000,000,000	300,000
Issued and fully paid:		
At January 1, 2018	5,338,548,615	53,385
Exercise of share options	6,758,000	68
At December 31, 2018	5,345,306,615	53,453
Exercise of share options	11,166,000	111
At December 31, 2019	5,356,472,615	53,564
	2019 RMB'000	2018 RMB'000
Shown in the consolidated financial statements as at December 31	46,685	46,588



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

27. 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 has expired 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

27. 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, 2019:

	Date of grant	Exercise price HK\$	Exercisable period	Number of share options							
				Outstanding at January 1, 2018	Exercised during the year	Lapsed during the year	Outstanding at December 31, 2018	Exercised during the year	Lapsed during the year	Outstanding at December 31, 2019	
Current and former employees of the Group	21.01.2010	1.620	21.01.2011 - 20.01.2018	3,522,450	-	(3,522,450)	-	-	-	-	-
	21.01.2010	1.620	21.01.2012 - 20.01.2018	3,527,450	-	(3,527,450)	-	-	-	-	-
	21.01.2010	1.620	21.01.2013 - 20.01.2018	6,125,900	-	(6,125,900)	-	-	-	-	-
	21.01.2010	1.620	21.01.2014 - 20.01.2018	5,571,200	-	(5,571,200)	-	-	-	-	-
	20.01.2011	1.230	20.01.2012 - 19.01.2019	9,487,500	(2,876,000)	-	6,611,500	(4,466,500)	(2,145,000)	-	-
	20.01.2011	1.230	20.01.2013 - 19.01.2019	6,137,500	(2,035,000)	-	4,102,500	(2,382,500)	(1,720,000)	-	-
	20.01.2011	1.230	20.01.2014 - 19.01.2019	3,964,000	(1,164,000)	-	2,800,000	(2,212,500)	(587,500)	-	-
	20.01.2011	1.230	20.01.2015 - 19.01.2019	3,375,000	(683,000)	-	2,692,000	(2,104,500)	(587,500)	-	-
	07.03.2012	1.050	07.03.2013 - 06.03.2020	375,000	-	-	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				53,749,190	(6,758,000)	(18,747,000)	28,244,190	(11,166,000)	(6,206,320)		10,871,870
Exercisable as at January 1, 2018, December 31, 2018 and December 31, 2019				43,252,320			18,913,640				2,707,640

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK\$1.49 (2018: HK\$1.69).

During the year ended December 31, 2019, the Group recognised a net expense of RMB1,814,000 (2018: RMB2,120,000) 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

27. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Continued)

(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.

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 board of 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.

No ordinary shares was acquired by the Company during the year ended December 31, 2019 and 2018. A total of 98,240,360 ordinary shares (2018: 111,527,640 ordinary shares) of the Company were held by the trustee of the Share Award Scheme as at December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

27. 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, 2019:

	Date of grant	Vesting date	Number of share awards outstanding at January 1, 2018	Granted during the year	Lapsed/ forfeited during the year	Number of share awards Vested during the year	Number of share awards outstanding at December 31, 2018	Granted during the year	Lapsed/ forfeited during the year	Number of share awards Vested during the year	Number of share awards outstanding at December 31, 2019
Director											
Lee, Shao-Wu	25.03.2017	25.03.2018	300,000	-	-	(300,000)	-	-	-	-	-
	25.03.2017	25.03.2019	300,000	-	-	-	300,000	-	-	(300,000)	-
	25.03.2017	25.03.2020	400,000	-	-	-	400,000	-	-	-	400,000
	11.08.2018	11.09.2019	-	200,000	-	-	200,000	-	-	(200,000)	-
	11.08.2018	11.09.2020	-	300,000	-	-	300,000	-	-	-	300,000
	11.08.2018	11.03.2021	-	500,000	-	-	500,000	-	-	-	500,000
	23.03.2019	23.09.2020	-	-	-	-	-	200,000	-	-	200,000
	23.03.2019	23.09.2021	-	-	-	-	-	300,000	-	-	300,000
	23.03.2019	23.03.2022	-	-	-	-	-	500,000	-	-	500,000
Employees											
	21.03.2015	21.03.2018	5,358,000	-	(723,000)	(4,635,000)	-	-	-	-	-
	14.08.2015	14.08.2018	8,110,000	-	(340,000)	(7,770,000)	-	-	-	-	-
	24.03.2016	24.03.2019	3,220,000	-	(344,000)	-	2,876,000	-	(80,000)	(2,796,000)	-
	13.08.2016	13.08.2019	5,460,000	-	(510,000)	-	4,950,000	-	(150,000)	(4,800,000)	-
	12.11.2016	31.08.2019	600,000	-	-	-	600,000	-	-	(600,000)	-
	14.11.2016	01.09.2018	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	4,528,000	-	(374,000)	-	4,154,000	-	(123,000)	-	4,031,000
	03.07.2017	03.07.2020	300,000	-	-	-	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	-	-	(300,000)	-
	14.11.2017	14.11.2020	3,800,000	-	(600,000)	-	3,200,000	-	-	-	3,200,000
	11.08.2018	01.07.2019	-	140,000	-	-	140,000	-	-	(140,000)	-
	11.08.2018	01.07.2020	-	210,000	-	-	210,000	-	-	-	210,000
	11.08.2018	01.01.2021	-	350,000	-	-	350,000	-	-	-	350,000
	11.08.2018	11.09.2019	-	3,695,800	(17,000)	-	3,678,800	-	(361,200)	(3,317,600)	-
	11.08.2018	11.09.2020	-	5,543,700	(25,500)	-	5,518,200	-	(541,800)	-	4,976,400
	11.08.2018	11.03.2021	-	9,239,500	(42,500)	-	9,197,000	-	(903,000)	-	8,294,000
	23.03.2019	23.09.2020	-	-	-	-	-	2,453,200	(46,000)	-	2,407,200
	23.03.2019	23.09.2021	-	-	-	-	-	3,679,800	(69,000)	-	3,610,800
	23.03.2019	23.03.2022	-	-	-	-	-	6,133,000	(115,000)	-	6,018,000
	23.03.2019	01.10.2020	-	-	-	-	-	112,000	-	-	112,000
	23.03.2019	01.10.2021	-	-	-	-	-	168,000	-	-	168,000
	23.03.2019	01.04.2022	-	-	-	-	-	280,000	-	-	280,000
	15.11.2019	15.12.2020	-	-	-	-	-	750,000	-	-	750,000
Total			41,079,130	20,179,000	(3,876,000)	(13,538,680)	43,843,450	14,576,000	(2,389,000)	(13,287,280)	42,743,170

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

27. SHARE OPTION SCHEME AND SHARE AWARD SCHEME (Continued)

(b) Share Award Scheme (Continued)

The closing prices of the Company's shares at the grant date of the share awards on November 15, 2019 was HK\$2.82 per share and immediately before the grant of the share awards on March 23, 2019 was HK\$1.67 per share (August 11, 2018: HK\$1.50 per share).

During the year ended December 31, 2019, the Group recognised a net expense of RMB17,992,000 (2018: RMB12,260,000) 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.

28. 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.

	Lease liabilities RMB'000	Bank and other borrowings RMB'000	Amounts due to related parties RMB'000 (Note 23(a))	Dividends payable RMB'000	Interests payables (included in other payables) RMB'000
At January 1, 2018	-	2,532,169	6,611	-	11,584
Financing cash flows	-	998,000	9	(87,298)	(149,843)
Foreign exchange translation	-	1,090	-	-	-
Interest expenses	-	-	-	-	149,843
Dividend declared	-	-	-	87,298	-
At December 31, 2018	-	3,531,259	6,620	-	11,584
Recognition of lease liabilities	1,864,138	-	-	-	-
Financing cash flows	(949,504)	11,672	-	(129,326)	(134,253)
New leases/lease modification/lease termination	1,698,812	-	-	-	-
Foreign exchange translation	445	3,064	(431)	-	-
Interest expenses	101,106	-	-	-	146,416
Dividend declared	-	-	-	129,326	-
At December 31, 2019	2,714,997	3,545,995	6,189	-	23,747

29. 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, 2019 and 2018, the Group did not forfeit any contributions for employees who left the plans prior to vesting fully in such contributions.

The total cost of RMB428,230,000 (2018: RMB316,706,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

30. OPERATING LEASES

The Group as lessee

The Group made the following lease payments during the year ended December 31, 2018:

	2018 RMB'000
Operating lease rentals in respect of:	
Minimum lease payments:	
– street level stores	291,532
– shopping mall stores	536,820
– other properties	57,778
	886,130
Contingent rentals:	
– shopping mall stores	1,776,769
	2,662,899
Representing:	
– shopping malls/retail stores/warehouses (included in selling and distribution expenses)	2,617,545
– offices (included in administrative expenses)	45,354
	2,662,899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

30. OPERATING LEASES (Continued)

The Group as lessee (Continued)

As at December 31, 2018, the Group had commitments for non-cancellable future minimum lease payments for retail stores and other properties under non-cancellable operating leases which fall due as follows:

	2018 RMB'000
Within one year	861,886
In the second to fifth years inclusive	1,167,323
Over five years	188,937
	<hr/> 2,218,146

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail stores leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail stores' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

31. RELATED PARTY DISCLOSURES

(a) Transactions

Other than as disclosed elsewhere in these consolidated financial statements, the Group had the following related party transactions:

Relationship	Nature of transactions	2019 RMB'000	2018 RMB'000
Yue Yuen and its subsidiaries	Purchase of footwear products by the Group (note)	12,447	20,416
	Operating lease payment (note)	1,298	1,441
	Management fees (note)	1,970	1,538
PCC and its subsidiaries	Management fees (note)	719	–
	Sales of sportswear products by the Group (note)	56	41
Joint ventures of the Group	Sales of sportswear products by the Group	–	2,659

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) Compensation of key management personnel

	2019 RMB'000	2018 RMB'000
Short term benefits	26,150	20,016
Equity-settled share-based payments	5,797	3,719
	31,947	23,735

The remuneration of directors and key executives is determined having regard to the performance of the individuals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

32. 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 24, lease liabilities in Note 25, 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.

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Amortised cost	2,262,392	2,626,398
Equity instrument at FVTOCI	2,323	2,231
Financial liabilities		
Financial liabilities at amortised cost	4,676,689	4,419,943
Lease liabilities	2,714,997	–

(b) Financial risk management objectives and policies

The Group's major financial instruments include loan to a joint venture, equity instrument at FVTOCI, trade and other receivables, amounts due from related parties, amount due from a non-controlling interest of a subsidiary, bank balances and cash, trade and other payables, bank and other borrowings and lease liabilities. 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. There has been no changes to the policies on how to mitigate these risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (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 22), loan to a joint venture (Note 17) and bank borrowings (Note 24(a)). 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 21), amount due from a joint venture (Note 21), other borrowings (Note 24(b)) and lease liabilities (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, 2019.

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 RMB460,000 (2018: increase/decrease by RMB548,000).

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 RMB13,297,000 (2018: decrease/increase by RMB9,776,000).

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.

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (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 22 and 24(a), respectively, which expose the Group to foreign exchange risk, whilst over 99% (2018: 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 RMB194,000 (2018: increase by RMB7,064,000), 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 and impairment assessment

As at December 31, 2019, 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 does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which covered over 99% (2018: over 99%) of its total receivables as at December 31, 2019. There is no significant concentration of credit risk on trade receivables.

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, the 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 performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued) Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment on trade receivables and other financial assets comprise the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL - not credit -impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL - not credit -impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit -impaired	Lifetime ECL - not credit -impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit -impaired	Lifetime ECL - credit -impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued) Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
				2019 RMB'000	2018 RMB'000
Financial assets at amortised cost					
Trade receivables - goods	21	(note 2)	Lifetime ECL (Provision matrix)	1,407,523	1,739,803
		Loss	Credit-impaired	63,415	103,452
				1,470,938	1,843,255
Loan to a joint venture	17	Doubtful	Lifetime ECL (not credit-impaired)	-	3,000
Amounts due from related parties	21	Low risk	12m ECL	12,659	4,178
Amount due from a non-controlling interest of a subsidiary	21	Low risk	12m ECL	34,000	20,000
Bank balances and cash	22	(note 1)	12m ECL	613,591	730,956
Other receivables	21	Low risk/ watch list	12m ECL	194,619	128,461
		Loss	Credit-impaired	48,932	56,015
				243,551	184,476

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued) Credit risk and impairment assessment (Continued)

notes:

1. The credit risk on bank balance is limited because the counterparties are banks with reputable credit ratings.
2. The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors that are credit-impaired, the Group determines the ECL on these items by using a provision matrix, grouped by aging of receivables. The directors of the Company considered the loss allowance at lifetime ECL on trade receivables calculated based on provision matrix is insignificant.

Provision matrix - trade receivables' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its Retail Business because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at December 31, 2019 and 2018 within lifetime ECL (not credit-impaired). Debtors that are credit-impaired with gross carrying amounts of RMB63,415,000 (2018: RMB103,452,000) were assessed individually.

Gross carrying amount assessed based on provision matrix

	Average loss rate %	Trade receivables 2019 RMB'000	Average loss rate %	Trade receivables 2018 RMB'000
Current (not past due)	–	1,310,241	–	1,516,692
1 - 120 days past due	0.8	97,282	0.6	223,111
		1,407,523		1,739,803

The average loss rates are estimated based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about trade receivables is updated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued) *Credit risk and impairment assessment (Continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (credit-impaired) RMB'000
As at January 1, 2018	100,252
- Impairment losses recognised	11,707
- Write-offs	(8,507)
As at December 31, 2018	103,452
- Impairment losses recognised	11,741
- Write-offs	(51,778)
As at December 31, 2019	63,415

The Group considers the trade receivables are credit-impaired mainly when they are past due for more than 120 days based on past experience, and writes off a trade receivable when there is information indicating that the debtor has been placed under liquidation or has entered into bankruptcy proceedings. None of the trade receivables that have been written off is subject to enforcement activities.

Liquidity risk

The Group relies on bank borrowings as a significant source of liquidity. Details of which are set out in Note 24(a).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the contractual maturity of the Group's financial liabilities based on the agreed repayment terms. 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	1 - 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at December 31, 2019								
Non-interest bearing	-	1,128,626	652	1,416	-	-	1,130,694	1,130,694
Fixed interest rate instruments	3.95	-	-	576,945	-	-	576,945	555,000
Variable interest rate instruments	3.87	1,768,437	587,598	657,909	-	-	3,013,944	2,990,995
Lease liabilities	4.49	28,977	193,245	762,128	1,781,884	201,555	2,967,789	2,714,997
		2,926,040	781,495	1,998,398	1,781,884	201,555	7,689,372	7,391,686

	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, 2018						
Non-interest bearing	-	884,050	3,079	1,555	888,684	888,684
Fixed interest rate instruments	4.35	-	-	971,499	971,499	931,000
Variable interest rate instruments	4.42	1,986,844	74,845	557,513	2,619,202	2,600,259
		2,870,894	77,924	1,530,567	4,479,385	4,419,943

The amounts included above for variable interest rate instruments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

33. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

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.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	701	1,094
Investments in subsidiaries	4,460,002	4,747,997
	4,460,703	4,749,091
CURRENT ASSETS		
Other receivables	7,590	6,732
Amounts due from subsidiaries	1,449,342	650,422
Bank balances and cash	3,649	2,431
	1,460,581	659,585
CURRENT LIABILITIES		
Other payables	19,547	10,938
Bank borrowings	1,191,560	560,256
	1,211,107	571,194
NET CURRENT ASSETS	249,474	88,391
TOTAL ASSETS	4,710,177	4,837,482
CAPITAL AND RESERVES		
Share capital	46,685	46,588
Reserves (note)	4,663,492	4,790,894
	4,710,177	4,837,482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

note:

Movement in the Company's reserves:

	RMB'000
At January 1, 2018	4,836,736
Profit and total comprehensive income for the year	20,015
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	14,380
Exercise of share options	7,061
Dividends recognised as distribution (Note 10)	(87,298)
At December 31, 2018	4,790,894
Loss and total comprehensive expense for the year	(43,742)
Recognition of equity-settled share-based payments, net of amount forfeited relating to share options and share awards not yet vested	19,806
Exercise of share options	11,860
Dividends recognised as distribution (Note 10)	(115,326)
At December 31, 2019	4,663,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at December 31, 2019 and 2018:

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
			2019	2018	
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
Bao Sheng Dao Ji (Beijing) Trading Company Ltd. 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
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
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 iii)	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 ii)	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 (note ii)	PRC	US\$10,000,000	100%	100%	Retailing of sportswear
Guizhou Shengdao Sporting 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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
			2019	2018	
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
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
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
Pau Yuen Trading Corporation [#] 寶原興業股份有限公司	Taiwan	NTD500,000,000	100%	90%	Distribution of licenced products
PCG Bros (Holdings) Co. Limited	BVI	US\$6,400,000	82.03%	82.03%	Investment holding
PCG BROS Sports Management Co. Ltd. [#] 寶悍運動平台股份有限公司	Taiwan	NTD360,000,000	82.03%	82.03%	Sports services 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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
			2019	2018	
Qingdao Pou Sheng International Sporting Goods Company Limited [#] 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
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%	100%	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
Shaanxi Pousheng 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
Shanghai Pouyuen Sports Goods Company Limited [#] 上海寶原體育用品商貿有限公司 (note ii)	PRC	US\$50,000,000	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 (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
Sheng Dao (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
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
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	NTD230,000,000	100%	100%	Distribution of licensed product

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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
			2019	2018	
Tianjin Baosheng Sports Goods Company Limited [#] 天津寶勝體育用品銷售有限公司 (note ii)	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 Pouyuen 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 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%	Retailing of sportswear
Yunnan Shengdao Sports Goods Company Limited [#] 雲南勝道體育用品有限公司 (note iv)	PRC	RMB262,500,000	100%	100%	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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. SUBSEQUENT EVENT

Subsequent to the end of the reporting period, the Group temporarily suspended the operations of majority of its retail stores due to the outbreak of the novel coronavirus (COVID-19) epidemic (the “Epidemic”) in the PRC and the mandatory quarantine measures imposed by the PRC government. Therefore, the directors expect that the Epidemic will have a negative impact on the Group’s revenue and results for the first half of 2020. The Group has adopted several cost control measures to minimise the negative impact in this regard. Up to the date of this report, the assessment is still in progress.

FINANCIAL SUMMARY

RESULTS

	For the year ended December 31,				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Revenue	14,465,564	16,236,384	18,833,313	22,677,375	27,189,765
Profit for the year	383,135	569,611	415,032	560,894	879,910
Attributable to:					
Owners of the Company	396,592	560,579	394,322	542,888	833,275
Non-controlling interests	(13,457)	9,032	20,710	18,006	46,635
	383,135	569,611	415,032	560,894	879,910

ASSETS AND LIABILITIES

	As at December 31,				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000
Total assets	8,626,667	10,043,776	11,470,110	13,237,469	17,390,782
Total liabilities	(2,838,937)	(3,910,265)	(5,028,581)	(6,201,932)	(9,684,704)
	5,787,730	6,133,511	6,441,529	7,035,537	7,706,078
Equity attributable to:					
Owners of the Company	5,742,374	6,103,531	6,390,692	6,867,567	7,612,574
Non-controlling interests	45,356	29,980	50,837	167,970	93,504
	5,787,730	6,133,511	6,441,529	7,035,537	7,706,078



**MAKE
SPORTS
YOUR
LIFE**

讓運動融入你的生活！

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