

SPORTS



2020 ANNUAL REPORT
二零二零年年報



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.

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CORPORATE OVERVIEW





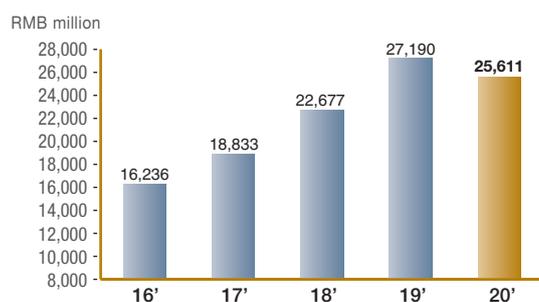
THE GROUP'S FINANCIAL HIGHLIGHTS

Financial performance	For the year ended December 31,		Change
	2020 RMB'000	2019 RMB'000	
Revenue	25,611,125	27,189,765	-5.8%
Gross profit	7,826,305	9,275,469	-15.6%
Operating profit	661,403	1,471,932	-55.1%
Profit attributable to owners of the Company	302,840	833,275	-63.7%
Gross profit margin (%)	30.6%	34.1%	-3.5 ppt
Operating profit margin (%)	2.6%	5.4%	-2.8 ppt
Basic earnings per share (RMB cents)	5.75	15.87	-63.8%

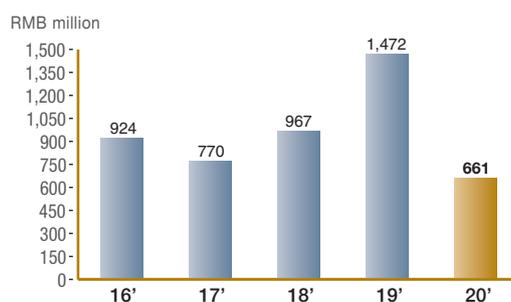
Financial position	As at December 31,		Change
	2020 RMB'000	2019 RMB'000	
Inventories	5,869,541	8,021,487	-26.8%
Trade and other receivables	3,360,206	2,993,538	12.2%
Bank balances and cash	1,742,290	613,591	183.9%
Bank and other borrowings	1,948,679	3,545,995	-45.0%

KEY SHAREHOLDER VALUE INDICES

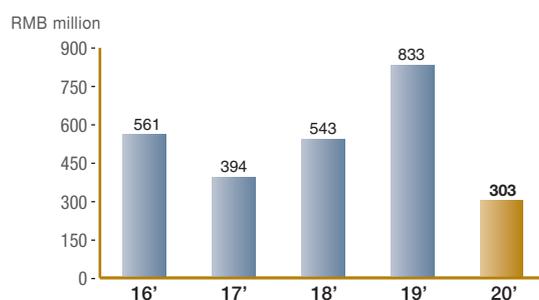
Revenue



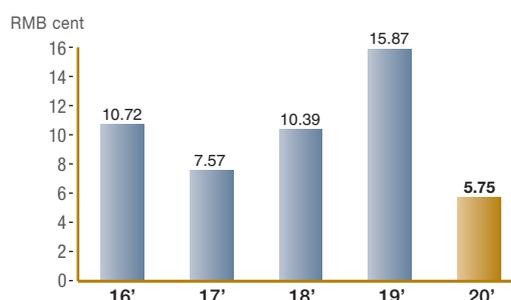
Operating Profit



Profit Attributable to Owners of the Company



Basic Earnings Per Share



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)
Lee, Shao-Wu

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
Registered Public Interest Entity Auditors

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

WEBSITE

www.pousheng.com

STOCK CODE

3813

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CHAIRMAN'S STATEMENT



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MARATHON



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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, 2020, to the shareholders of the Company (the “Shareholders”).

2020 was a challenging year for everyone. The novel coronavirus (COVID-19) pandemic (the “Pandemic”) inevitably impacted our operational and financial performance. Fortunately, thanks to the resolute actions of the Chinese government in containing the Pandemic, retail sentiment gradually recovered throughout the year, allowing us to resume sales momentum starting from the second quarter of 2020.

Over the last few years, we have been initiating new initiatives to enhance the fundamental operations of our physical store network by integrating and growing our omni-channels and investing in sports services. The Pandemic has pushed forward the need for us to succeed in each of these areas. Fortunately, it also provided the impetus for the Group to accelerate in each of these areas as well.

The most consequential of these was the growth and further integration of our omni-channels. Online sales contributed a record high for the Group in the year. This was achieved by, among other things, significant improvements of business flow efficiency of omni-network, expanding and deepening our strategic alliances with major online platforms in China, and launch of stores on WeChat. Alongside our YYsports mobile application, these WeChat stores also incorporated our Group’s ExP (Energy x Power) membership platform which delivers quality products, sports events related services and other high-quality and diverse content to our customers. The 24-hour digital interface is operated by our designated ‘key opinion staff’ who worked at our brick and mortar (“B&M”) stores – in which we are bridging and integrating our omni-channels with our physical stores. These initiatives were some of the key reasons why online B2C sales accelerated sharply in 2020 and are expected to continually outpace our online B2B sales in the coming years.

The Pandemic related lockdowns in 2020 escalated the shift of shopping from offline to online and we expect such pattern will continue to be incremental. However, the essential role that B&M stores play in discovering new sports products and experiences, especially in the participatory and performance-based sector will not be threatened. Consumers continue to explore and so that they will seek advice and know-how. Physical advisory and interaction will remain to be the most significant and effective ways of communication, other than online and social media channels. By integrating the offline and online sales channels, we will retain our leading position in the fast-growing sports market with premium contents in our omni-channels.



CHAIRMAN'S STATEMENT

Investment in sports services was another major focus in 2020, despite the Pandemic forced most physical sports events in China being cancelled. To cope with the dilemma, we made up through organisation of online sports events which continued to provide memorable customer experiences and drive engagement. We also successfully pushed sports services into the reality realm with the launch of our first 'Next Store' in Taiwan, which has already gained higher conversion rates by offering a vast range of in-store sports services. We are already well on the way to opening new 'Next Store' in Northern China and beyond. We are extremely excited about the prospects, as well as the positive impact these experimental stores will have on our B&M network in the future.

Even before the Pandemic, we have already embarked on a strategy of closing non-contributing and under-performing stores in favour of larger-format stores. Our goals are to introduce selective modularised sports services which successfully pioneered within our 'Next Store' into these larger-format stores and tailor such stores specifically for the location and the customer base. By personalising these stores at the local level, we aim to achieve higher conversion rates, greater customer loyalty and more full-price in-season sales.



We also made very good progress in improving our operational performance and productivity, taking the Pandemic as an impetus to accelerate our transformation. Despite the shutdowns we faced in the first quarter of 2020, we doubled our efforts to control our inventory through swift promotional events and prompt adjustments to our procurements supported by our brand partners. As a result, the inventory level decreased by 26.8% as of 31 December 2020, as compared to the end of 2019. Selling, general and administrative expenses also decreased by 8.3% after we adopted strict cost controls, attained efficiency improvements and entered into active rental negotiations with landlords. All of these saw the Group recover quickly following the lockdowns and get into a very strong position for improving our profitability further in 2021.

We remain optimistic about the prospect of 2021. The Pandemic has not discouraged the persistence of consumers to their exercise habits and their enthusiasm for sports. The outlook of sports-related consumption remains incredibly strong. Official government support to the sports sector is also expected to expand further due to the lead-up to nationally-important events, such as Beijing 2022 Winter Olympics.

I am incredibly humbled by the diligent support of my colleagues and our highly dedicated team in helping the Group to overcome all the massive challenges in 2020. Also, I would like to express my thanks for the ongoing and invaluable supports provided by our business partners, financial institutions and Shareholders.

Wu, Pan-Tsu
Chairman

Hong Kong
March 23, 2021



MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

Business Model and Environment

Business Environment

The unprecedented and fast-spreading Pandemic brought about uncertainties and challenges that disrupted economic activities and growth around the world. The lockdowns in China in the first quarter of 2020 inevitably harmed demand and footfall in the brick and mortar (“B&M”) store network operated by the Group across China. This in turn affected the operational and financial performance of the Group.

However, the Group swiftly adapted to the changing environment, which both accelerated and provided further impetus for implementing its strategies for scaling up the accessibility and content of its omni-channels and put more emphasis on our five major brands. It also supported the Group’s continued efforts to improve cross-platform integration and the operational efficiency of its offline channels. As it navigated the challenging operational environment and sustained its sales momentum, the Group continued to uphold its long-term objectives and move 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.”

Channel Management – B&M

The Group’s B&M store network was the sales channel most severely impacted by the Pandemic. The offline sales momentum has started to normalise since the second quarter of the year as the Group implemented promotional plans, with the support of its sales partners, to increase inventory sell-through while further integrating its offline and online channels.

The Group continued to enhance its experience-driven B&M stores during the year, selectively opening larger-format stores with more experience-driven facilities while closing down non-contributing and underperforming stores to increase its operational efficiency. As at December 31, 2020, the Group’s retail network consisted of 5,240 directly operated stores and 3,835 sub-distributor stores across the Greater China region.



Movement of directly operated stores during the year ended:

	December 31, 2020	December 31, 2019
At the beginning of the year	5,883	5,648
Net (decrease)/increase in the number of stores	(643)	235
At the end of the year	5,240	5,883

In terms of the number of directly operated stores, we recorded a net decrease of 643 stores with gross selling area increasing by low single digit as at December 31, 2020 as compared with December 31, 2019. The percentage of stores with selling area over 300 m² continued to grow. As at December 31, 2020, stores with selling area over 300 m² accounted for 13.0%, representing an increase of 4.2 percentage points as compared with December 31, 2019.

During the Pandemic, the Group focused on optimising the store composition, by upgrading high profiting stores and accelerating the closure of low-productivity and loss-making stores. The efficiency of store operations would increase as the Pandemic relieves.

B&M retail channels remain a critical and irreplaceable sales touchpoint for consumers who seek an unique and personalised shopping experience for sports products and services. Although many of the Group's capital expenditure projects were delayed in 2020 due to the Pandemic, over the long-term, the Group will continue to invest in upgrading its B&M stores while connecting offline store sales with its digital channels and sports services to enrich the consumer experience and stimulate more higher-margin in-season sales.



MANAGEMENT DISCUSSION AND ANALYSIS

Numbers and percentages of directly operated stores by size:

	December 31, 2020		December 31, 2019	
	Number	%	Number	%
Selling area				
300 m ² or smaller	4,558	87.0	5,363	91.2
Larger than 300 m ²	682	13.0	520	8.8
Total	5,240	100.0	5,883	100.0

Channel Management – Omni-channels

The Group accelerated the further integration of its omni-channels during the Pandemic. In addition, the Group made significant improvements in business flow efficiency of omni-network, formed strategic alliances with prominent online partners, as well as launched WeChat stores in February 2020 to further connect with consumers.

In addition to providing a new and flexible way to attract online customers, the Group's WeChat stores serve as an extension of its B&M network, providing quality customer services conducted by designated Key Opinion Staff. The Group's ExP (Energy x Power) membership platform is also introduced into its WeChat stores to provide value-added services and diverse content to customers. Driven by these continued efforts, prioritised investment and resources injected in its online B2C channels, the contribution of the Group's online B2C channels to its overall omni-channel sales increased in 2020.

Investment in Sports Services

While physical sports events were curtailed across China due to the Pandemic, the Group organised numerous online sports events throughout 2020 to maintain its engagement with customers. It also continued to leverage the YYsports mobile application in the Greater China region, boosting the Group's ExP programme while offering diversified sports services content, interactive features, and other related services, to support in-depth customer relationship management and to facilitate a seamless online and offline customer experience.

The Group's first sports services store 'Next Store' opened in Taiwan in the second quarter of 2020. More than just a large-format store, 'Next Store' acts as a service hub: incorporating a wide and diverse range of retail products, alongside training services, sports events, colourful experiences, workshops, product and lifestyle consultations, as well as health and fitness meals – all derived from grass root sports activities organised by branch offices nationwide. These services will further support the growth of the Group's omni-channel capabilities and are being modularised so that they can be easily customised and integrated into the Group's other B&M stores later as required. The Group is also continuing to add different story contents and intellectual property activities/events to attract consumers to its B&M stores and digital platforms.

Adding a sports services element to the 'Next Store' is proved to be a successful formula. Since its opening, the first 'Next Store' in Taiwan has recorded highly satisfactory results, including excellent conversion rates and widespread community interest. More 'Next Stores' are in the pipeline in 2021 and beyond, including a new 'Next Store' in Shenyang – the Group's second – which will continue to enhance the consumer experience and facilitate sales growth across the omni-channels.

Operational Excellence

Throughout the year, the Group closely monitored its receivables while extending payment terms. Its working capital days further improved to a pleasant level of 142 days for the 2020 financial year, compared to 155 days for the first six months of 2020 and 200 days for the first quarter of 2020. Meanwhile, the Group implemented several cost control measures, including rent negotiation with landlords and headcount control, and applied for government remedial subsidies. As a result, the Group saw an encouraging moderate rebound following the loss in the first quarter of 2020, returned to profit in the second quarter of 2020 and maintained this profitable momentum in the second half of 2020.

The Group reinforced its product sharing platform ("PSP") to more efficiently share products across different platforms, optimise its inventory mix and reduce idle inventory. It also continued to invest in its business intelligence system and digital tools to increase its operational excellence and operational efficiency, particularly in real-time in-store efficiency and resource optimisation.

The Group's continued investments in its omni-channels and sports services remain essential for developing its unique core competencies, maintaining its competitiveness and supporting its long-term development. Through these aforementioned efforts, the Group is confident that it will overcome various challenges and manage increasing costs while capturing long-term opportunities.

PERFORMANCE ANALYSIS

Financial Review

In 2020, the Group recorded revenue of RMB25,611.1 million, representing a decline of 5.8% compared with the 2019 financial year. Gross profit was RMB7,826.3 million, a decline of 15.6% when compared to the 2019 financial year. Profit attributable to owners of the Company in 2020 was RMB302.8 million.

Revenue

The Group's total revenue in 2020 dropped by 5.8% to RMB25,611.1 million, as compared with the 2019 financial year. The decrease was caused by the impact of the Pandemic on consumer sentiment, in particular the temporary closure of the B&M stores of the Group between Lunar New Year and mid-March 2020, as a result of the various strict control measures implemented by the government of China to contain the spread of the Pandemic. However, the negative impact was partially offset by the rapid growth of the Group's omni-channel business and a progressive recovery in sales starting from the second quarter of 2020, supported by stabilising consumer sentiment.

	For the year ended December 31,		Change
	2020 RMB million	2019 RMB million	
Revenue	25,611.1	27,189.8	-5.8%
Cost of sales	(17,784.8)	(17,914.3)	-0.7%
Gross profit	7,826.3	9,275.5	-15.6%
Gross profit margin (%)	30.6%	34.1%	-3.5 ppt

Gross Profit

The Group's gross profit in 2020 amounted to RMB7,826.3 million with a gross profit margin of 30.6%. The gross profit margin declined 3.5 percentage points compared to the 2019 financial year, which was mainly attributed to increased promotional activities in order to motivate customer demand following the re-opening of the Group's B&M stores in China after Pandemic-related lockdowns, especially in the first half of the year.

Selling & Distribution Expenses and Administrative Expenses

Selling and distribution expenses in 2020 were RMB6,741.9 million (2019: RMB7,169.0 million), accounting for 26.3% of the Group's revenue (2019: 26.4%). The selling and distribution expenses primarily include concessionaire fee, depreciation of right-of-use assets in relation to stores, sales personnel salaries and commissions, other depreciation and amortisation charges, and other expenses which mainly include store operation expenses, property management fees, logistic expenses and online service fees.

General and administrative expenses in 2020 were RMB763.3 million (2019: RMB1,011.9 million), accounting for 3.0% of the Group's revenue (2019: 3.7%). The general and administrative expenses primarily include management and administrative personnel salaries, depreciation and amortisation charges and other expenses.

The Group's selling and distribution expenses and administrative expenses in 2020 were RMB7,505.2 million, a decline of 8.3% compared to the 2019 financial year. This was equivalent to 29.3% of total revenue, a decrease of 0.8 percentage point year-on-year. The decrease was attributable to strict cost control measures, efficiency improvements and positive rent negotiations.

Operating Profit

The Group's operating profit in 2020 was RMB661.4 million, with an operating margin of 2.6%.

Finance Income and Finance Cost

Finance income increased from RMB8.3 million in 2019 to RMB18.8 million in 2020. It was mainly due to increase in bank deposits and an interest-bearing receivable from a joint venture during the year. Finance costs increased from RMB247.5 million in 2019 to RMB251.8 million in 2020, primarily as a result of an increase in interest expense on lease liabilities, as the Group previously opened new stores with greater selling area under lease agreements resulted in higher lease liabilities.

Profit for the Year

As a result of the aforementioned efforts, the Group recorded a net profit of RMB314.7 million in the 2020 financial year.

Working Capital Efficiency

The average inventory turnover period for 2020 further improved to 143 days (2019: 150 days). Inventory efficiency was resilient as a result of efficient in-season procurement adjustment and prompt promotional activities. The balance of inventory as at December 31, 2020 was RMB5,869.5 million as a result of the Group's continued effort in diligently managing inventory levels to optimise working capital efficiency. The average trade receivables turnover period was 22 days (2019: 21 days), which remained consistent with the credit terms of 30 to 60 days to department store counters and wholesale customers. The average trade payables turnover period in 2020 was 23 days (2019: 15 days).

Liquidity and Financial Resources

As at December 31, 2020, mainly due to the increase in operating efficiency and asynchronous payment date, the Group had a record high level of cash and cash equivalents, which amounted to RMB1,742.3 million (December 31, 2019: RMB613.6 million), while working capital (current assets minus current liabilities) was RMB3,991.3 million (December 31, 2019: RMB3,889.3 million). Total bank and other borrowings was further reduced to RMB1,948.7 million (December 31, 2019: RMB3,546.0 million) and are repayable within one year. In addition, the Group settled the loans from a related party outstanding as at December 31, 2019 amounting to RMB555.0 million. 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, 2020, represented by total interest-bearing borrowings (excluding lease liabilities) as a percentage of total equity, was 24.7% (December 31, 2019: 46.0%).

The net cash generated from operating activities in 2020 was RMB5,119.3 million. The Group believes its liquidity requirements will be satisfied with the combination of capital generated from operating activities and future bank borrowings. The net cash used in investing activities in 2020 was RMB924.8 million, while the net cash used in financing activities was RMB3,067.4 million. In 2020, the Group raised and repaid bank and other borrowings of RMB3,349.6 million and RMB4,946.8 million respectively.

Capital Expenditure

Due to the Pandemic, many of the Group's planned capital expenditure projects, such as opening of new stores, upgrading existing store formats, and expanding new concept and mega stores to provide a better shopping experience, were delayed. As a result, the Group's capital expenditure in 2020 primarily comprised of injecting new resources into its online and sports services platform, as well as selectively opening new stores. Total capital expenditure in 2020 declined to RMB585.0 million (2019: RMB807.1 million). As at December 31, 2020, the Group had no material capital commitments and contingent liabilities.

Foreign Exchange

The Group conducts its business primarily in the Greater China region and the majority of its transactions are denominated in Renminbi. As at December 31, 2020, the Group had no significant hedging instruments for managing its foreign exchange exposure. As the exchange rate of Renminbi 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 in 2020 were in accordance to the Group's internal policies and guidelines.

PROSPECTS AND FUTURE DEVELOPMENTS

The Group's sales recovery in the second to fourth quarters of 2020 underscores the true depth of the long-term growth opportunities present in China's sportswear and sports consumption markets, which will continue to be supported by increasing health awareness, growing sports participation rates, and the growth of the athleisure trend in the Greater China region.

The Pandemic did not cause consumers to break their exercise habits and spending on sports products. In a recent research conducted by the China Sporting Goods Federation and AC Nielsen during the Pandemic, 93% of respondents maintained their exercise habits and 65% said they have spent an average of RMB4,000 on sports products. The government is also continuing to provide official support for growing consumption in the sports sector. In August 2020, the General Administration of Sports selected 40 'Sports Consumption Trial Cities' to support the building of sports infrastructure. In September 2020, China's State Council called for the construction of more digitalised fitness centres and gymnasiums to promote 'Internet+Fitness'.

The Group will continue to prioritise the acceleration of its digital transformation strategy in 2021 as its main goal, especially the Pandemic has permanently changed customers' shopping habits. As a result, the Group will maintain its strategy of closing smaller and underperforming stores in favour of larger-format stores which also offer premium sports services to customers and efficiently and seamlessly complement and integrate with omni-channels. With the Group's continuous diversification of the omni-channels and effective inventory management, B2C sales will continue to outstrip B2B sales. This will be further supported by new B2C channels such as the Group's 'Pan-WeChat Ecosphere', namely through new sales brought in by its WeChat stores and Douyin live-streaming shopping events, together with stronger partnerships with major platforms that encourage both in-store and omni-channel sales.

The Group will also continue to enhance its business intelligence system and invest in its digital tools to better support its inventory management, optimise its resources and improve the efficiency of its working capital. It will also continue to drive its offline and online sales growth, and reinforce its in-season sell-through and effective off-season clearance, and its margin growth through its PSP, dashboard implementation, more effective inventory management and better procurement strategy.

The Group will resume its capital expenditure plan in 2021, which includes the on-going upgrade and expansion of its experience-driven B&M stores for offering better shopping experience, as well as the further optimisation of online and retail networks for capturing growth opportunities. However, the actual level of capital expenditure will vary depending on the extent of possible regional outbreaks of the Pandemic in China.

The Group will continue to increase its interaction with consumers to 365-day communications and encourage normal-day sales by cooperating with brand partners and connecting brands' products to relevant sports events and services. With the aforementioned efforts, the Group is well-positioned to benefit from the industry recovery, increasing health consciousness among consumers post-Pandemic and supportive government measures.

With vaccination programmes set to be rolled out soon across China and the rest of the world, the Group is optimistic about its prospects in the coming years, especially as the nation gears up for Beijing 2022 Winter Olympics. There is substantial scope of long-term growth opportunities that will maximise returns for the Group's customers, partners, employees and shareholders.

HUMAN RESOURCES

As at December 31, 2020, the Group had approximately 33,300 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 share awards 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 68, 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 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. Also, he was appointed as a director of PCC in July 2020. 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 57, 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 41, 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 79, 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 65, 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 69, 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, a member of the compensation committee of Motech Industries, Inc., and an independent director, the chairman of the audit committee and a member of the compensation committee of Anpec Electronics Corporation, the shares of these three companies are traded on Taipei Exchange (“TPEX”). Mr. Hsieh currently serves as 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 the company are traded on TPEX).

Mr. FENG Lei Ming

FENG Lei Ming, aged 63, 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 56, is currently a Vice President of the Company and its subsidiaries (the “Group”), in charge of Omni Channel Platform, Operation & Business Management Department, Product Management Department and Wholesale Department. She is 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 Group 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 51, is the Chief Financial Officer of the Group. He is also a director of various subsidiaries of the Company, and a supervisor of a subsidiary of the Company in China. He joined the Group as the Acting Chief Financial Officer in March 2020 and was later re-designated to the current position in August 2020. Mr. Liao 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. He was the head of management accounting department of PCC. Before joining PCC, Mr. Liao held executive/management positions, including chief financial officer, senior vice president of finance and chief executive officer, as well as executive director and non-executive director of board of directors in several listed companies in Hong Kong. He also worked as investment director in private equity for Asia region of Citibank Hong Kong and vice president in corporate finance of Citibank Taiwan. Mr. Liao has more than 25 years of experience in banking, finance, corporate governance and business operation.

Mr. WANG Jun

WANG Jun, aged 52, is currently an Executive Vice General Manager of the Group, in charge of Retail Operations Headquarters and Strategy Channel Development Department. He is also a director of various subsidiaries of the Company. He joined the Group as a Vice President, in charge 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.

DIRECTORS' REPORT

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, 2020.

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 distribution and retailing of sportswear and footwear products, provision of sports services and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2020 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 94 and 95.

The appropriations of profits of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 98 to 99.

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, 2020 (2019: nil), nor has any dividend been proposed since the end of the reporting period.

FIVE YEAR FINANCIAL SUMMARY

A financial summary of the Group for the past five financial years is set out on page 188.

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 9 and Management Discussion and Analysis on pages 10 to 20.

Principal Risks and Uncertainties

The Board and senior management of the Group 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 ("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. 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 widen its talent pool. The performance management system is designed to provide reward, competitive remuneration structures and challenging development opportunities to attract talents and retain employees.

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 introduced to increase customers' loyalty. Innovative sports product-and-service experience-rich brick-and-mortar retail stores are launched to arouse consumer sentiments.</p>
<p>Location of brick-and-mortar retail stores plays a vital role in the Group's success as most of the Group's revenue is derived from sales of brick-and-mortar retail stores. Wrong store location could cause waste of upfront investments and disruption to the marketing strategies.</p>	<p>Objective scientific methods are employed in the evaluation process of store location selection. Close and win-win relationships are built with nationwide landlords.</p>
<p>Public Health and Natural Environment Severe outbreak of infectious diseases (e.g. novel coronavirus (COVID-19) pandemic) might lead to city lockdown and negative growth of global economy. Therefore, the operation of the brick-and-mortar retail stores of the Group might be suspended, and consumption sentiment including brick-and-mortar retail store traffic might significantly decline. These all might seriously affect the performance of the Group as majority of the revenue of the Group is derived from sales of the brick-and-mortar retail stores. Also, underestimation of the volatility of such incident could lead to liquidity crisis and paralysis of operation of the Group.</p>	<p>A special steering panel is formed to oversee the operations and make prompt decisions on a daily basis. Stringent precautionary measures are adopted to protect the employees and customers from infection. IT infrastructure is well developed to support telecommuting. The development of online and omni-channel business is accelerated to alleviate the effect of the drop in brick-and-mortar retail store business. Special measures (such as strict cost control, access to government subsidies, positive rent negotiations and more promotional activities) are adopted to safeguard the liquidity and financial position of the Group.</p>
<p>More frequent and intense catastrophic weather events (e.g. floods along Yangtze River in the People's Republic of China (the "PRC") in mid-2020 and Typhoon Hagupit (2020)) pose a very serious potential threat to the safety of employees and properties of the Group. Such critical events could also cause operational disruption, such as disruption to supply chains or distribution channels.</p>	<p>Sustainable development panel is established to manage the environmental related risks. Properties of the Group are well insured. Emergency financial aid is provided to employees and their families. Inventory is stored in various locations and the logistic network is well designed to support flexible delivery rearrangement.</p>
<p>Strategy and Operation The Group's experience and commitment in market development of emerging brands are limited. Wrong brand positioning could have a material adverse effect on the sales performance of those emerging brands.</p>	<p>Systematic and specialised talent nurturing programme is to be established. An integrated online-offline multi-brands hatching platform is developed.</p>

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
<p>Strategy and Operation (Continued) Majority of the revenue of the Group is derived from products of a 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 brick-and-mortar retail stores in order to impress the top brands with its dedication and sincerity in being their most valuable partner.</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 logistics and courier supports are out-sourced.</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 and effective off-season clearance. In order to meet customers' needs timely and precisely, real-time data analysis system is employed.</p>
<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 actively seeks to identify and meet its regulatory obligations and to respond to new requirements. Corporate governance policy is established to ensure good governance and ethical practices. Proper controls are also in place.</p>
<p>The Group enters into 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>All the agreements are repeatedly reviewed by different departments before signing and are well documented. Independent external advice is sought when required.</p>
<p>Economic and Social Environment The Group's business operations are mainly conducted in the PRC. Thus the Group's business and prospects are significantly affected by the economic and social environment in the PRC. If there is a downturn in the economy or social unrest in the PRC, consumer spending could be significantly weakened.</p>	<p>The Group keeps paying attention to the economic and social 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

There are no significant events affecting the Group after the reporting period and up to the date of this report.

Future Development in Business

The information is provided in the Chairman's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 10 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 9 and Management Discussion and Analysis on pages 10 to 20.

Environmental Policies and Performance

The noticeable deterioration of environment and frequent extreme weather events arising from climate change have 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 (the "ESG Report") on pages 67 to 87.

Compliance with Laws and Regulations

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

Relationships with Employees, Customers and Suppliers

Our relationship with employees

Our employees are the foundation of our success. Respect, appreciation and fairness are the tenets of our relationship with employees. When structuring our work environment, we have let all the tenets incorporated in it. We do not tolerate any behaviour of discrimination, harassment, vilification and 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.

BUSINESS REVIEW (Continued)

Relationships with Employees, Customers and Suppliers (Continued)

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.

More information is provided in the ESG Report on pages 67 to 87.

ANNUAL GENERAL MEETING

The forthcoming 2021 annual general meeting of the Company (the "2021 AGM") will be held on Friday, May 28, 2021 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 2021 AGM (the "Entitlement to 2021 AGM"), the register of members of the Company will be closed from Monday, May 24, 2021 to Friday, May 28, 2021, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the 2021 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 21, 2021. The record date for Entitlement to 2021 AGM will be Friday, May 28, 2021.

DONATIONS

During the year, the Group made donations totalling approximately RMB0.2 million (2019: RMB0.3 million).

SUBSIDIARIES AND JOINT VENTURES

Details of the principal subsidiaries and joint ventures of the Group as at December 31, 2020 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, 375,000 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\$393,750.

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, 2020, the Company's reserves available for distribution consisted of contributed surplus of approximately RMB1,136.5 million (December 31, 2019: RMB1,136.5 million) plus accumulated profits of approximately RMB265.2 million (December 31, 2019: RMB317.3 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, 2020, the trustee of the share award scheme of the Company (the "Share Award Scheme"), pursuant to the terms of the rules and the trust deed of the Share Award Scheme, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 84,270,000 Shares at a total consideration of approximately HK\$166.4 million (approximately RMB144.2 million).

Save as disclosed above, 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 (2019: nil) during the year.

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 holders of the Shares (the "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. Lee, Shao-Wu, Mr. Hsieh, Wuei-Jung and Mr. Feng Lei Ming will retire by rotation at the 2021 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 (the "Listing Rules") and the Bye-laws.

None of the Directors being proposed for re-election at the 2021 AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, subject to the applicable laws and regulations, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or about the execution of their 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, 2020. 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, 2020, 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 Positions 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	4,500,000 ²	-	-	-	4,500,000	0.08%

notes:

- ¹ The total number of issued Shares as at December 31, 2020 was 5,356,847,615.
- ² Included interests in 2,800,000 awarded Shares granted under the Share Award Scheme, which are subject to certain vesting conditions and remain unvested as at December 31, 2020. 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 Positions 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 Directors/ 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, 2020 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, 2020. 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, 2020, 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS (Continued)

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, 2020, 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

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

Save as disclosed above, there is no change in information of the Directors since the date of publication of the Company's 2020 interim report which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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.

SHARE OPTION SCHEME (Continued)

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.

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, 2020, an aggregate of 31,125,000 Shares have been issued and an aggregate of 1,166,320 Shares may be issued upon exercise of share options granted under the Share Option Scheme. As at the date of this report, the total number of Shares available for issue under the Share Option Scheme is 1,166,320, representing approximately 0.02% 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, 2020	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Balance as at December 31, 2020
Employees								
14.11.2016	2.494	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				10,496,870	-	-	(9,330,550)	1,166,320

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, 2020	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Balance as at December 31, 2020
Former Employees								
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	-	(375,000)	-	-
Sub-total				375,000	-	(375,000)	-	-
Grand total				10,871,870	-	(375,000)	(9,330,550)	1,166,320

The weighted average closing price of the Shares immediately before March 5, 2020, the date on which the share options were exercised is HK\$2.00 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).

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, 2020
			Balance as at January 1, 2020	Granted during the year	Vested during the year	Lapsed/cancelled during the year	
Director							
Lee, Shao-Wu	25.03.2017	25.03.2017-24.03.2020	400,000	-	(400,000)	-	-
	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
	31.03.2020	31.03.2020-30.03.2021	-	500,000	-	-	500,000
	31.03.2020	31.03.2020-30.03.2022	-	500,000	-	-	500,000
	31.03.2020	31.03.2020-30.03.2023	-	500,000	-	-	500,000
Sub-total			2,200,000	1,500,000	(900,000)	-	2,800,000

SHARE AWARD SCHEME (Continued)

	Date of grant	Vesting period	Number of awarded Shares				
			Balance as at January 1, 2020	Granted during the year	Vested during the year	Lapsed/cancelled during the year	Balance as at December 31, 2020
Employees							
	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	4,031,000	-	(3,905,000)	(126,000)	-
	03.07.2017	03.07.2017-02.07.2020	300,000	-	-	(300,000)	-
	14.11.2017	14.11.2017-13.11.2020	3,200,000	-	(2,200,000)	(1,000,000)	-
	11.08.2018	11.08.2018-30.06.2020	210,000	-	-	(210,000)	-
	11.08.2018	11.08.2018-10.09.2020	4,976,400	-	(4,786,800)	(189,600)	-
	11.08.2018	11.08.2018-31.12.2020	350,000	-	-	(350,000)	-
	11.08.2018	11.08.2018-10.03.2021	8,294,000	-	-	(316,000)	7,978,000
	23.03.2019	23.03.2019-22.09.2020	2,407,200	-	(2,216,000)	(191,200)	-
	23.03.2019	23.03.2019-30.09.2020	112,000	-	-	(112,000)	-
	23.03.2019	23.03.2019-22.09.2021	3,610,800	-	-	(303,600)	3,307,200
	23.03.2019	23.03.2019-30.09.2021	168,000	-	-	(168,000)	-
	23.03.2019	23.03.2019-22.03.2022	6,018,000	-	-	(506,000)	5,512,000
	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			40,543,170	-	(13,107,800)	(10,638,170)	16,797,200
Grand total			42,743,170	1,500,000	(14,007,800)	(10,638,170)	19,597,200

The weighted average closing price of the Shares immediately before the grant of awarded Shares on March 31, 2020 is HK\$1.45 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, 2020, 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, 2020 was 5,356,847,615.

- (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. Wu, Pan-Tsu, a Director, is also a director of 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, 2020, 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, 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.

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

CONTINUING CONNECTED TRANSACTIONS (Continued)

Purchase of footwear products from Yue Yuen (Continued)

The total amount of transactions made under the YY Framework Agreement for the year ended December 31, 2020 was approximately RMB6.4 million (exclusive of value-added tax ("VAT")). The determination of prices and terms of the transactions 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 December 19, 2019, the Company entered into a framework agreement with Vipshop (the "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") and its subsidiaries, collectively referred to as 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 financial 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 Vipshop was a substantial shareholder of Baowei holding 45% of its equity interests, Vipshop was a connected person of the Company at the subsidiary level as at December 19, 2019. Therefore, the VIP Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

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

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

The total amount of transactions made between Baowei (including a subsidiary) and the VIP Group under the VIP Framework Agreement for the year ended December 31, 2020 was approximately RMB1,399.3 million (exclusive of VAT). The determination of prices and terms of the transactions conducted between Baowei (including a subsidiary) and the VIP Group has followed the pricing policies and guidelines as described in the announcement of the Company dated December 19, 2019.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Annual Review of Continuing Connected Transactions

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

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or better; and
- (c) in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of 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, 2020, 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

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

The aggregate amounts of purchases attributable to the Group's largest and five largest suppliers were 40.1% and 96.0% 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 incentives to its Directors and eligible employees of the Group 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 RMB170.6 million to the abovementioned schemes for the year ended December 31, 2020.

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, 2020 and up to the date of this report.

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2020 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 2021 AGM.

On behalf of the Board

Wu, Pan-Tsu
Chairman
Hong Kong
March 23, 2021

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, 2020, 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

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 Meetings	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	2/2	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	2/2	N/A	N/A	1/1
Independent Non-executive Directors							
Chen, Huan-Chung	6/6	4/4	2/2	2/2	N/A	1/1	1/1
Hsieh, Wuei-Jung	6/6	N/A	N/A	2/2	N/A	1/1	1/1
Feng Lei Ming	6/6	4/4	2/2	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. No Disclosure Committee meeting was held during the year ended December 31, 2020 as the committee members performed their duties and functions via electronic mail and/or telephone conversation instead of convening meetings.

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, 2020, 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 a briefing session relating to update of Environmental, Social and Governance Reporting Guide by Deloitte Advisory (Hong Kong) Limited for the Directors. If the Directors are not able to attend the briefing session, 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
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.

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 package of the acting chief financial officer of the Company (the “CFO”) to the Board for approval;
- reviewed and recommended the remuneration package regarding the re-designation of the acting CFO to CFO to the Board for approval;
- reviewed and recommended the remuneration packages and supplemental appointment letters of a NED and an INED to the Board for approval;
- evaluated and assessed the effectiveness of the Remuneration Committee and the adequacy of its terms of reference;
- recommended the grant, vest and cancellation of share awards of the Group to the Board for approval; and
- reviewed the status of the share options under the Share Option Scheme and the share awards under the Share Award Scheme.

The Remuneration Committee held two 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:

- recommended the appointment of the acting CFO to the Board for approval;
- reviewed and recommended the re-designation of the acting CFO to CFO to the Board for approval;
- assessed the independence of INEDs;
- reviewed the retirement and nominated the re-election of retiring Directors at the 2020 AGM; and
- reviewed the structure, size, composition and diversity of the Board.

The Nomination Committee held two meetings during the year. The attendance record of the Nomination Committee 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.

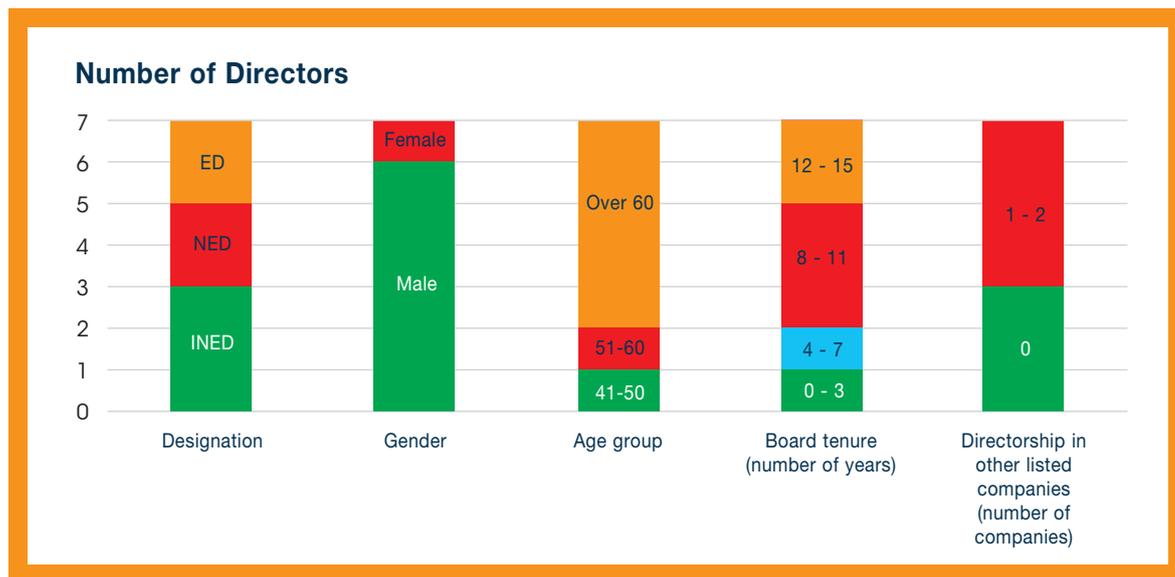
The Nomination Committee is also responsible to review the Board Diversity Policy, the measurable objectives and monitor the implementation of the Board Diversity Policy.

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 performed their duties and functions via electronic mail and/or telephone conversation instead of convening meetings.

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, 2020, the remuneration paid or to be payable to Messrs. Deloitte Touche Tohmatsu ("Deloitte"), the Company's external auditor, and its affiliate in respect of audit services rendered is approximately RMB4,139,000 (2019: approximately RMB4,094,000 and in respect of non-audit services rendered is approximately RMB1,025,000 (2019: approximately RMB1,207,000). The non-audit services include review of interim financial statements, professional services rendered in connection with tax filing in Hong Kong, review of lease system, consolidation system, and advisory on environmental, social and governance reporting requirement.

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 88 to 93.

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, 2020.

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.

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.

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.

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Control Effectiveness

In respect of the year ended December 31, 2020, 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.

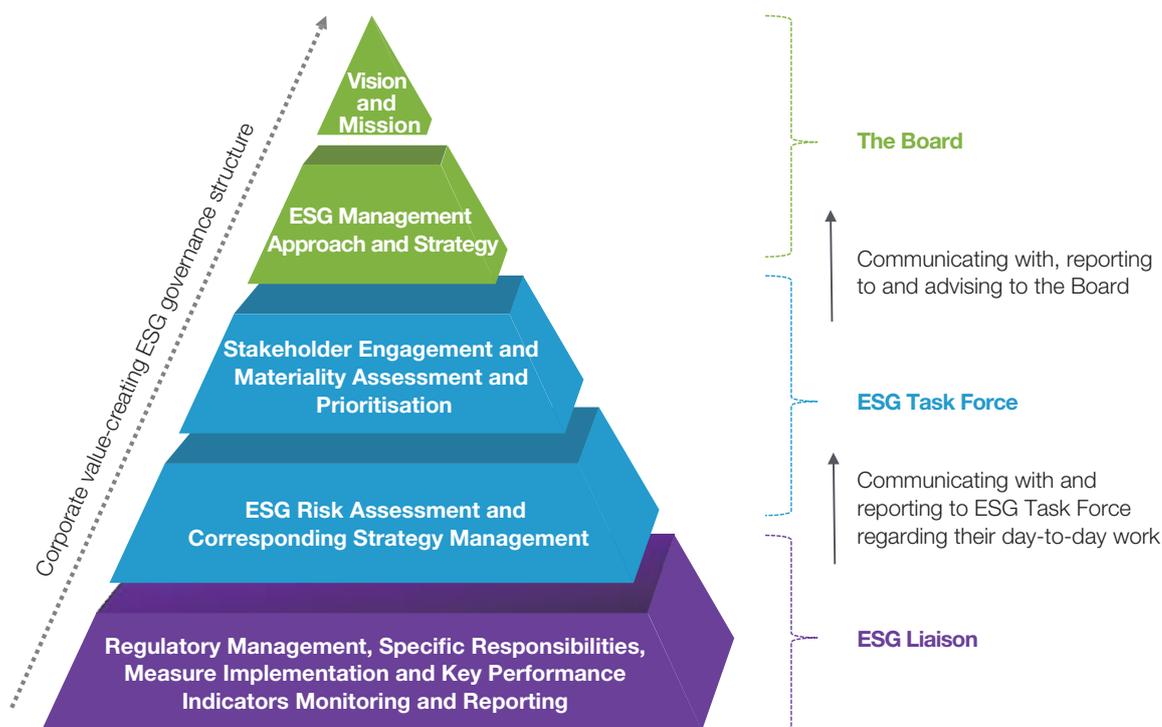
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG REPORTING FRAMEWORK

Upholding the business philosophy of “healthiness, leisure, sports, fashion, green”, Pou Sheng International (Holdings) Limited (the “Company” and together with its subsidiaries, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and have complied with all “comply or explain” provisions set out in the ESG Guide.

ESG GOVERNANCE STRUCTURE

To realise the Group’s aspirations in ESG, the Group is committed to strengthen our ESG governance structure by integrating our commitment to the environment and society into our day-to-day decision making, corporate culture and future planning, etc to ensure that the Group is able to create a positive impact to the industry and supply chain members.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG GOVERNANCE STRUCTURE (Continued)

The Board

The board of directors of the Company (the “Board”) has a leadership role in setting the ESG governance direction and also in developing an effective and measurable vision for the ESG strategies. In addition, the Board will meet regularly when necessary to resolve ESG-related issues, including but not limited to:

- determine future ESG objectives;
- review and monitor the implementation and results of the ESG governance strategies regularly and make appropriate adjustments based on the Group’s performance and external environment from time to time; and
- review ESG-related policies and report.

The Board also attaches importance to ESG risk management and internal control measures, and delegates authority to the management to conduct ESG monitoring. The Board should lead the management to continuously improve ESG risk management across business units and retail stores, and provide guidance on the identification, assessment and management of material risks so as to enhance the Group’s overall risk prediction level and responsiveness. The Group is particularly concerned with the internal control mechanism that is closely related to our daily operations. Therefore, the Board has delegated the responsibility to the Audit Committee to monitor the adequacy and effectiveness of the internal control system of the Group, and identify the weaknesses of internal control and remedial measures.

ESG working task force

The ESG working task force (the “ESG Task Force”) was established under the leadership of the Board. It is primarily responsible for the implementation of the Group’s ESG strategies. Members of the ESG Task Force are officers at managerial level or above from different functional departments to ensure the effective performance of its functions.

To ensure the Group is able to receive the opinions of different stakeholders on the importance of sustainability development, the ESG Task Force communicates closely with stakeholders, actively collects their views and feedback, and identifies and responds to ESG key issues in a timely manner. The ESG Task Force is required to conduct a series of ESG risk assessments under the governance principles formulated by the Board. Following the identification and assessment, the ESG Task Force will develop an implementation strategy based on the Group’s own visions and missions and make recommendations to the Board on relevant issues to create positive corporate social values for stakeholders and consumers.

ESG liaison

To manage ESG risks in the Group’s business operations in a more systematic manner, the Group also has an ESG liaison who is responsible for the proper implementation of ESG management regulations. The ESG liaison is responsible for formulating ESG-related management regulations for each department, setting specific ESG responsibilities and initiatives at the departmental level, overseeing the cultivation and activities of ESG culture between departments, and setting measurement standards for ESG performance and key performance indicators, etc. The ESG liaison reports regularly to the ESG Task Force on the implementation of ESG governance initiatives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE OF ESG REPORTING

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, 2020 and ended on December 31, 2020. All principal subsidiaries, retail 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 greenhouse gas emissions Consumption of energy, water and packaging materials
A2 Use of resources	
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 hazardous waste produced during the reporting period. Hence, the relevant disclosure requirement under the ESG Guide (key performance indicator A1.3) is not applicable to the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 exercise 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 as well as 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 and Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste).

Waste treatment

The Group actively implements green measures to reduce waste in the course of daily operations and business activities. In recent years, Chinese government has been actively promoting the separation of domestic waste in key cities and establishing a domestic waste separation and disposal system. The Group's subsidiaries and retail stores are strictly complying with and enforcing the waste management systems, management practices and regulations (such as Shanghai Domestic Waste Management Regulations and Shanghai Domestic Waste Separation and Disposal Guidelines) stipulated by the respective regions. We separate waste strictly, dry waste, wet waste, hazardous waste and recyclable waste, etc. are effectively separated. We are committed to enhance the awareness on waste separation of our staff from time to time. 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.

Non-hazardous waste produced by the Group mainly comprised of 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	2020	2019
Domestic waste		
Total amount (tonnes)	233.6	140.8
Intensity (tonnes/operation unit)	0.0435	0.0235
Renovation waste		
Total amount (tonnes)	1,125	1,125
Intensity (tonnes/operation unit)	0.2093	0.1847

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. Among which, total amount of renovation waste included the renovation waste passed to the renovation contractor by the Group for centralised disposal.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Waste treatment (Continued)

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 approximately 0.5% of the 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, approximately 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) when stores shut down or underwent renovation at our regional warehouses for reuse at next store opening and such reusable materials and equipment amounted to approximately 30 tonnes;
- Recycled used paper and toner cartridges, used cardboard boxes were collected by professional recyclers; and
- Cardboard boxes used for logistics will be recycled, saving approximately 1,000 kilograms of cardboard boxes usage per year.

Greenhouse gas emissions

As the Group is principally engaged in the retail business, our gas emissions are primarily greenhouse gases (including carbon dioxide, methane and nitrous oxide) emitted from the use and purchase 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 greenhouse gas carbon emissions. Details are set out in the following section “Use of Resources”. Greenhouse gas carbon emissions resulting from our business operation during the reporting period is as follows:

	2020	2019
Greenhouse gas carbon dioxide equivalent		
Emission (tonnes)	56,209.06	59,904.67
Intensity (tonnes/operation unit)	10.4575	9.9775

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 energy efficiency enhancement and wastage reduction, so as to achieve the best use 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, adopt video conferencing or other means to communicate and hold meetings instead of organising 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 retail 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 less 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	2020	2019
Electricity		
Consumption (kWh)	90,018,096	90,310,089
Intensity (kWh/operation unit)	16,747.5527	15,041.6537
Gasoline		
Consumption (litre)	127,924	66,994
Intensity (litre/operation unit)	23.7998	11.1582
Diesel		
Consumption (litre)	34,811	33,048
Intensity (litre/operation unit)	6.4765	5.5043
Natural gas		
Consumption (m ³)	4,062	2,071
Intensity (m ³ /operation unit)	0.7557	0.3449

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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) during daytime and turned them on only at nighttime;
- Partially turned off air-conditioning and power connections 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 approximately 3-5%;
- Installed energy-saving lightings and equipment as much as possible when renovating operation units and adopted space planning that reduce energy consumption;
- Adopted video conferencing and multi-party teleconferencing for communication with clients, brand vendors and subsidiaries, which reduced business trips by approximately 20%;
- Meetings of the Board, its committees and the annual general meeting of the Company are substantially conducted by means of video, telephone or hybrid conferencing;
- 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:

	2020	2019
Water		
Consumption (m ³)	265,720	257,424
Intensity (m ³ /operation unit)	49.4364	42.8754

note: The above statistics included water consumption of various operating units of the Group (including directly operated stores, department store counters, sports cities and offices). Water consumption is estimated or calculated based on the water bills provided by the water department or property management company, but the calculation of some bills may not be based on actual water consumption.

During the reporting period, the Group had no issue in sourcing water that is fit for purpose and implemented the following measures to reduce water consumption:

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

Use of packaging materials

The Group strives to reduce the use of packaging materials. Since 2013, we have replaced paper bags with eco-shopping bags at most of our stores. In 2020, 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	2020	2019
Shopping bags		
Consumption (tonnes)	1,306	1,506
Intensity (tonnes/operation unit)	0.2430	0.2508
Plastic wrap		
Consumption (tonnes)	5	2
Intensity (tonnes/operation unit)	0.0009	0.0004

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 store 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 renovation.
- *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 the Group's 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.

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, etc. 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 the sections "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 and provides optional family medical insurance plan at competitive prices to provide comprehensive medical coverage. The employees also have various benefits and allowances, such as mandatory provident fund and staff discounts.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B1 Employment (Continued)

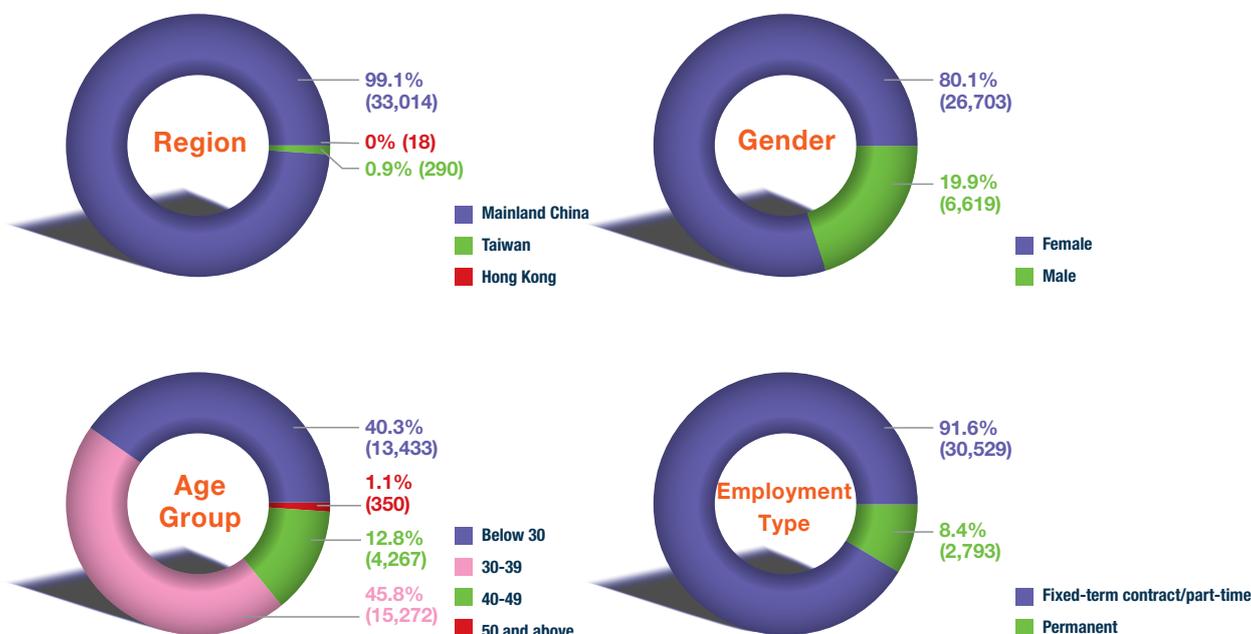
Employee remuneration and benefits (Continued)

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 and growth. Thus, the Group offers reasonable work hours and paid leaves to employees. Apart from maternity leaves and paternity leaves as required by local laws, employees are also entitled to marriage leaves, bereavement leaves, examination leaves and charitable leaves, etc. We organise a wide range of relaxing and socialising activities for our employees on a regular basis, which include sports and recreation events, health, staff caring and community service activities.

Diversity and equal opportunity

With equal opportunities in mind, the Group is committed to create a workplace that is inclusive and free from discrimination. It aims to treat all employees equally and respect their differences. In doing so, we do not discriminate our staff on the grounds of gender, race, ethnic origin, religion, political affiliation, disability or age. This covers all employment arrangements, such as employment, deployment, recruitment, training, promotion, conduct, rates of pay and benefits, so as to ensure all employees and job applicants are entitled to equal opportunities and fair treatment. In addition, the Group employs people with disabilities as appropriate pursuant to the Law of the People's Republic of China 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, 2020, the Group has a total of approximately 33,300 employees. Below sets out the details of our employee distribution:



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 in 2020:

By gender		By age group		By region	
Male	78.0%	Below 30	87.8%	Mainland China	60.8%
Female	56.4%	30-39	44.2%	Taiwan	50.0%
		40-49	34.8%	Hong Kong	0%
		50 and above	56.3%		

B2 Health and safety

Occupational health and safety

The Group recognises its employees as the most valuable assets, hence it is dedicated to provide a desirable and safe working environment by implementing appropriate measures, such as regular body checks and health counselling to ensure their health and safety. As to employees who need to work under 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 each operation unit 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)

B2 Health and safety (Continued)

Working together to combat the 'Pandemic' and 'Flooding'

During the reporting period, to prevent the spread of the novel coronavirus (COVID-19) pandemic (the "Pandemic") and fulfill our obligations as an employer, the Group has actively followed the preventive and control measures and guidelines issued by the governments of China and other countries to protect our employees' health, such as delaying the work resumption after Lunar New Year holiday in some areas, flexible working hours, work from home and advising staff to avoid gatherings. Meanwhile, we are actively taking precautionary measures in the workplace:

- Employees are required to perform body temperature measurements before going to work, wear face masks and wash their hands regularly during working hours;
- Employees are required to report their general health and the status of their close contacts daily by completing "Daily Self-Management Health Journal";
- The public areas of the offices and stores are regularly disinfected every day and hand sanitisers and face masks are provided to staff;
- Closely monitor the information from the Center for Disease Control and Prevention on a daily basis; and
- Employees who have travelled to and from areas with serious Pandemic outbreaks will not be allowed to return to workplace unless they have been quarantined for 14 days starting from the day of returning to the city where they work or have been tested negative for COVID-19.

In line with our belief that our employees are valuable assets, the health of all employees and their families is our first priority when planning work arrangements during the Pandemic, and employees are reminded to follow the guidelines on Pandemic prevention and put their own health in the first place. For employees who are unfortunately infected by Pandemic, the Group will arrange flexible leave and provide medical subsidies and condolence money as appropriate to help them and their families tide over the difficult period.

In addition, in mid-2020, the flooding in southern China caused extensive property damage and even life-threatening injuries to our employees. To assist the families of such employees to get rid of plight earlier, the Group also provided financial assistance.

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 trends. 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 and workload for self-improvement and learning different skills. At the same time, the platform can also increase the understanding and communication between employees. During the Pandemic, "Pou Sheng Academy" even implemented push notifications for information about Pandemic prevention.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 2020:

By gender	% of employee trained	Average training hours	By employee category	% of employee trained	Average training hours
Male	48.4%	48.6	Senior	41.8%	17.8
Female	58.8%	57.8	Middle-level	65.3%	32.4
			Supervisory-level	73.5%	33.3
			General	61.3%	30.3
			Shop	55.1%	60.0

The above statistics included all full-time, part-time and contract employees of the Group. Training only included training activities organised by 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. Suppliers have 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, environmental policies, status of compliance, overall capabilities and experience objectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

To provide better product warranty to our customers, the Group strictly controls the safety and quality of our products to ensure that they meet the requirements. 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. 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.

For products with quality issues, the Group will follow the relevant return and exchange process in accordance with internal guidelines and brand-related regulations to protect the interests of all customers from being compromised. During the reporting period, the Group has not received any complaints from regulatory authorities or consumers regarding product safety, nor has any product been recalled for product safety and health reasons.

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. The Group operates 400 customer service hotlines, through which customers can make various information and product enquiries and complaints. During the reporting period, a total of 55,127 calls were received, the majority of which were enquiries and only 0.4% were business-related complaints. The complaints were mainly on matters such as repair as well as return and exchange of products, etc. All complaints received were handled properly and no complaint cases had to be referred to the relevant government departments.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. 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 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 and require our employees to sign an “Employee Ethics Oath”. 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 organised an anti-corruption seminar for some of our employees. The training seminar was about the risks of corruption and common fraudulent practices to raise our employee’s awareness on anti-corruption.

In addition, the Group’s contracts with third parties contain anti-corruption terms that require both parties to perform in good faith to prevent either party from obtaining improper benefits.

During the reporting period, the Group is generally in compliance with the relevant laws and regulations that have a significant impact on the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B8 Community investment

Community charity

The Group is aware of the close relationship between corporate and social development. Therefore, corporate social responsibility is always our priority. The business activities undertaken by the Group gave priority to the interests of the community and the Group attaches great importance to community charity, with the aims of better serving the community and giving back to society at various levels. We also strive to carry out charity events effectively, so as to boost community engagement and gain public recognition. 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.

Over the years, the Group has been enthusiastically participating in the rural poverty alleviation programmes, which are driven by the Chinese government, so as to jointly drive poverty alleviation to leap forward. During the reporting period, the Group has actively responded to the call of the Chinese government to make donations, including cash subsidies for poverty alleviation work in Luoyuzhen, Gansu Province, donations of condolence money and supplies to “Five-guarantee Households” in Yangsongzhen, Huairou District, Beijing, donations of children’s shoes to Bawangxiang Central Primary School (巴旺鄉中心小學) in Danba County, Sichuan Province and donations of down jackets to Shangluokema Secondary School (上羅科瑪中學) in Luhuo County, Sichuan Province, etc. In addition, the Group organised the “Hand in Hand” Lunar New Year Staff Charity Walk, where children had a fun and educational day of handicraft activities led by our employees. In addition to the fun and educational activities, the children were also given new year gifts such as school bags and stationery. We also extended our care and warmth to the children with cerebral palsy and donated condolence money to them.

In early 2020, at the outbreak of the Pandemic in China, the Group actively responded and formulated different contingency plans with our responsibility to our employees and society in mind, such as promptly setting up a Pandemic prevention steering panel to properly manage the sourcing of Pandemic prevention supplies and effectively distributing the supplies to the employees; tracking the Pandemic prevention policy promulgated by the government promptly, following the Pandemic prevention guidelines and professional advice and arranging the employees to return to their place of work in an orderly manner; and performing thorough cleaning and disinfection at our stores regularly to provide a safe environment for consumers. At the same time, to effectively fulfill our corporate social responsibility and to fight the Pandemic together, the Group also extended our gratitude and donated certain supplies to the heroes who rushed to the hot zones in Hubei as our humble support to them. Apart from the Pandemic, in mid-2020, it kept raining excessively in southern China, causing severe flooding in many provinces. The Group was sympathetic to the flooding devastation and donated to the flood control in Xinglongzhen, Gansu Province, as well as providing financial assistance to the families of the affected employees to tide them over the difficult days.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B8 Community investment (Continued)

Community charity (Continued)

To realise the vision of “Make sports your life!” and promote the idea of everyone having a healthy body, the Group once again leverages its own business operations to promote the public awareness in sports as well as healthy and happy living. To create a win-win situation that promotes the Group’s businesses and benefits the community at the same time, the Group (YYsports) launched the ExP programme during the reporting period, through which we hope to inspire people to develop an enduring passion for exercise and cultivate good exercise habits as well as healthy eating habits to be more energetic and refreshed and feel happier when they witness the changes of their bodies. During the year, ExP launched events such as the “2020 Cross-Straits Kunshan Online Marathon” and “Pou Sheng Employee ExP Scheme”. By participating in designated events at YYsports, participants can earn ExP experience points and enjoy the benefits that come with accumulating ExP experience points.

In 2020, under the atmosphere of the Pandemic, sports events were delayed. In the midst of the storm, YYsports finally broke through the barriers at the end of May and launched the “Dou Dao Di” 3 on 3 Basketball League under strict precautions. The basketball league was held in 19 cities throughout the period of 114 days, joined by more than 700 teams and 3,000 players with 110,000 people participated in the peripheral activities. The league successfully promoted the development of youth basketball in mainland China. Moreover, since 2017, YYsports team has visited nearly 30 basketball courts in 10 counties and cities across Taiwan to replace more than 100 basketball stands in an ongoing project to replace basketball nets, so that basketball players can play in a comfortable environment.

In September 2020, YYsports and HOOD to COAST Taiwan co-organised two charity events “Jinshan Coastal Cleanup” and “Hsinchu Nature Valley Mountain Cleanup”, which received overwhelming responses from the public which supports environmental protection. In “Jinshan Coastal Cleanup”, over 300 kilograms of coastal waste was cleaned up. Through these two events, the public gained a deeper understanding of the core concept of environmental protection and together protect the natural environment. All registration fees for both events were donated to the Taiwan Environmental Information Association. Moreover, YYsports Hsinchu “Next Store” also launched an eco-discount offer to encourage the public to join in the cause of environmental protection and spreading love, where consumers can donate used clothes or shoes in exchange for an exclusive eco-discount. The used clothes and shoes collected were donated to charities.

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;
- Taiwan “Dou Dao Di” basketball nets replacing project;
- “Jinshan Coastal Cleanup” and “Hsinchu Nature Valley Mountain Cleanup” with HOOD to COAST Taiwan;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL (Continued)

B8 Community investment (Continued)

Community charity (Continued)

- More than ten charity events organised or joined by different regional offices, with more than 4,000 employees participated and donated approximately RMB200,000, including but not limited to:
 - Donations to flood control in Xinglongzhen, Gansu Province and poverty alleviation work in Luoyuzhen, Gansu Province;
 - Donations of supplies for Bawangxiang Central Primary School (巴旺鄉中心小學) in Danba County, Sichuan Province and Shangluokema Secondary School (上羅科瑪中學) in Luhuo County, Sichuan Province;
 - Charity walk with “Five-guarantee Households” in Yangsongzhen, Huairou District, Beijing; and
 - Donations of supplies to the heroes in the hot zones in Hubei.





**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 94 to 187, which comprise the consolidated statement of financial position as at December 31, 2020, 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, 2020, 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 (“HKSA”) 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
<p><i>Impairment assessment of goodwill</i></p> <p>We identified the impairment assessment of goodwill allocated to several groups of cash generating units (“CGUs”) which are engaged in the business of distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales as a key audit matter due to the complexity and significant judgments and estimates involved in the assessment process of the management of the Group.</p> <p>As disclosed in note 16 to the consolidated financial statements, the carrying amount of goodwill as at December 31, 2020 was RMB522,163,000. 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.</p> <p>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 rates. Certain group of CGUs containing goodwill suffered impairment loss of RMB11,174,000 during the year ended December 31, 2020.</p>	<p>Our procedures in relation to the impairment assessment of goodwill included:</p> <ul style="list-style-type: none">• 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 rates applied underpinning the discounted cash flow models by performing re-calculations based on market data and certain company specific parameters, as well as evaluating the reasonableness of parameters applied by the independent valuer;• Evaluating the reasonableness of sensitivity analysis provided by the management of the Group, and performing re-calculations to assess the extent of impact on the value in use; and• Evaluating the historical accuracy of the forecasted future cash flows by comparing them to actual results in the current year and understanding the causes for any significant variances.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
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Assessment of net realisable value of obsolete and slow-moving inventories

We identified the assessment of net realisable value of obsolete and slow-moving inventories 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 inventories by the management of the Group.

As disclosed in notes 19 and 8 to the consolidated financial statements, the carrying amount of inventories included in the inventories balances as at December 31, 2020 was RMB5,869,541,000 and the net changes in allowance for inventories credited to the consolidated income statement for the year ended December 31, 2020 was RMB24,157,000. Accumulated allowance made as at December 31, 2020 was RMB133,115,000.

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 inventories included:

- Understanding the process performed by management of the Group on identification of obsolete and slow-moving inventories;
- Evaluating the accuracy of aging analysis of inventories by utilising computer assisted audit techniques and checking, on a sample basis, to the invoices and other relevant supporting documents;
- Based on historical sales data of inventories in different aging categories, developing a point estimate to evaluate the reasonableness of allowance for inventories due to net realisable value of potentially obsolete and slow-moving inventories; and
- Performing retrospective review using data analytic on subsequent sales performance in 2020 for those inventories owned by the Group as at December 31, 2019.

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 HKSAAs 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, actions taken to eliminate threats or safeguards applied.

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 23, 2021

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	5	25,611,125	27,189,765
Cost of sales		(17,784,820)	(17,914,296)
Gross profit		7,826,305	9,275,469
Other operating income and gains (losses)	6(a)	340,284	377,306
Selling and distribution expenses		(6,741,868)	(7,168,952)
Administrative expenses		(763,318)	(1,011,891)
Operating profit		661,403	1,471,932
Finance costs		(251,825)	(247,522)
Finance income		18,773	8,335
Share of results of joint ventures	6(b)	(233,052)	(239,187)
Other gains (losses)	6(c)	15,364	1,072
		(10,660)	(9,351)
Profit before taxation		433,055	1,224,466
Income tax expense	7	(118,395)	(344,556)
Profit for the year	8	314,660	879,910
Attributable to:			
Owners of the Company		302,840	833,275
Non-controlling interests		11,820	46,635
		314,660	879,910
		RMB cents	RMB cents
Earnings per share	11		
– Basic		5.75	15.87
– Diluted		5.72	15.73

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 RMB'000	2019 RMB'000
Profit for the year	314,660	879,910
Other comprehensive income (expense) <i>An item that will not be reclassified to profit or loss</i>		
Fair value gain on investments in equity instrument at fair value through other comprehensive income	827	–
<i>An item that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation of foreign operations	1,594	(505)
Other comprehensive income (expense) for the year	2,421	(505)
Total comprehensive income for the year	317,081	879,405
Attributable to:		
Owners of the Company	305,337	832,905
Non-controlling interests	11,744	46,500
	317,081	879,405

SPORTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2020

	NOTES	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Investment properties	12	94,700	94,700
Property, plant and equipment	13	1,294,239	1,354,186
Right-of-use assets	14	3,246,941	2,931,822
Deposits paid for acquisition of property, plant and equipment		60,583	87,103
Rental deposits		183,988	178,427
Intangible assets	15	180,351	283,311
Goodwill	16	522,163	533,247
Interests in joint ventures	17	378,779	253,415
Equity instrument at fair value through other comprehensive income		3,149	2,323
Deferred tax assets	18	64,288	9,313
		6,029,181	5,727,847
CURRENT ASSETS			
Inventories	19	5,869,541	8,021,487
Trade and other receivables	20	3,360,206	2,993,538
Taxation recoverable		639	5,159
Bank balances and cash	21	1,742,290	613,591
		10,972,676	11,633,775
Non-current assets classified as held for sale	17	20,412	29,160
		10,993,088	11,662,935
CURRENT LIABILITIES			
Trade and other payables	22	3,234,451	2,660,829
Contract liabilities	23	585,863	414,969
Taxation payable		185,517	262,256
Bank and other borrowings	24	1,948,679	3,545,995
Lease liabilities	25	1,047,232	889,552
		7,001,742	7,773,601
NET CURRENT ASSETS		3,991,346	3,889,334
TOTAL ASSETS LESS CURRENT LIABILITIES		10,020,527	9,617,181

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2020

	NOTES	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	60,442	85,658
Lease liabilities	25	2,084,055	1,825,445
		2,144,497	1,911,103
NET ASSETS			
		7,876,030	7,706,078
CAPITAL AND RESERVES			
Share capital	26	46,688	46,685
Reserves		7,723,513	7,565,889
Equity attributable to owners of the Company		7,770,201	7,612,574
Non-controlling interests		105,829	93,504
TOTAL EQUITY			
		7,876,030	7,706,078

The consolidated financial statements on pages 94 to 187 were approved and authorised for issue by the board of directors of the Company on March 23, 2021 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, 2020

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	Reserve on instruments at FVTOCI RMB'000	Shares held under share award scheme RMB'000	Share award 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, 2019	46,588	5,156,422	678,506	(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 lapsed 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 interest 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	678,506	(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
Fair value gain on investments in equity instrument at fair value through other comprehensive income	-	-	-	-	-	-	-	827	-	-	-	-	-	-	827	-	827
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	1,670	-	1,670	(76)	1,594
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	302,840	302,840	11,820	314,660
Total comprehensive income for the year	-	-	-	-	-	-	-	827	-	-	-	-	1,670	302,840	305,337	11,744	317,081
Purchase of shares under share award scheme	-	-	-	-	-	-	-	-	(144,180)	-	-	-	-	-	(144,180)	-	(144,180)
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards not yet vested	-	-	-	-	-	-	-	-	-	3,036	-	-	-	-	3,036	-	3,036
Recognition of equity-settled share-based payments, net of amount lapsed relating to share options not yet vested	-	-	-	-	-	-	-	-	-	-	(4,971)	-	-	-	(4,971)	-	(4,971)
Transfer upon lapse of share options	-	-	-	-	-	-	-	-	-	-	(844)	-	-	844	-	-	-
Share awards vested	-	-	-	-	-	-	-	-	14,899	(13,784)	-	-	-	(1,115)	-	-	-
Exercise of share options	3	506	-	-	-	-	-	-	-	-	(161)	-	-	-	348	-	348
Acquisition of additional interest of a subsidiary	-	-	-	(1,943)	-	-	-	-	-	-	-	-	-	-	(1,943)	581	(1,362)
Transfer	-	-	-	-	-	-	-	-	-	-	-	60,784	-	(60,784)	-	-	-
At December 31, 2020	46,688	5,175,342	678,506	(1,486,701)	55,395	29,544	6,381	827	(233,775)	13,333	893	730,933	(11,643)	2,766,478	7,770,201	105,829	7,876,030

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2020

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/liabilities 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, 2020

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	433,055	1,224,466
Adjustments for:		
Depreciation of property, plant and equipment	541,140	473,732
Depreciation of right-of-use assets	1,182,650	888,960
Amortisation of intangible assets	102,965	104,876
Net changes in allowance for inventories	(24,157)	(61,026)
Impairment (reversal) losses recognised on trade receivables, net	(584)	11,741
Impairment losses recognised on other receivables, net	116	562
Interest expenses	251,825	247,522
Interest income	(18,773)	(8,335)
Share of results of joint ventures	(15,364)	(1,072)
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards and share options	(1,935)	19,806
Dividend income from an equity instrument at fair value through other comprehensive income	(851)	(196)
Loss on disposal of property, plant and equipment	49,910	51,287
Reversal of impairment loss on loan to a joint venture	(514)	(636)
Impairment loss recognised on goodwill	11,174	–
Impairment loss recognised on interest in a joint venture	–	9,987
Operating cash flows before movements in working capital	2,510,657	2,961,674
Decrease in prepayments	103,864	3,746
Increase in trade and other receivables	(209,662)	(176,181)
Decrease (increase) in inventories	2,176,096	(1,263,601)
Increase in trade and other payables	638,267	583,975
Increase in contract liabilities	170,894	3,491
Cash generated from operations	5,390,116	2,113,104
Income tax paid	(270,806)	(285,637)
NET CASH FROM OPERATING ACTIVITIES	5,119,310	1,827,467

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 RMB'000	2019 RMB'000
INVESTING ACTIVITIES		
Payment for acquisition of property, plant and equipment and an intangible asset	(585,030)	(807,125)
Advance to a joint venture	(264,000)	–
Advance to a non-controlling interest of a subsidiary	(136,000)	(102,000)
Capital injection in a joint venture	(110,000)	–
Placement of structured bank deposits	(50,000)	(900,000)
Payments for right-of-use assets	(21,953)	(13,541)
Payments for rental deposits	(1,963)	(58,064)
Repayment of advance to a non-controlling interest of a subsidiary	136,000	88,000
Redemption of structured bank deposits	50,000	900,000
Proceeds from disposal of property, plant and equipment	22,479	23,458
Interest received	18,773	8,335
Proceeds from disposal of non-current assets classified as held for sale	15,503	9,000
Dividends received from an equity instrument at fair value through other comprehensive income	851	196
Repayment of loan to joint ventures	514	3,635
NET CASH USED IN INVESTING ACTIVITIES	(924,826)	(848,106)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020 RMB'000	2019 RMB'000
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(4,946,784)	(5,067,960)
Repayments of lease liabilities, including related interests	(1,198,174)	(949,504)
Purchase of shares under share award scheme	(144,180)	–
Interest paid on bank and other borrowings	(126,785)	(134,253)
Acquisition of additional interests of a subsidiary	(1,362)	(1,052)
New bank and other borrowings raised	3,349,558	5,079,632
Proceeds from issue of shares upon exercise of share options	348	11,957
Dividends paid	–	(115,326)
Dividend paid to a non-controlling interest of a subsidiary	–	(14,000)
Capital contribution by non-controlling interests	–	92,502
NET CASH USED IN FINANCING ACTIVITIES	(3,067,379)	(1,098,004)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,127,105	(118,643)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,594	1,278
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	613,591	730,956
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	1,742,290	613,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to Reference to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), for the first time, which are mandatory effective for the annual periods beginning on or after January 1, 2020 for the preparation of consolidated financial statements:

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

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

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of Amendments to Reference to the Conceptual Framework in HKFRS and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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 and the related Amendments ¹
Amendments to HKFRS 16	COVID-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
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	Classification of Liabilities as Current or Non- current and related amendments to Hong Kong Interpretations 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after January 1, 2023.

² Effective for annual periods beginning on or after January 1, 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after June 1, 2020.

⁵ Effective for annual periods beginning on or after January 1, 2021.

The directors of the Company anticipate that the application of 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, 2020

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

3.1 Basis of preparation of consolidated financial statements

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 directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.1 Basis of preparation of consolidated financial statements (Continued)

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.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Basis of consolidation (Continued)

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Basis of consolidation (Continued)

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are 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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued) *Business combinations (Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

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 ("CGUs"), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued) *Investments in joint ventures (Continued)*

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

The 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Non-current assets held for sale

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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; or
- 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.

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

Provision on customer loyalty programme

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

The Group as a lessee

Allocation of consideration to components of a contract

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of properties 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

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 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, 2020

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

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (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 remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

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

Lease modifications

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

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.

Government grants

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

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

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

Employee benefits

Retirement benefit costs

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(Continued)

3.2 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 compensation 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 lapsed 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 award 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 awards 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 award reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

Share award scheme (Continued)

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 award reserve. The difference arising from such transfer is debited/credited to accumulated profits. When share awards lapsed before the vesting date, the amount previously recognised in share award reserve will be transferred to accumulated profits.

When the share award scheme is 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 award reserve will also be transferred to accumulated profits.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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.

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.

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

Depreciation is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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 CGU to which the asset belongs.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

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

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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, amount due from a joint venture and bank balances and cash) which are subject to impairment assessment 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, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment 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.

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, in which case 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, 2020

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

3.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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 there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward-looking information that is available without undue cost or effort.

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.

ECL for trade receivables is considered using the provision matrix. The trade receivables are grouped on the basis of past-due status.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

Financial liabilities, including amounts due to related parties, amount due to non-controlling interest of a subsidiary, 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. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(b) Key sources of estimation uncertainty

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

(i) *Estimated impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amounts of 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 commissions from concessionaire sales to which goodwill has been allocated, which is the higher of the value in use and 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 actual cash flows are less than expected or changes in facts and circumstances which results in downward revision of future cash flows, or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

As at December 31, 2020, the carrying amount of goodwill is RMB522,163,000 (2019: RMB533,247,000) (net of accumulated impairment loss of RMB11,079,000 (2019: nil)). Details of the recoverable amount calculation are disclosed in Note 16.

(ii) *Allowance for inventories*

The management of the Group reviews the aging and saleability of the inventories amounting to RMB5,869,541,000 (2019: RMB8,021,487,000) 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 aging categories 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 inventories credited to the consolidated income statement for the year ended December 31, 2020 was RMB24,157,000 (2019: RMB61,026,000) upon review of saleability of the inventory balance remained at the end of the reporting period. Accumulated allowance made as at December 31, 2020 was RMB133,115,000 (2019: RMB157,279,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(b) Key sources of estimation uncertainty (Continued)

(iii) *Income taxes*

As at December 31, 2020, a deferred tax asset of RMB37,400,000 (2019: nil) in relation to unused tax losses for certain operating subsidiaries has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB709,947,000 (2019: RMB741,200,000) 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 taxable profits generated are less or more than expected, a material reversal or future recognition of deferred tax asset may further arise, which would be recognised in profit or loss for the period in which such reversal or future recognition 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.

(iv) *Provision of ECL for trade receivables*

The Group uses practical expedient in estimating ECL on the trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging status of trade receivables as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable, supportable and 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 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(b) Key sources of estimation uncertainty (Continued)

(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 indicator exists, 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, the Group estimates the recoverable amount of the CGU to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of CGUs, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

The Group has material leasehold improvements and right-of-use assets in the retail stores which are subject to impairment test in the event of performance is below expectation. In addition, intangible assets allocated to several groups of CGUs 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. Impairment assessments were carried out against retail stores which are still underperformed after one year's operation since open and the related groups of CGUs in which the intangible assets are allocated. As at December 31, 2020, the Group performed impairment assessment on certain CGUs/groups of CGUs with impairment indicators. No impairment losses on right-of-use assets and property, plant and equipment and intangible assets were recognised respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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 commissions from concessionaire sales (the “Retail Business”). The Group’s results and revenue are reported as a whole on a regular basis to the chief operating decision maker, being the executive directors of the Company, for the purposes of performance assessment and resource allocation. No other discrete financial information is presented other than entity-wide disclosures.

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

	2020 RMB'000	2019 RMB'000
Sales of sportswear and footwear products	25,499,253	27,052,466
Commissions from concessionaire sales	111,872	137,299
	25,611,125	27,189,765

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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)	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
PRC	25,443,650	27,077,187	5,545,343	5,417,749
Other locations	167,475	112,578	37,622	45,047
	25,611,125	27,189,765	5,582,965	5,462,796

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

6. OTHER INCOME AND GAINS (LOSSES)

(a) Other operating income and gains (losses)

	2020 RMB'000	2019 RMB'000
Included in other operating income is the following items:		
Other income from suppliers	114,841	289,864
Dividend income from an equity instrument at FVTOCI	851	196
Net exchange gain (loss)	2,181	(610)
Subsidy income from government	57,573	41,750
Included in other gains (losses) is the following items:		
Loss on disposal of property, plant and equipment	(49,910)	(51,287)
Impairment reversal/(losses) recognised on trade receivables, net	584	(11,741)
Impairment losses recognised on other receivables, net (note)	(116)	(562)

note: During the year ended December 31, 2020, impairment losses of RMB116,000 (2019: RMB562,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(b) Finance income and costs

	2020 RMB'000	2019 RMB'000
Interest expense on:		
– bank and other borrowings	(111,271)	(144,924)
– advances from related parties	(702)	(1,492)
– lease liabilities	(139,852)	(101,106)
	(251,825)	(247,522)
Interest income from:		
– bank deposits	11,437	6,431
– amount due from a joint venture	5,628	–
– advance to a non-controlling interest of a subsidiary	1,708	1,904
	18,773	8,335
	(233,052)	(239,187)

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

	2020 RMB'000	2019 RMB'000
Impairment loss recognised on interest in a joint venture	–	(9,987)
Reversal of impairment loss recognised on loan to a joint venture	514	636
Impairment loss recognised on goodwill	(11,174)	–
	(10,660)	(9,351)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

7. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax ("EIT")		
– current year	211,400	374,172
– (over) underprovision in prior years	(12,813)	5,551
Current tax charge	198,587	379,723
Deferred tax credit (Note 18)	(80,192)	(35,167)
	118,395	344,556

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:

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 engaged in the business activities under the New Catalogue. The directors of the Company consider that the relevant subsidiaries were eligible for the preferential tax rate of 15% until the relevant business activities were no longer included in the New Catalogue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

7. INCOME TAX EXPENSE (Continued)

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

	2020 RMB'000	2019 RMB'000
Profit before taxation	433,055	1,224,466
Tax at income tax rate of 25% (note)	108,264	306,117
Tax effect of share of results of joint ventures	(3,841)	(268)
Tax effect of expenses not deductible for tax purposes	29,307	39,837
Tax effect of income not taxable for tax purposes	(15,500)	(17,566)
Effect of tax holidays and concessions granted to the PRC subsidiaries	(7,927)	(27,420)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,896	2,708
Effect of tax losses not recognised	34,217	56,261
Utilisation of tax losses previously not recognised	(16,208)	(20,664)
(Over) underprovision of tax in prior years	(12,813)	5,551
Income tax expenses for the year	118,395	344,556

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, 2020

8. PROFIT FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and chief executive's emoluments (Note 9(a))	3,251	2,770
Retirement benefit scheme contributions, excluding directors and the chief executive	170,607	428,230
Equity-settled share-based payments, excluding directors and the chief executive	(3,261)	18,872
Other staff costs	2,339,228	2,547,958
Total staff costs	2,509,825	2,997,830
Auditor's remuneration	5,164	5,301
Depreciation of property, plant and equipment	541,140	473,732
Depreciation of right-of-use assets	1,182,650	888,960
Amortisation of intangible assets (included in selling and distribution expenses)	102,965	104,876
Gross rental income from investment properties, net of direct expenses	(3,532)	(4,266)
Net changes in allowance for inventories	(24,157)	(61,026)

For the years ended December 31, 2020 and 2019, cost of inventories recognised as an expense represents cost of sales as shown in the consolidated income statement.

For the year ended December 31, 2020, the novel coronavirus (COVID-19) pandemic (the "Pandemic") related government grants/assistances amounted to RMB155,683,000 were deducted from staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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 (2019: seven) 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, 2020				
<i>Executive directors:</i>				
Wu, Pan-Tsu	-	-	-	-
Lee, Shao-Wu	-	991	1,326	2,317
<i>Non-executive directors:</i>				
Tsai Patty, Pei Chun	-	-	-	-
Li I-nan	133	-	-	133
<i>Independent non-executive directors:</i>				
Chen, Huan-Chung	267	-	-	267
Feng Lei Ming	267	-	-	267
Hsieh, Wuei-Jung	267	-	-	267
	934	991	1,326	3,251

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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, 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

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 TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(b) Emoluments of senior management

Of the seven (2019: six) senior management of the Company for the year ended December 31, 2020, two (2019: two) of them were directors of the Company and their remuneration has been disclosed in Note 9(a). The emoluments of the remaining five (2019: four) individuals for the year are within the following bands:

	2020 Number of employees	2019 Number of employees
Less than HK\$1,000,000	3	–
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$7,500,001 to HK\$8,000,000	–	1
	5	4

(c) Five highest paid employees

Of the five employees with the highest emoluments in the Group for the year ended December 31, 2020, none of them (2019: none of them) are directors nor the chief executive of the Company. The emoluments of the five (2019: five) individuals for the year are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other allowances	8,208	9,130
Bonus	10,755	8,060
Equity-settled share-based payment	2,265	3,683
	21,228	20,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

(c) Five highest paid employees (Continued)

Their emoluments were within the following bands:

	2020 Number of employees	2019 Number of employees
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	1	2
HK\$4,000,001 to HK\$4,500,000	1	2
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$7,000,001 to HK\$7,500,000	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.

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

The Company and Yue Yuen entered into a framework agreement on November 13, 2018, pursuant to which, the Company may, through its subsidiaries, purchase from Yue Yuen's subsidiaries, jointly controlled entities and associates, and/or any factories operated and/or appointed by members of the Yue Yuen's subsidiaries, jointly controlled entities and associates footwear products, for three years from January 1, 2019 to December 31, 2021, subject to the various annual caps.

Mr. Wu, Pan-Tsu was interested in 40,000 shares award in Yue Yuen in both 2020 and 2019, and all of them remained unvested and subject to certain vesting conditions.

Mr. Lee, Shao-Wu was interested in 78,000 (2019: 78,000) shares in Yue Yuen.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

10. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends recognised as distribution during the year:		
2019 final dividend of nil per share (2019: 2018 final dividend of HK\$0.025 per share)	–	115,326

Subsequent to the end of the reporting period, the directors of the Company resolved not to recommend payment of a final dividend in respect of the year ended December 31, 2020 (2019: nil).

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:

	2020 RMB'000	2019 RMB'000
Earnings:		
Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	302,840	833,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

11. EARNINGS PER SHARE (Continued)

	2020	2019
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,264,380,698	5,250,572,849
Effect of dilutive potential ordinary shares:		
– share options	28,563	393,059
– unvested awarded shares	30,465,111	47,156,369
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,294,874,372	5,298,122,277

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)). The computation of diluted earnings per share for the year ended December 31, 2020 does not assume the exercise of certain share options of the Company because the exercise price of those options was higher than the average market price of shares for the year ended December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

12. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At January 1, 2019 and December 31, 2019 and 2020	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, 2020 and 2019, 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 rental and market price of similar properties in the PRC.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change from the valuation technique used in the prior year.

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.

One of the key inputs used in valuing the investment properties was the market yield, which ranged from 3.7% to 6.4% (2019: 3.8% to 6.0%). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Office and shopping mall buildings RMB'000	Training buildings and warehouses RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture, fixture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST								
At January 1, 2019	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
Additions	-	-	-	2,130	458,038	92,236	1,352	553,756
Disposals	-	-	-	-	(333,561)	(14,712)	(2,187)	(350,460)
Exchange realignment	-	-	-	-	(202)	(126)	(12)	(340)
At December 31, 2020	58,523	74,097	359,538	40,012	2,044,098	456,095	23,608	3,055,971
DEPRECIATION AND IMPAIRMENT								
At January 1, 2019	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
Provided for the year	1,249	2,019	12,235	300	453,406	69,946	1,985	541,140
Eliminated on disposals	-	-	-	-	(263,527)	(12,657)	(1,887)	(278,071)
Exchange realignment	-	-	-	-	(92)	(71)	(3)	(166)
At December 31, 2020	19,739	10,713	186,659	34,882	1,214,055	279,629	16,055	1,761,732
CARRYING VALUE								
At December 31, 2020	38,784	63,384	172,879	5,130	830,043	176,466	7,553	1,294,239
At December 31, 2019	40,033	65,403	185,114	3,300	895,555	156,286	8,495	1,354,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

All buildings, office and shopping mall buildings and training 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.

Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements as at December 31, 2020 was RMB140,010,000.

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/training 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, 2020

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 December 31, 2020					
Carrying amount	106,150	2,977,289	89,036	74,466	3,246,941
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, 2020					
Depreciation charge	3,207	1,106,564	36,613	36,266	1,182,650
For the year ended December 31, 2019					
Depreciation charge	3,207	824,860	30,905	29,988	888,960

	2020 RMB'000	2019 RMB'000
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	120,657	236,381
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	214	215
Variable lease payments not included in the measurement of lease liabilities	1,263,918	1,816,331
Total cash outflow for leases	2,604,916	3,015,972
Additions to right-of-use assets, net of early termination and modification	1,497,735	1,712,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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 properties. As at December 31, 2020, the portfolio of short-term leases is similar to those entered in 2019. The short-term lease expense were approximately RMB120,657,000 during the year ended December 31, 2020 (2019: RMB93,000,000).

Leases of properties are either with only fixed lease payments or contain variable lease payment that are based on certain percentage of sales and minimum annual lease payment that are fixed over the lease term. Some variable payment terms include cap clauses.

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

Rent modifications

During the year, certain retail stores of the Group were not available for operation in February 2020 due to the closure of shopping malls. The Group had to temporarily close its retail stores in order to contain the spread of the Pandemic. Lessors of the relevant retail stores provided rent concessions to the Group through rent reductions ranging from 50% to 100% over one to three months.

The changes in lease payments due to rent concessions constitute lease modifications. During the current year, reduction of the Group's lease liabilities of RMB195,832,000 and a corresponding adjustment of the same amount to the right-of-use assets were recognised because of lease modifications made during the year.

Lease committed

As at December 31, 2020, the Group entered into new leases for several retail stores that have not yet commenced, with average non-cancellable period ranging from 3 to 5 years (2019: 3 to 5 years), the total future undiscounted cash flows over the non-cancellable period amounted to RMB100,153,000 (2019: RMB376,501,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2019	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
Exchange realignment	-	-	(3)	-	(3)
At December 31, 2020	467,340	-	100,569	158,534	726,443
AMORTISATION AND IMPAIRMENT					
At January 1, 2019	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
Provided for the year	84,369	-	10,158	8,438	102,965
Exchange realignment	-	-	(8)	-	(8)
At December 31, 2020	382,973	-	83,277	79,842	546,092
CARRYING VALUE					
At December 31, 2020	84,367	-	17,292	78,692	180,351
At December 31, 2019	168,736	-	27,445	87,130	283,311

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

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FOR THE YEAR ENDED DECEMBER 31, 2020

16. GOODWILL

	RMB'000
COST	
At January 1, 2019	532,808
Exchange realignment	439
At December 31, 2019	533,247
Exchange realignment	(5)
At December 31, 2020	533,242
IMPAIRMENT	
At January 1, 2019 and December 31, 2019	–
Impairment loss recognised in the year	11,174
Exchange realignment	(95)
At December 31, 2020	11,079
CARRYING VALUE	
At December 31, 2020	522,163
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 commissions from 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, 2020 and 2019.

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and pre-tax discount rates ranging from 16% to 17% (2019: 17%), determined by an independent qualified professional 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% (2019: 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 above groups of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

	2020 RMB'000	2019 RMB'000
Cost of unlisted investments in joint ventures	390,515	280,515
Share of post-acquisition losses, net of dividends received	(11,736)	(27,100)
	378,779	253,415

During the year ended December 31, 2019, the Group entered into a disposal framework agreement with the joint venture partner of a joint venture (the "Joint Venture Partner"), pursuant to which the Group agreed to dispose of its investment in the joint venture for a consideration of approximately RMB29,160,000, and recognised impairment loss on the joint venture of 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 the joint venture, which was expected to be sold within twelve months, has been classified as non-current assets held for sale and was presented separately in the consolidated statement of financial position as at December 31, 2019.

The Group entered into a supplementary agreement with the Joint Venture Partner in February 2020 to extend the payment completion date of the disposal to February 2021 due to renegotiation of consideration payment terms.

In December 2020, the Group partially disposed 15% interests in the joint venture to the Joint Venture Partner for a consideration of RMB8,748,000 and no disposal gain or loss was recognised as there is no difference between the proceeds and the net carrying amount of the 15% interests in the joint venture. At December 31, 2020, the Group retained 35% interests in the joint venture and presented as non-current assets held for sale.

In February 2021, the Group fully received the consideration of RMB20,412,000 for remaining interests in the joint venture from the Joint Venture Partner, and the shares transfer arrangement is still in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

18. DEFERRED TAX ASSETS/LIABILITIES

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:

	2020 RMB'000	2019 RMB'000
Deferred tax assets	(64,288)	(9,313)
Deferred tax liabilities	60,442	85,658
	(3,846)	76,345

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	Tax losses RMB'000	Total RMB'000
At January 1, 2019	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
Credit to profit or loss (Note 7)	-	(25,217)	(17,575)	(37,400)	(80,192)
Exchange realignment	-	1	-	-	1
At December 31, 2020	17,085	43,357	(26,888)	(37,400)	(3,846)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

18. DEFERRED TAX ASSETS/LIABILITIES (Continued)

As at December 31, 2020, the Group had unused tax losses of approximately RMB859,547,000 (2019: approximately RMB741,200,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB149,600,000 (2019: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately RMB709,947,000 (2019: approximately RMB741,200,000) due to 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 RMB7,970 million (2019: approximately RMB6,906 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.

19. INVENTORIES

	2020 RMB'000	2019 RMB'000
Sportswear and footwear products	5,869,541	8,021,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

20. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables (note i)	1,702,963	1,407,523
Deposits, prepayments and other receivables	1,657,243	1,586,015
	3,360,206	2,993,538
Deposits, prepayments and other receivables represent:		
Rental deposits and prepaid rentals	178,958	158,956
Deposits and prepayments paid to suppliers	735,630	923,107
Value-added tax recoverable	255,636	219,996
Loan to a joint venture (note ii)	264,000	–
Amounts due from related parties (note iii)	11,718	13,154
Amount due from a non-controlling interest of a subsidiary (note iv)	34,000	34,000
Other prepaid expenses	110,031	131,407
Other deposits and receivables	67,270	105,395
	1,657,243	1,586,015

notes:

- (i) The amounts include trade receivables from a joint venture of RMB426,347,000 (2019: nil).
- (ii) The amount is unsecured, carries fixed interest rate of 4.35% per annum and is repayable within one year.
- (iii) The amount represents interest receivable from a joint venture of RMB5,965,000 (2019: RMB495,000), other receivable from certain joint ventures of RMB5,453,000 (2019: RMB12,656,000) and certain entities controlled by subsidiaries of Yue Yuen of RMB300,000 (2019: RMB3,000), and are unsecured, interest-free and have no fixed term of repayment.
- (iv) The amount is unsecured, carries fixed interest rate of 6.53% (2019: 6.53%) per annum and is repayable within three month from the date of advance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

20. TRADE AND OTHER RECEIVABLES (Continued)

Before accepting any new wholesale customer, the Group has assessed the potential customer's credit quality and defines credit rating limits for each wholesale customer. Limits attributed to customers are reviewed periodically. For the sales through counters in department stores, the Group periodically reviews the settlement status of these department stores.

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:

	2020 RMB'000	2019 RMB'000
0 – 30 days	1,634,315	1,297,831
31 – 90 days	68,601	107,056
Over 90 days	47	2,636
	1,702,963	1,407,523

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB19,087,000 (2019: RMB11,240,000) which are past due 31 days to 90 days at the reporting date for which the Group has not provided for impairment loss. 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, 2020 and 2019 are set out in Note 33(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

21. 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, 2020, the bank deposits carried variable interest rates ranging from 0.01% to 3.00% (2019: 0.01% to 2.85%) 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:

	2020 RMB'000	2019 RMB'000
United States dollars ("USD")	9,244	5,165
Hong Kong dollars	1,855	822
RMB	299	311
	11,398	6,298

22. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables (note i)	1,466,360	772,913
Deposits from and rebate payable to customers	370,361	413,052
Amounts due to related parties (note ii)	39,022	83,114
Accrued staff costs	450,429	549,122
Sales discount to customers	81,000	69,570
Renovation costs payables	174,207	232,001
Short-term leases, leases of low-value assets and shopping mall commission payables	83,628	98,722
Storage fee payables	11,258	11,075
Sales received on behalf of concessionary sales customers	109,211	73,999
Other tax payables	133,769	141,928
Interest payables	8,935	23,747
Accrued operating expenses	306,271	191,586
	3,234,451	2,660,829

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FOR THE YEAR ENDED DECEMBER 31, 2020

22. TRADE AND OTHER PAYABLES (Continued)

notes:

- (i) The amounts include trade payable to subsidiaries of Yue Yuen of RMB1,339,000 (2019: RMB1,021,000) and trade payable to a joint venture of RMB27,275,000 (2019: nil).
- (ii) The amounts represent amount due to a non-controlling interest of a subsidiary of RMB2,800,000 (2019: RMB2,800,000) which is unsecured and expected to be repaid within one year and carries fixed interest rate of 4.35% (2019: 4.35%) per annum and amount due to Yue Yuen and its subsidiaries of RMB45,000 (2019: RMB2,230,000) and PCC and its subsidiaries of RMB27,000 (2019: RMB4,548,000) and a joint venture of RMB36,150,000 (2019: RMB73,536,000), which are unsecured, interest-free and repayable on demand.

The aged analysis of the Group's trade payables, presented based on the invoice date at the end of the reporting period, is as follows:

	2020 RMB'000	2019 RMB'000
0 – 30 days	1,451,157	770,845
31 – 90 days	8,033	653
Over 90 days	7,170	1,415
	1,466,360	772,913

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.

23. CONTRACT LIABILITIES

Contract liabilities mainly included prepayments received from wholesale customers when they sign the sale and purchase agreements. They are expected to be recognised as revenue within one year upon receipt, and were recognised as revenue in current period upon the satisfaction of performance obligation, i.e. the delivery of goods to customers.

As at January 1, 2019, contract liabilities amounted to RMB283,145,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. BANK AND OTHER BORROWINGS

(a) Bank borrowings

The bank borrowings amounting to RMB1,948,679,000 (2019: RMB2,990,995,000) are unsecured, interest-bearing, and repayable within one year.

	2020 RMB'000	2019 RMB'000
Fixed rate borrowings	1,897,131	–
Variable rate borrowings	51,548	2,990,995
	1,948,679	2,990,995

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 People's Bank of China ("PBOC"), as appropriate. Interest is repriced every one to twelve months.

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

	2020	2019
Effective interest rate:		
Fixed rate borrowings	1.25% – 5.00%	N/A
Variable rate borrowings	1.25% – 1.57%	1.50% – 5.00%

(b) Other borrowings

As at December 31, 2019, the loans from a subsidiary of PCC amounting to RMB555,000,000 carried at fixed interest rate ranging 3.90% to 4.00% per annum, were unsecured and repayable within one year. During the year ended December 31, 2020, the Group further raised loans of RMB48,000,000 from the subsidiary of PCC and fully repaid the outstanding balances.

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FOR THE YEAR ENDED DECEMBER 31, 2020

25. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	1,047,232	889,552
Within a period of more than one year but not exceeding two years	735,014	766,143
Within a period of more than two years but not exceeding five years	974,950	879,089
Within a period of more than five years	374,091	180,213
	3,131,287	2,714,997
Less: Amount due for settlement within one year shown under current liabilities	(1,047,232)	(889,552)
Amount due for settlement after one year shown under non-current liabilities	2,084,055	1,825,445

The incremental borrowing rates applied to lease liabilities in the PRC, Hong Kong and Taiwan range from 2.00% to 4.80% (2019: from 2.10% to 4.53%).

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26. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At January 1, 2019, December 31, 2019 and 2020	30,000,000,000	300,000
Issued and fully paid:		
At January 1, 2019	5,345,306,615	53,453
Exercise of share options	11,166,000	111
At December 31, 2019	5,356,472,615	53,564
Exercise of share options	375,000	4
At December 31, 2020	5,356,847,615	53,568
	2020 RMB'000	2019 RMB'000
Shown in the consolidated financial statements as at December 31	46,688	46,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

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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, 2020:

	Date of grant	Exercise price HK\$	Exercisable period	Number of share options						
				Outstanding at January 1, 2019	Exercised during the year	Lapsed during the year	Outstanding at December 31, 2019	Exercised during the year	Lapsed during the year	Outstanding at December 31, 2020
Current and former employees of the Group	20.01.2011	1.230	20.01.2012 - 19.01.2019	6,611,500	(4,466,500)	(2,145,000)	-	-	-	-
	20.01.2011	1.230	20.01.2013 - 19.01.2019	4,102,500	(2,382,500)	(1,720,000)	-	-	-	-
	20.01.2011	1.230	20.01.2014 - 19.01.2019	2,800,000	(2,212,500)	(587,500)	-	-	-	-
	20.01.2011	1.230	20.01.2015 - 19.01.2019	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)	-	-	-	-
	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				28,244,190	(11,166,000)	(6,206,320)	10,871,870	(375,000)	(9,330,550)	1,166,320
Exercisable as at January 1, 2019, December 31, 2019 and December 31, 2020				18,913,640			2,707,640			1,166,320

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK\$2.00 (2019: HK\$1.49).

During the year ended December 31, 2020, 1,166,320 (2019: 6,206,320) share options lapsed as they were not exercised within the exercisable period and 8,164,230 (2019: nil) share option lapsed as vesting conditions were not met.

During the year ended December 31, 2020, the Group recognised a net income of RMB4,971,000 (2019: net expenses of RMB1,814,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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.

The Company has purchased 84,270,000 ordinary shares for share award scheme during the year ended December 31, 2020 (2019: nil). A total of 168,502,560 ordinary shares of the Company were held by the trustee of the Share Award Scheme as at December 31, 2020 (2019: 98,240,360 ordinary shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020:

	Date of grant	Vesting date	Number of share awards outstanding at January 1, 2019	Granted during the year	Lapsed during the year	Vested during the year	Number of share awards outstanding at December 31, 2019	Granted during the year	Lapsed during the year	Vested during the year	Number of share awards outstanding at December 31, 2020
Director											
Lee, Shao-Wu	25.03.2017	25.03.2019	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)	-	-	-	-	-
	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	-	-	(200,000)	-
	23.03.2019	23.09.2021	-	300,000	-	-	300,000	-	-	-	300,000
	23.03.2019	23.03.2022	-	500,000	-	-	500,000	-	-	-	500,000
	31.03.2020	31.03.2021	-	-	-	-	-	500,000	-	-	500,000
	31.03.2020	31.03.2022	-	-	-	-	-	500,000	-	-	500,000
	31.03.2020	31.03.2023	-	-	-	-	-	500,000	-	-	500,000
Employees											
	24.03.2016	24.03.2019	2,876,000	-	(80,000)	(2,796,000)	-	-	-	-	-
	13.08.2016	13.08.2019	4,950,000	-	(150,000)	(4,800,000)	-	-	-	-	-
	12.11.2016	31.08.2019	600,000	-	-	(600,000)	-	-	-	-	-
	14.11.2016	01.09.2019	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	4,154,000	-	(123,000)	-	4,031,000	-	(126,000)	(3,905,000)	-
	03.07.2017	03.07.2020	300,000	-	-	-	300,000	-	(300,000)	-	-
	14.11.2017	12.12.2019	300,000	-	-	(300,000)	-	-	-	-	-
	14.11.2017	14.11.2020	3,200,000	-	-	-	3,200,000	-	(1,000,000)	(2,200,000)	-
	11.08.2018	01.07.2019	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	3,678,800	-	(361,200)	(3,317,600)	-	-	-	-	-
	11.08.2018	11.09.2020	5,518,200	-	(541,800)	-	4,976,400	-	(189,600)	(4,786,800)	-
	11.08.2018	11.03.2021	9,197,000	-	(903,000)	-	8,294,000	-	(316,000)	-	7,978,000
	23.03.2019	23.09.2020	-	2,453,200	(46,000)	-	2,407,200	-	(191,200)	(2,216,000)	-
	23.03.2019	23.09.2021	-	3,679,800	(69,000)	-	3,610,800	-	(303,600)	-	3,307,200
	23.03.2019	23.03.2022	-	6,133,000	(115,000)	-	6,018,000	-	(506,000)	-	5,512,000
	23.03.2019	01.10.2020	-	112,000	-	-	112,000	-	(112,000)	-	-
	23.03.2019	01.10.2021	-	168,000	-	-	168,000	-	(168,000)	-	-
	23.03.2019	01.04.2022	-	280,000	-	-	280,000	-	(280,000)	-	-
	15.11.2019	15.12.2020	-	750,000	-	-	750,000	-	(750,000)	-	-
Total			43,843,450	14,576,000	(2,389,000)	(13,287,280)	42,743,170	1,500,000	(10,638,170)	(14,007,800)	19,597,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

27. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(Continued)

(b) Share Award Scheme (Continued)

The closing prices of the Company's shares immediately before the grant of the share awards on March 31, 2020 was HK\$1.45 per share, on November 15, 2019 was HK\$2.84 per share and on March 23, 2019 was HK\$1.67 per share.

During the year ended December 31, 2020, the Group recognised a net expense of RMB3,036,000 (2019: RMB17,992,000) 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.

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	Dividends payable RMB'000	Interest payables RMB'000 (Note 22)
At January 1, 2019	–	3,531,259	–	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	–	–
Interest expenses	101,106	–	–	146,416
Dividend declared	–	–	129,326	–
At December 31, 2019	2,714,997	3,545,995	–	23,747
Financing cash flows	(1,198,174)	(1,597,226)	–	(126,785)
New leases/lease modification/lease termination	1,474,576	–	–	–
Foreign exchange translation	36	(90)	–	–
Interest expenses	139,852	–	–	111,973
At December 31, 2020	3,131,287	1,948,679	–	8,935

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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 Schemes 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 Schemes, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

The total cost of RMB170,607,000 (2019: RMB428,230,000) 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.

30. OPERATING LEASING ARRANGEMENTS

The Group as lessor

Certain of the Group's properties have committed leases for its tenants for undiscounted lease payments receivables over non-cancellable period from two years to fifteen years as follow:

	2020 RMB'000	2019 RMB'000
Within one year	3,971	3,992
In the second year	3,670	3,971
In the third year	3,670	3,670
In the fourth year	3,670	3,670
In the fifth year	3,670	3,670
Over five years	21,101	24,771
	39,752	43,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

31. RELATED PARTY DISCLOSURES

(a) Transactions

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

Relationship	Nature of transactions	2020 RMB'000	2019 RMB'000
Yue Yuen and its subsidiaries	Purchase of footwear products by the Group	6,427	12,447
	Operating lease payment	1,287	1,298
	Management fees charged to the Group	2,206	1,970
PCC and its subsidiaries	Management fees charged to the Group	2,143	719
	Sales of sportswear products by the Group	–	56
	Interest expenses charged to the Group	10,926	21,204
Joint venture of the Group	Sales of sportswear products by the Group (note)	2,782,655	–
	Purchase of sportswear products by the Group	391,622	–
	Logistic service income charged by the Group	32,158	–
	Other service income charged by the Group	24,807	–
	Management fees charged to the Group	245,878	–
	Interest income receivable by the Group	5,628	–

note: The sales of sportswear products to a joint venture contributed over 10% of total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

31. RELATED PARTY DISCLOSURES (Continued)

(b) Compensation of key management personnel

	2020 RMB'000	2019 RMB'000
Short term benefits	26,659	26,150
Equity-settled share-based payments	4,062	5,797
	30,721	31,947

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

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, treasury and all functional departments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Amortised cost	3,920,801	2,262,392
Equity instrument at FVTOCI	3,149	2,323
Financial liabilities		
Amortised cost	4,060,891	4,676,689
Lease liabilities	3,131,287	2,714,997

(b) Financial risk management objectives and policies

The Group's major financial instruments include an 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), 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, 2020

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 21) 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 20), loan to a joint venture included in other receivables (Note 20), bank and other borrowings (Note 24) 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 lending rate quoted by the PBOC are the major sources of the Group's cash flow interest rate risks.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates with alternative nearly risk-free rates. The Group is closely monitoring the transition to new benchmark interest rates.

The management considers the exposure of interest rate risk is not significant. Accordingly, no sensitivity analysis is performed.

Credit risk and impairment assessment

As at December 31, 2020, 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% (2019: over 99%) of its total receivables as at December 31, 2020. 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 and credit approvals for its wholesale customers, and for other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts for both wholesale customers and shopping malls. In addition, the Group performs impairment assessment under ECL model on trade balances based on provision matrix.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020

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	
				2020 RMB'000	2019 RMB'000
Financial assets at amortised cost					
Trade receivables	20	(note 2)	Lifetime ECL (Provision matrix)	1,702,963	1,407,523
		Loss	Credit-impaired	34,129	63,415
				1,737,092	1,470,938
Amounts due from related parties and a joint venture	20	Low risk	12m ECL	275,718	12,659
Amount due from a non-controlling interest of a subsidiary	20	Low risk	12m ECL	34,000	34,000
Bank balances and cash	21	(note 1)	12m ECL	1,742,290	613,591
Other receivables	20	Low risk/ watch list	12m ECL	165,830	194,619
		Loss	Credit-impaired	43,904	48,932
				209,734	243,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020 and 2019 within lifetime ECL (not credit-impaired).

Trade receivables	2020 RMB'000	2019 RMB'000
Current (not past due)	1,642,164	1,310,241
1 – 120 days past due	60,799	97,282
	1,702,963	1,407,523

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.

Debtors that are credit-impaired with gross carrying amounts of RMB34,129,000 (2019: RMB63,415,000) were assessed individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

33. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Provision matrix – trade receivables' aging (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, 2019	103,452
– Impairment losses recognised	11,741
– Write-offs	(51,778)
As at December 31, 2019	63,415
– Impairment losses reversed	(584)
– Write-offs	(28,702)
As at December 31, 2020	34,129

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, 2020

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 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at December 31, 2020								
Non-interest bearing	-	2,094,209	8,033	7,170	-	-	2,109,412	2,109,412
Fixed interest rate instruments	3.58	829,877	508,186	579,995	-	-	1,918,058	1,899,931
Variable interest rate instruments	1.30	23,220	28,389	-	-	-	51,609	51,548
Lease liabilities	4.15	102,425	301,959	762,153	1,900,521	428,765	3,495,823	3,131,287
		3,049,731	846,567	1,349,318	1,900,521	428,765	7,574,902	7,192,178

	Weighted average interest rate %	0 to 30 days RMB'000	31 to 90 days RMB'000	91 to 365 days RMB'000	1 to 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

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, 2020

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

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	392	701
Investments in subsidiaries	4,456,611	4,460,002
	4,457,003	4,460,703
CURRENT ASSETS		
Other receivables	1,287	7,590
Amounts due from subsidiaries	1,672,114	1,449,342
Bank balances and cash	6,723	3,649
	1,680,124	1,460,581
CURRENT LIABILITIES		
Other payables	20,689	19,547
Amounts due to subsidiaries	244,115	-
Bank borrowings	1,360,060	1,191,560
	1,624,864	1,211,107
NET CURRENT ASSETS	55,260	249,474
NET ASSETS	4,512,263	4,710,177
CAPITAL AND RESERVES		
Share capital	46,688	46,685
Reserves (note)	4,465,575	4,663,492
	4,512,263	4,710,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

note:

Movement in the Company's reserves:

	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2019	4,314,494	476,400	4,790,894
Loss and total comprehensive expense for the year	–	(43,742)	(43,742)
Recognition of equity-settled share-based payment, net of amounts lapsed relating to share options and share awards not yet vested	19,806	–	19,806
Exercise of share options	11,860	–	11,860
Dividends recognised as distribution (Note 10)	–	(115,326)	(115,326)
At December 31, 2019	4,346,160	317,332	4,663,492
Loss and total comprehensive expense for the year	–	(52,147)	(52,147)
Repurchase of shares under share award scheme	(144,180)	–	(144,180)
Recognition of equity-settled share-based payment, net of amounts lapsed relating to share options not yet vested	(4,971)	–	(4,971)
Recognition of equity-settled share-based payment, net of amounts lapsed relating to share awards not yet vested	3,036	–	3,036
Exercise of share options	345	–	345
At December 31, 2020	4,200,390	265,185	4,465,575

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at December 31, 2020 and 2019:

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
			2020	2019	
YY Sports Holdings Limited ("YY Sports") (note i)	BVI	US\$1	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
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
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* 合肥寶勳體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Kunshan bao han Culture Sportsevolution Co., Ltd. 昆山寶悍體育文化發展有限公司 (note ii)	PRC	RMB9,838,500	100%	82.03%	Sports marketing and organisation of sports events
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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
			2020	2019	
PCG Bros (Holdings) Co. Limited	BVI	US\$640,000	100%	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	100%	82.03%	Sports marketing and organisation of sports events
Pou Sheng (China) Investment Co., Ltd. 常勝投資有限公司 (note ii)	PRC	US\$152,922,400	100%	100%	Investment holding
Pou Sheng International Sports Development Company Limited	HK	HK\$100	100%	100%	Investment holding
Qingdao Pou Sheng International Sporting Goods Company Limited [#] 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
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 Bao Luo Sports Culture Co. Ltd. [#] 上海寶洛體育文化有限公司 (note ii)	PRC	RMB3,242,500	100%	82.03%	Sports marketing and organisation of sports events
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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
			2020	2019	
Shengdao (Chengdu) Trading Co. Ltd. [#] 勝道(成都)商貿有限公司 (note ii)	PRC	US\$22,400,000	100%	100%	Retailing of sportswear
Shengyang Baoyi Trading Company Limited [#] 瀋陽寶益貿易有限公司 (note ii)	PRC	RMB40,000,000	100%	100%	Retailing of sportswear
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
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

[#] The English names are for information purpose only.

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.

FINANCIAL SUMMARY

RESULTS

	For the year ended December 31,				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Revenue	16,236,384	18,833,313	22,677,375	27,189,765	25,611,125
Profit for the year	569,611	415,032	560,894	879,910	314,660
Attributable to:					
Owners of the Company	560,579	394,322	542,888	833,275	302,840
Non-controlling interests	9,032	20,710	18,006	46,635	11,820
	569,611	415,032	560,894	879,910	314,660

ASSETS AND LIABILITIES

	As at December 31,				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Total assets	10,043,776	11,470,110	13,237,469	17,390,782	17,022,269
Total liabilities	(3,910,265)	(5,028,581)	(6,201,932)	(9,684,704)	(9,146,239)
	6,133,511	6,441,529	7,035,537	7,706,078	7,876,030
Equity attributable to:					
Owners of the Company	6,103,531	6,390,692	6,867,567	7,612,574	7,770,201
Non-controlling interests	29,980	50,837	167,970	93,504	105,829
	6,133,511	6,441,529	7,035,537	7,706,078	7,876,030



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