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Xtep International Holdings Limited
特步國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1368)

2019 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the “**Board**”) of Xtep International Holdings Limited (the “**Company**”) is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the “**Group**”) for the year ended 31 December 2019. This announcement, containing the full text of the 2019 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company’s 2019 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.xtep.com.hk.

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ABOUT THE GROUP

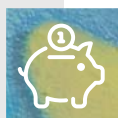
Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand "Xtep" is a leading professional sports brand with an extensive distribution network of over 6,300 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.





ANNUAL RESULTS AT A GLANCE

2019 FINANCIAL HIGHLIGHTS



Revenue

RMB **8,183** m ▲ **28** %



Operating profit

RMB **1,234** m ▲ **18** %



Profit attributable to ordinary equity holders

RMB **728** m ▲ **11** %



Net cash inflow from operating activities

RMB **778** m (2018: RMB **154** m)



Net cash and cash equivalents

RMB **2,132** m (2018: RMB **2,438** m)



Full year dividend per Share

HK **20.0** cents¹ (Payout ratio: **60.0** %)

¹ included an interim dividend of HK12.5 cents per Share and a proposed final dividend of HK7.5 cents per Share. The proposed final dividend per Share will be subject to the approval of shareholders at the forthcoming annual general meeting



Retail sell-through growth of core Xtep brand

▲ 20% +



Xtep branded stores in Mainland China and overseas as at 31 December 2019

6,379

▲ 149 in 2019



Under three markets

Multi-brand strategy



XTEP

Mass

saucony
MERRELL

Professional



Athleisure

2019 OPERATIONAL HIGHLIGHTS



FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

	2019	2018	2017	2016	2015
Profitability data (RMB million)					
Revenue	8,182.7	6,383.2	5,113.4	5,396.6	5,295.1
Gross profit	3,550.4	2,828.3	2,244.5	2,331.3	2,236.7
Operating profit	1,234.0	1,044.3	724.5	917.0	921.0
Profit attributable to ordinary equity holders	727.7	656.5	408.1	527.9	622.6
Basic earnings per Share (RMB cents) ^(Note 1)	30.72	30.19	18.81	23.89	28.97
Profitability ratios (%)					
Gross profit margin	43.4	44.3	43.9	43.2	42.2
Operating profit margin	15.1	16.4	14.2	17.0	17.4
Net profit margin	8.9	10.3	8.0	9.8	11.8
Effective tax rate	34.8	31.4	33.5	33.8	28.7
Return on average shareholders' equity ^(Note 2)	11.9	12.4	8.0	10.8	13.0
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	14.4	15.2	12.9	11.8	14.7
Staff costs	11.0	11.6	12.1	10.5	9.0
R&D costs	2.4	2.6	2.8	2.6	2.3

As at 31 December

	2019	2018	2017	2016	2015
Assets and liabilities data (RMB million)					
Non-current assets	3,056.7	1,139.0	1,051.9	956.9	1,063.2
Current assets	9,265.9	8,059.6	7,881.8	7,217.0	7,050.8
Current liabilities	3,671.1	3,277.8	2,488.8	3,029.4	2,966.4
Non-current liabilities	1,691.2	589.8	1,116.3	121.7	275.9
Non-controlling interests	69.8	4.7	107.7	69.3	19.8
Shareholders' equity	6,890.5	5,326.3	5,220.9	4,953.5	4,851.9
Asset and working capital data					
Current asset ratio	2.5	2.5	3.2	2.4	2.4
Gearing ratio (%) ^(Note 3)	19.1	21.1	20.7	18.4	19.8
Net asset value per Share (RMB) ^(Note 4)	2.77	2.38	2.4	2.26	2.22
Average inventory turnover days (days) ^(Note 5)	77	80	75	51	58
Average trade receivables turnover days (days) ^(Note 6)	96	105	130	119	98
Average trade payables turnover days (days) ^(Note 7)	88	98	122	107	96
Overall working capital days (days)	85	87	83	63	60

NOTES:

- The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
- Return on average shareholders' equity is equal to the profit attributable to ordinary equity holders of the Company for the year divided by the average of opening and closing shareholders' equity.
- The calculation of gearing ratio is based on the total borrowings divided by the total assets of the Group at the end of the year.
- The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the year.
- Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days in 2016).
- Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 365 days (or 366 days in 2016).
- Average trade payables turnover days is equal to the average of opening and closing trade payables divided by cost of sales and multiplied by 365 days (or 366 days in 2016).
- When calculating the average inventory turnover days, trade receivables turnover days and trade payable turnover days for 2019, the opening balances of inventories, trade receivables and trade payables include the respective consolidated balances of K-Swiss Holdings, Inc. (previously known as E-Land Footwear USA Holdings Inc.) and its subsidiaries as if it had been part of the Group since 1 January 2019, and the revenue and cost of sales used for the calculations include the annualised consolidated revenue and cost of sales of K-Swiss Holdings, Inc. and its subsidiaries recorded since the Group's acquisition on 1 August 2019.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ding Shui Po (*Chairman*)
Ding Mei Qing
Ding Ming Zhong

Independent Non-executive Directors

Tan Wee Seng
Gao Xian Feng
Bao Ming Xiao

BOARD COMMITTEES

Audit Committee

Tan Wee Seng (*Chairman*)
Gao Xian Feng
Bao Ming Xiao

Remuneration Committee

Gao Xian Feng (*Chairman*)
Ding Mei Qing
Bao Ming Xiao

Nomination Committee

Ding Shui Po (*Chairman*)
Tan Wee Seng
Gao Xian Feng

COMPANY SECRETARY

Yeung Lo Bun, FCPA

AUTHORIZED REPRESENTATIVES

Ding Shui Po
Yeung Lo Bun

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 27/F, Tower A
Billion Centre, 1 Wang Kwong Road
Kowloon Bay, Kowloon, Hong Kong

HEAD OFFICE IN THE PRC

Xiamen Xtep Tower, No. 89 Jiayi Road, Guanyinshan
Siming District, Xiamen, Fujian Province, PRC
Postal Code 361008

LEGAL ADVISER AS TO HONG KONG LAWS

Loeb & Loeb LLP

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 705
Grand Cayman KY1-1107, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China
Bank of East Asia
China Construction Bank
China Minsheng Bank
Hang Seng Bank
HSBC
Industrial Bank

COMPANY WEBSITE

www.xtep.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2019 was an exciting year for the sportswear industry particularly in Mainland China. The local and international sportswear brands continued to grow significantly and outperformed the overall retail industry against the backdrop of a slowing economy and a more volatile global trading environment. The rapidly emerging middle-class, their pursuit of fitness due to increased awareness of health and wider participation in sports supported by the government have combined to create strong demand for fitness gear. These trends have also sparked the wider spread of athleisure that merged elements of fashion with sportswear, thus generating massive opportunities for the brands to capitalize on.

The past year marked a milestone for Xtep as we transformed from a domestic brand to a global sportswear enterprise. Over the past few years, we have dedicated our efforts to restructuring the Company. The strategic transformation ranging from branding and products to the supply chain and the distribution of Xtep and Xtep Kids has positioned us better than ever to drive future development. Coupled with a stable and strong management team, we have well and truly entered our next stage of growth this year through a multi-brand business model, which began with a joint venture with Wolverine for Saucony and Merrell in March 2019, followed by the acquisition of K-Swiss and Palladium completed in August 2019.



Ding Shui Po
Chairman

CHAIRMAN'S STATEMENT

PERFORMANCE REVIEW

In 2019, our growth momentum continued with Xtep core brand revenue up by 20.7% to RMB7,706.7 million (2018: RMB6,383.2 million) driven by product enhancement and booming consumer market sentiment in sportswear throughout Mainland China. Coupled with an additional five-month revenue contribution from the acquisition and the revenue from the joint venture during the year, the Group's revenue reached RMB8,182.7 million. The gross profit margin of the core Xtep brand was 43.8% (2018: 44.3%). Operating profit of the Group increased by 18.2% to RMB1,234.0 million (2018: RMB1,044.3 million). Profit attributable to ordinary equity holders of the Company grew 10.8% to RMB727.7 million (2018: RMB656.5 million). Basic earnings per Share amounted to RMB30.7 cents (2018: RMB30.2 cents). The Board has proposed a final dividend of HK7.5 cents per Share, with an option to receive scrip shares in lieu of cash. Together with an interim dividend of HK12.5 cents per Share, the full year dividend payout ratio was approximately 60.0% (2018: 60.0%).

SOARING TO NEW HEIGHTS WITH A MULTI-BRAND STRATEGY

Looking at our multi-brand business model, we have strategically segmented our sportswear products into three categories, namely the mass market, professional sports and athleisure.

Among our comprehensive brand portfolio, the core Xtep brand, our stable growth driver, will continue to offer value-for-money professional sportswear products that benchmark well against international sports brands for all levels of athletes in the mass market. In August 2019, we were delighted to sign Jeremy Lin, a famous Asian basketball player, as Xtep brand's spokesperson to mark our first foray into the basketball business. In addition, we have collaborated with the House of Holland, a globally acclaimed British designer brand to debut and showcase our "City Runner" collection at London Fashion Week in September 2019. Following these successful collaborations which boosted both our brand equity and awareness, we will continue to deliver more versatile and innovative collections in partnership with celebrities and fashion houses to increase our exposure at various fashion events.

Targeting customers who demand high functionality and performance, we established a joint venture with Wolverine for Saucony and Merrell in March 2019 to complement our product portfolio with professional sports product offerings. Wolverine offers world-class designs and cutting-edge technologies, while Xtep possesses strong sales network and relationships in Mainland China, as well as a comprehensive supply chain that encompasses procurement, design development, production, marketing and distribution. The joint venture can realize strong synergies as both parties can leverage each other's strengths in fostering product innovation, enjoy economies of scale in the supply chain and sharing of resources in operations and marketing.

Riding the athleisure wave, we successfully added two globally renowned sportswear and lifestyle brands, K-Swiss and Palladium, to our portfolio in August 2019. The two brands are positioned to target high-end customers who demand fashion and comfort in sportswear. Through a seamless integration with Xtep, they can leverage the Group's relationship and network, leading research and development capabilities and supply chain resources to maximize their operational efficiency. A pragmatic five-year development plan for K-Swiss and Palladium including brand positioning, product and marketing strategies will be established to fully unleash their potential and accelerate their business growth in the long run.

OUTLOOK

Stepping into 2020, we expect the coronavirus outbreak in Mainland China together with the ongoing tension arising from the second round of trade talks with the U.S. will inevitably bring undesirable short-term impact to the macroeconomy. Against this backdrop, however, we believe that the sportswear sector would achieve steady long-term growth momentum given the increased health awareness of Chinese citizens following the coronavirus outbreak, coupled with growing urbanization and encouragement by the Chinese government of participation in sports.

In the past few years, we have undertaken various initiatives to transform the Company and drive sustainable growth. We are now better positioned than ever to step up our efforts and realize the potential of the five brands in our portfolio. We are dedicated to setting out and meticulously executing the strategies in order for Xtep to thrive in this booming sector and drive meaningful long-term returns.

Xtep's colleagues are always determined to relentlessly pursue their vision, which constitutes the Company's success and has laid a strong foundation for sustainable business development. I would like to thank our Board members, management team and all our colleagues for their efforts, as well as the confidence and trust of our business partners and customers. Lastly, I would also like to extend my deepest gratitude to our shareholders for their continued support along our development path. Our new era of growth is poised to take off and we are fully confident that our efforts will generate soaring shareholder returns and a sustainable future for the Company.

Mr. Ding Shui Po

Chairman

Hong Kong, 18 March 2020



XTEP

saucony



MERRELL



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Sportswear Industry Continues to be One of the Leading Retail Sectors

The slowing economic growth of Mainland China in 2019 was attributable to softer domestic demand and ongoing uncertainty amid US-China trade tensions. The country's retail sales and GDP growth slightly moderated to 8.0%⁽¹⁾ and 6.1%⁽¹⁾ year on year, respectively. Nonetheless, the sportswear market in Mainland China continued to post strong growth and outperformed all other major retail sectors, thanks to the ongoing government investment in sport, an enormous population of health-conscious millennials and the expanding participation in sports events. While running and basketball are currently the most popular sports in Mainland China, other sports such as fitness, outdoor sports and yoga are also gaining traction, especially among the younger generations.



Mainland China's sportswear market in 2019⁽²⁾

RMB **317** billion

▲ **17%** YoY change

Running

As one of the most accessible sports in Mainland China, running has maintained its popular appeal. The total number of participants in marathons and related sports competitions in Mainland China has reached a record high of 5.8 million in 2018⁽³⁾, the growth momentum is expected to sustain in 2019. A large proportion of this expanding group of marathoners are from the emerging middle class in Mainland China. Thus, it is expected that the rapidly rising middle class in concert with continuous urbanization will further fuel the growth in the participation in marathons and running events. International and domestic brands with deep-rooted expertise in running-related sportswear will have a stronger competitive advantage to capture the enormous business opportunities arising from the running boom.

Basketball

Basketball is currently one of the most popular and fastest-growing sports in Mainland China. An estimated 300 million people currently play the sport in Mainland China⁽⁴⁾, roughly equivalent to the entire population of the United States. Mainland China is currently the NBA's largest international market and its business has seen double-digit growth every year since 2008⁽⁴⁾. In the 2018-19 season, 490 million fans in Mainland China watched NBA on Tencent, the digital media partner of the NBA in the country, nearly three times the number of fans who watched the game four years ago⁽⁴⁾. While the popularity of the NBA has been one of the main driving forces behind the growth of basketball, the increasing influence of the CBA has further inspired more people from the younger generation to participate in basketball, sustaining the rapid growth of the sport in Mainland China.

⁽¹⁾ Source: National Bureau of Statistics of the People's Republic of China

⁽²⁾ Source: Sportswear in China (Euromonitor, February 2020)

⁽³⁾ Source: Chinese Athletics Association

⁽⁴⁾ Source: The National Basketball Association

MANAGEMENT DISCUSSION AND ANALYSIS

Athleisure

The athleisure trend in Mainland China has risen to a whole new level in recent years driven by consumer demand for stylish or comfortable footwear and apparel products. More brands have responded by shifting away from purely performance and fashion wear to focus on the athleisure demand. Major sportswear brands in Mainland China have become more fashion-conscious and are looking to incorporate stylish elements into their collections through collaborating with famous fashion designers, celebrities and international brands to roll out athleisure products. Meanwhile, non-sports brands are also embracing the athleisure trend to launch sports-inspired collections and score market share in this lucrative market. The ongoing fitness craze and growing consumer awareness about sustainable fashion will continue to unleash incremental demand for athleisure wear among Chinese consumers.

Outdoor sports

Outdoor sports such as trail running, hiking, trekking, rock climbing and camping, have started to gain traction in Mainland China. The desire to engage in outdoor sports has continued to grow in Mainland China but the average consumption of outdoor sports is still far behind that of western countries. Nevertheless, with rising disposable income and the growing popularity of adventure sports, the outdoor sports market is expected to maintain a steady growth momentum in the coming years. Since the market is still relatively young, industry players with well-established brand names will have a definite edge.

Customer-Centric Retailing

In an increasingly competitive retail marketplace, many sportswear companies are encouraging seamless and personalized interaction with customers to enhance brand loyalty and outcompete their peers by providing individualized surprises and incentives relevant to their purchase history. Therefore, building stronger relationships with customers is essential to creating customer loyalty, increasing customer retention and keeping abreast of the latest retail industry trends. Big data adoption in enterprises soared at a compound annual growth rate of 36%⁽⁵⁾ from 17% in 2015 to 59% in 2018. Enterprises are embracing big data analytics and digital tools throughout their supply chains to formulate retail insights and differentiate their services and strategies from their peers.

⁽⁵⁾ Source: Dresner Advisory Services' 2018 Big Data Analytics Market Study



MANAGEMENT DISCUSSION AND ANALYSIS

Multi-Brand Business Model

2019 marked another historic milestone for us as we kicked off our multi-brand strategy with new brands including Palladium, K-Swiss, Saucony and Merrell to target different markets, namely mass market, professional sports and athleisure.

Our core Xtep brand will continue to focus on professional running and offer value-for-money sportswear products that benchmark against international standards to the mass market. Saucony and Merrell from the joint venture with Wolverine will provide high-end professional sportswear products for high-performing athletes. Riding on the popularity of the athleisure trend and the retro sportswear style, the two internationally acclaimed heritage sportswear and lifestyle brands K-Swiss and Palladium from the acquisition of K-Swiss Holdings, Inc. will offer athleisure wear that appeals mainly to younger generations.



MANAGEMENT DISCUSSION AND ANALYSIS

Xtep

Our core Xtep brand is well positioned as the Chinese runners' favorite brand as we continued to rank first among the domestic brands and fourth among all global brands in international class marathons in Mainland China⁽⁶⁾. As product innovation lies at the heart of Xtep's leading position in running, we consistently improve our product design and technology to offer value-for-money professional sportswear products to all levels of athletes in the mass market.

Products*New professional running shoes "RC160X"*

After years of perfecting our design and technologies in running shoes, we proudly launched the latest model of professional running shoes, RC160X. The use of nylon midsole foam with a 3D-shaped multi-function carbon-fiber plate provides better rebound capability and stabilizing support. Customized for Chinese professional marathon runners, this lightweight racing shoe, as compared to another signature running model, RC160, has been upgraded in various ways. RC160X offers cutting-edge propulsive cushioning Xsystem and helps runners make breakthroughs in their top speed. Pre-sale of RC160X was available in our Rub Clubs in November 2019 and it was officially launched in December 2019.



RC160X



Jeremy Lin's "Levitation 4" — First edition

"Levitation 4" basketball shoes collection

The first design from the "Levitation 4" basketball shoes collection we co-created with Jeremy Lin was released in November 2019. The collection was also featured in the Sneaker Con and was positively received by the market. Basketball products have become another growth driver of our business as we saw the increasing popularity of the remaining designs launched during the year among younger customers. Following the successful launch, we will continue our efforts to bring more unique and stylish basketball and lifestyle products that combine Lin's healthy image and our brand identity.

⁽⁶⁾ Source: Joyrun — footwear worn by participants who finished the full marathon within three hours

MANAGEMENT DISCUSSION AND ANALYSIS

“City Runner” collection with House of Holland

We launched the “City Runner” collection, a collaboration with British designer brand House of Holland, at London Fashion Week in September 2019. As the first Chinese sportswear brand to debut its collection at UK’s leading fashion event, we fully demonstrated our forward-thinking ambitions to shore up our leading position globally through sharing our unique perspective of sports fashion with the world. The collection perfectly encapsulates sport and street fashion as it combines a British streetwear aesthetic and the brand’s running quality and product innovation in sportswear.



“City Runner” collection debut at London Fashion Week in September 2019



Crossover with House of Holland

MANAGEMENT DISCUSSION AND ANALYSIS

Crossover collections

We continued to offer fashionable athleisure wear to our customers and launched various crossover collections in collaboration with our celebrity spokespersons and famous third-party IPs such as Tom & Jerry, Batman, Smiley, Muhammad Ali and Transformers.



Crossover with Tom & Jerry (launched in Q1 2020)



Crossover with Muhammad Ali



Crossover with Batman

MANAGEMENT DISCUSSION AND ANALYSIS

FOOTWEAR TECHNOLOGIES

RUN FAST

FOR EXPERT/
ADVANCED
RUNNERS

Who participate competitively in marathons and seek high performance



RC 160X shoes

One of the lightest marathon running shoes in the world that combines nylon midsole foam with a full-length 3D-shaped multi-function carbon fiber plate to provide superior shock absorption, rebound capability and stability. Its cutting-edge propulsive cushioning Xystem helps runners make breakthroughs in their top speed.

RC 160 shoes

One of the lightest marathon running shoes in China that offers optimal shock absorption and stability to expert and advanced runners.

SP 300 shoes

Uses a dual-layer midsole featuring ETPU responsive cushioning foam and EVA composite supportive lightweight foam, as well as an anti-torsion TPU arch support that result in optimal shock absorption, support and stability for long-distance running.

RUN DYNAMIC

FOR INTERMEDIATE
RUNNERS

Who seek a balance between performance and comfort



DYNAMIC FORM

Uses eco-friendly ETPU foaming technology that offers higher rebound and compression durability than traditional EVA foam.

DYNAMIC FORM 动力巢

Uses a new composite high-resilience EVA foam formula to deliver a soft and gentle rebound experience during shock absorption.

REACTIVE COIL 反应线圈

Uses Xtep's signature DNA hollow structural cushioning technology to provide an exceptional lightweight and responsive cushioning experience.

AIR 透气网 COMFORT

Applies uni-body three-dimensional double-layer weaving technique, with mesh arrangement based on foot form and pressure points to improve breathability and achieve a seamless fit.

RUN FIT

FOR BEGINNER
RUNNERS

Who prioritize comfort in their exercise experience



一气循环 AIR MEGA 特齿气能环科技

Utilizes an air-cushion system around part or the entire sole, resulting in soft yet supportive shock absorption.

COMFY CUBES 舒适立方

Uses soft cube modules to cushion the core pressure points between the foot and the ground, leading to memory foam-like support and flexibility for increased comfort.

Softpad

A key shoe insole technology the Group co-developed with the Dow Chemical Company. The insole provides memory foam-like comfort by fully conforming with the shape of the foot.

MANAGEMENT DISCUSSION AND ANALYSIS

APPAREL TECHNOLOGIES

XTEP - COOL



KEEP YOU COOL



Polar Ice Fiber

Innovative silky material with rapid heat conducting and dissipation technologies, to provide cool comfort

XTEP - DRY



KEEP YOU DRY



Moisture Absorption and Quick Drying

Sweat absorption and rapid drying technology keeps athletes dry and comfortable



Quick-drying Cotton

Breathable and sweat-wicking cotton fabric to provide dry comfort during exercise

XTEP - WARM



KEEP YOU WARM



Far-infrared Warm

Applies special material which can effectively absorb and reflect the far-infrared of human body heat to provide increased warmth



Heat Reflection

Applies heat reflection technique to form heat currents and reflect body temperature to increase warmth



Warmth Retention

Retain air in the interlayers to provide warmth and shape-distortion resistance of clothes

XTEP - SHIELD



KEEP YOU PROTECTED



Water-resistant

Water-resistant to offer dryness and comfort to athletes in wet conditions



Anti-UV

Protects skin from harmful ultraviolet rays during outdoor sports

XTEP - COMFORT



KEEP YOU COMFORTABLE



Distortion Resistance

Unique spatial 3D structure to maintain shape of clothes



X-SEAMLESS-TECH

Seamless clothes for light weight and softness, perfectly matching body shape



Sorona

Unique plant fibre with good elasticity, natural moisture absorption and sweat-wicking



Organic Cotton

All natural, pollution-free, excellent breathability, providing a soft and comfortable feel



Sports Elasticity - Basic

A special fibre and composition structure of weaving for natural comfort



Sports Elasticity - Intermediate

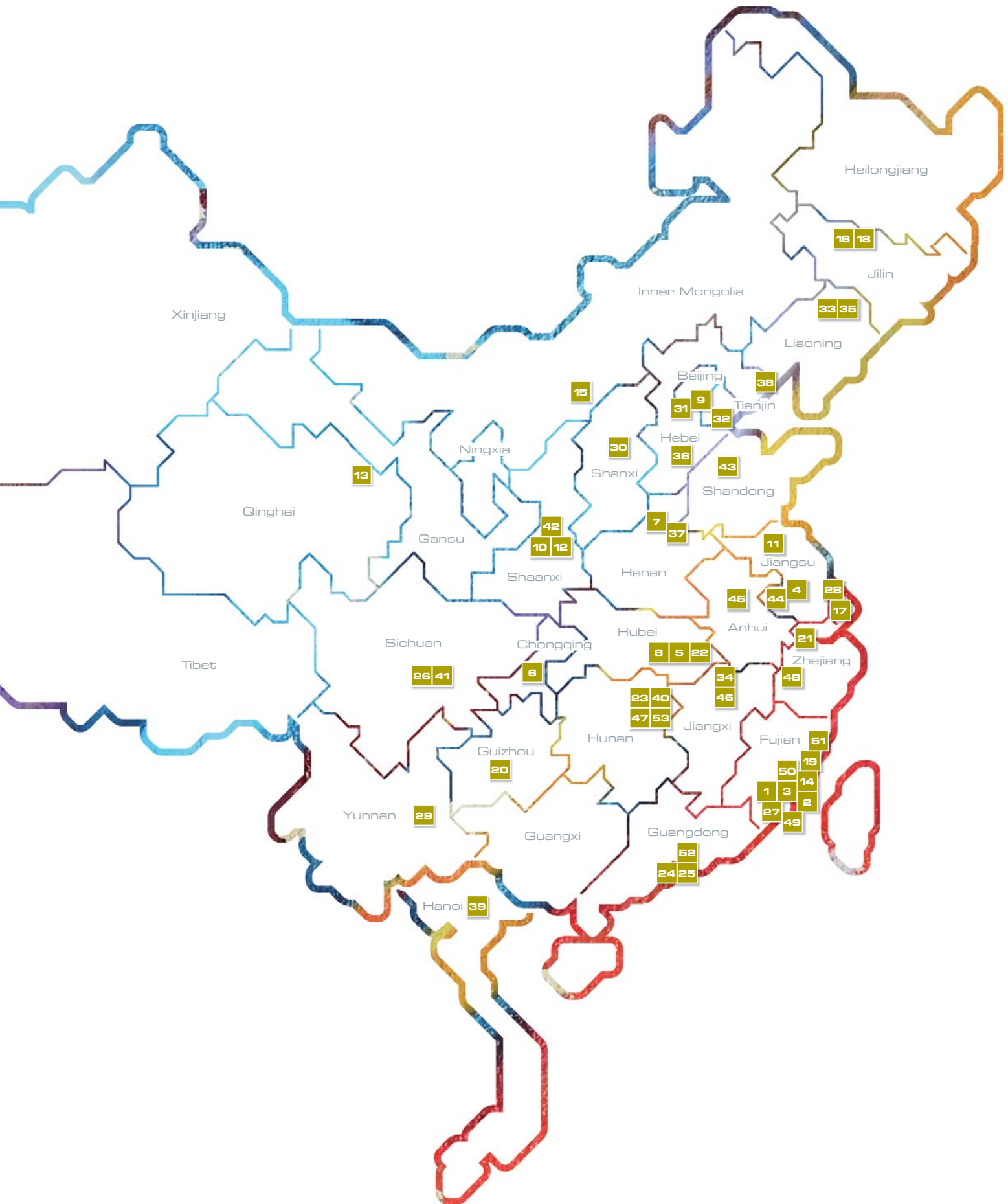
A special material with enhanced woven elasticity to improve sports performance

MANAGEMENT DISCUSSION AND ANALYSIS

List of marathons and running events sponsorships:

- | | | | |
|----|---|----|---|
| 1 | Xiamen Marathon (January 2019) | 27 | Xtep Penguin Run-Xiamen (August 2019) |
| 2 | Jinmen Marathon (February 2019) | 28 | Xtep Penguin Run-Suzhou (August 2019) |
| 3 | Xtep 321 Running Festival (March 2019) | 29 | Xtep Penguin Run-Kunming (September 2019) |
| 4 | Nanjing Pukou International Women's Half Marathon and National Women's Half Marathon Championships (March 2019) | 30 | Taiyuan International Marathon (September 2019) |
| 5 | Wuhan East Lake Sakura Campus Half Marathon and Running Carnival (March 2019) | 31 | Xiong'an Marathon (September 2019) |
| 6 | Chongqing Marathon (March 2019) | 32 | Campus Running League-Nankai University (September 2019) |
| 7 | China ZhengKai International Marathon (March 2019) | 33 | Shenyang International Marathon (September 2019) |
| 8 | Wuhan Marathon (April 2019) | 34 | Lushan International Mountain Half Marathon (September 2019) |
| 9 | Beijing International Running Festival and Beijing Half Marathon (April 2019) | 35 | Liaoning Fengcheng Marathon (September 2019) |
| 10 | Xi'an City Wall International Half Marathon (April 2019) | 36 | Hengshui Lake International Marathon (September 2019) |
| 11 | Yangzhou Jianzhen Half Marathon (April 2019) | 37 | Zhengzhou Marathon (October 2019) |
| 12 | Chang'an University City International Half Marathon (May 2019) | 38 | Qinhuangdao World First Pass · Great Wall International Marathon (October 2019) |
| 13 | Campus Running League-Qinghai University (May 2019) | 39 | Hanoi Marathon Heritage Race (October 2019) |
| 14 | Campus Running League-Xiamen University (May 2019) | 40 | Changsha International Marathon (October 2019) |
| 15 | Hohhot Marathon (May 2019) | 41 | Chengdu Marathon (October 2019) |
| 16 | Changchun International Marathon (May 2019) | 42 | Xi'an Women's Half Marathon (October 2019) |
| 17 | Xtep Penguin Run-Shanghai (June 2019) | 43 | Quancheng (Jinan) Marathon (November 2019) |
| 18 | Campus Running League-Jilin University (June 2019) | 44 | Nanjing Marathon (November 2019) |
| 19 | The first Chinese Police Officers' Half Marathon (Jinjiang) (June 2019) | 45 | Hefei International Marathon (November 2019) |
| 20 | Guiyang International Marathon (June 2019) | 46 | Nanchang Marathon (November 2019) |
| 21 | Xtep Penguin Run-Hangzhou (June 2019) | 47 | Xtep · Miss Run 2019 (November 2019) |
| 22 | Xtep Penguin Run-Wuhan (June 2019) | 48 | Quzhou Marathon (November 2019) |
| 23 | Xtep Penguin Run-Changsha (July 2019) | 49 | Xiamen (Haicang) International Half Marathon (December 2019) |
| 24 | Xtep Penguin Run-Guangzhou (July 2019) | 50 | Jinjiang International Marathon (December 2019) |
| 25 | Xtep Penguin Run-Shenzhen (July 2019) | 51 | Fuzhou International Marathon (December 2019) |
| 26 | Xtep Penguin Run-Chengdu (July 2019) | 52 | Shenzhen International Marathon (December 2019) |
| | | 53 | Changsha Red Half Marathon (December 2019) |

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

Branding and marketing

Two-pronged marketing strategy of sports and entertainment marketing has proven to be effective in uplifting our brand image. Our resources on branding and marketing are distributed among three categories, which include marathon and running event sponsorships, celebrities and KOL endorsement and other entertainment marketing.

Marathon and running event sponsorships

We remained as the sportswear sponsor of the highest number of marathons in Mainland China for the fifth consecutive year. In 2019, we sponsored one marathon in Hanoi and 52 marathon and running events in Mainland China, including 36 major marathons, 10 "Xtep Penguin Runs", four "Campus Running Leagues", one "Xtep 321 Running Festival" and one "Xtep Miss Run". The number of total participants reached over 800,000. We continued to be the official partner recognized by the Chinese Athletic Association for "Run China", as well as the title sponsor of "Xtep Penguin Run" hosted by Tencent Sports. These marathons and running events were particularly effective in connecting us with different target audiences, such as professional runners, young athletes and the mass market.



Number of sponsored marathons and running events in 2019

53

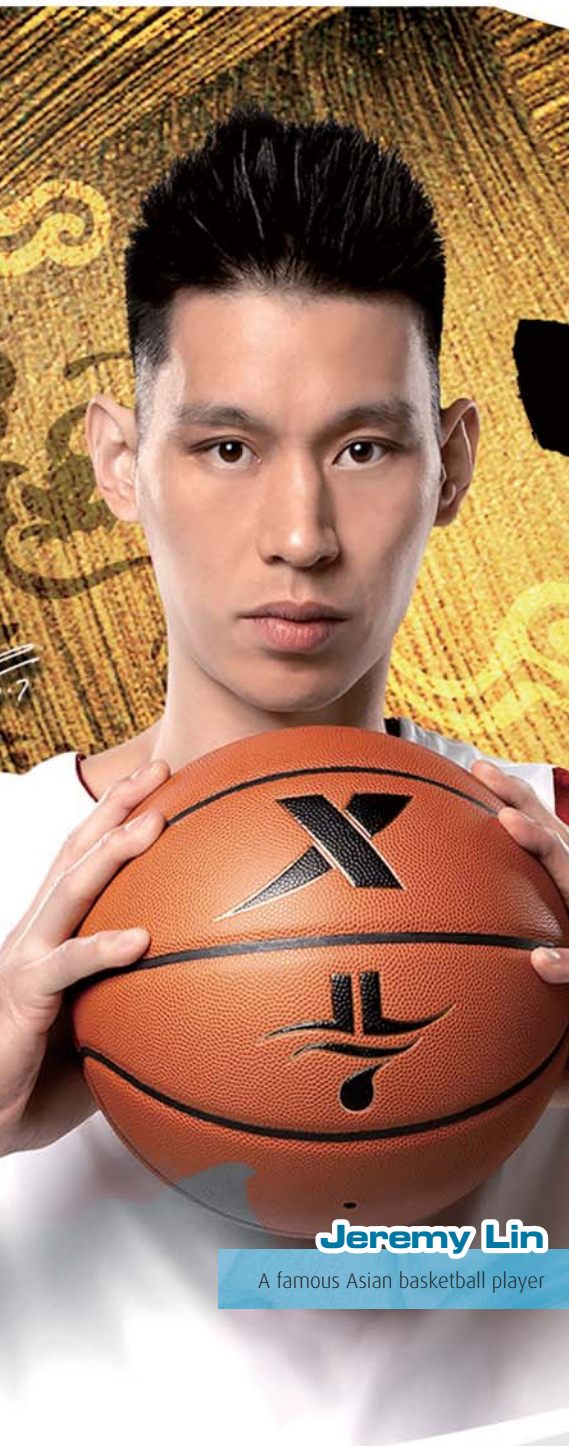


Number of participants

800,000+



MANAGEMENT DISCUSSION AND ANALYSIS

**Jeremy Lin**

A famous Asian basketball player

**Nex7**

The next superstar Chinese pop boy band

**Nicholas Tse**

Our first celebrity spokesperson since 2001

**Jing Tian**

A popular Chinese actress

**Jiro Wang**

A well-known Taiwanese singer and actor

Celebrity spokespersons and KOL endorsement

Engaging celebrity spokespersons remains our key marketing strategy.

In August, we engaged Jeremy Lin, a famous Asian basketball player, as Xtep's brand spokesperson. Together, we unveiled our "Basketball Product Co-Creation Plan" to develop basketball and lifestyle products with a multi-dimensional approach that ties professional aspects of the sport with schools, charity and fashion. Lin also took on another role as Xtep charity ambassador to support teenagers from an underprivileged family background in pursuing their basketball dreams. The collaboration with Lin has successfully increased our brand awareness and strengthened our professional sports brand image among the young generations in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS



Xu Zhouzheng: A young Chinese sprinter

To further solidify the association between our brand image and professional athletes in running, we appointed renowned Chinese sprinter, Xu Zhouzheng, as our spokesperson as well as other Chinese marathon runners such as Dong Gaojian, the fastest marathon runner in Mainland China, as our KOLs.

Other entertainment marketing

We served as the official designated apparel sponsor of "Street Dance of China" Season 2, one of the most popular and top-rated TV programs in Mainland China, to showcase our "Street" lifestyle series to the younger generation. Crossover products we launched specially for "Street Dance of China" recorded outstanding sales, some apparel items were sold out online in one second. The success in this marketing campaign was recognized by the industry and we were awarded "China Outstanding Brand Marketing Award" and "Modern Advertising Integrated Marketing Award" presented by The Economic Observer and Modern Advertising in 2019. During the year, we also sponsored highly sought-after reality shows such as "The Coming One" and "Boys And Girls Run Forward".



"Street Dance of China" TV sponsorship



"The Coming One" TV sponsorship

MANAGEMENT DISCUSSION AND ANALYSIS

E-commerce

Our e-commerce business acts as one of our retail channels and accounts for over 20% of our Group's revenue. Although it maintained a rather stable growth rate during the past several years, we made relentless enhancements on our e-commerce business to achieve a sustainable growth. During the second half of 2019, we kicked off a restructuring plan for our e-commerce business to integrate its supply chain operations with that of our offline business. Product design and quality are expected to improve after the integration, thus yielding more sustainable growth in the coming years. As we continue to uplift our brand image, we will also focus on bringing more offline products to online platforms in order to fully extract the O2O synergies.

Xtep Kids

As at 31 December 2019, Xtep Kids' POS increased to 825 (2018: 450). Robust retail sales growth during the year was seen thanks to the enhancement in product design and quality following the successful restructuring from 2015 to 2017. Considering the currently fragmented retail market condition in Mainland China, we will remain vigilant when it comes to the expansion of our kid's business in 2020.



Changsha, Hunan province, Mainland China

MANAGEMENT DISCUSSION AND ANALYSIS

Palladium

As one of the best-known global boot brands established in France in 1947, Palladium is famous for its signature military boots and canvas shoes. The brand offers high-end products that combines fashion, urban and function to tap into the rising athleisure trend in Mainland China. As a symbol of adventure and discovery, the brand particularly appeals to teenagers and young adults who have strong desire to explore the world.

Crossover collections

Palladium launches various signature and crossover products in collaboration with renowned third-party IPs and high-end fashion brands. Following our successful partnership with Smiley in early 2019, we joint hands with French luxury fashion brand KENZO to launch a vintage unisex collection, "PALLADIUM Pallashock By KENZO" and collaborated with Bungie for their e-game DESTINY 2: Shadow Keep to unveil a limited edition of the "PALLABROUSE Baggy Moon" during the year.



Crossover with KENZO



Crossover with DESTINY

Sustainable and utility collections

Palladium also emphasizes on sustainability and is committed to producing environmental-friendly footwear with organic and recycled materials that echo the values of the brand. Our organic collection that features shoes made of organic cotton and recycled collection that features shoes made of recycled plastic bottles with waterproofing function have received various internationally recognized certifications. In addition, Palladium collaborated with THERM-IC company to create the first ever heat-ready lifestyle boot, that can warm-up your feet for up to 13 hours and the temperature can be adjusted via a mobile app.

We will continue to explore partnership opportunities to roll out more crossover collections and sustainable products. Meanwhile, we will enhance efforts to improve the product quality and increase apparel offering to provide more choices to the customers.



Organic collection



THERM-IC collection

MANAGEMENT DISCUSSION AND ANALYSIS



Saucony

Combining award-winning product design and cutting-edge performance-enhancing technology, Saucony is a leading running shoe brand in the industry and it is one of the top four most sought-after running shoe brands in the world. The brand offers professional and high-performing sportswear products to both elite and casual runners. Since the establishment of a joint venture with Wolverine in March 2019, we possess exclusive rights to operate and engage in the development, marketing and distribution of products under the Saucony brand in Mainland China, Hong Kong and Macau.

We see perfect synergies between Saucony and Xtep, in which Saucony can leverage Xtep's strength in supply chain, marathon and running events resources and extensive retail network; while Xtep can reach out to sophisticated customers in higher tier cities through Saucony. Seeing the growth in demand for sports apparel, we will focus on increasing Saucony's apparel offerings to provide our customers with functional and comfortable sports apparel.

To better cater to the needs of our customers, we adopted a two-pronged approach to offer high-end signature styles with advanced technologies and exclusive localized designs according to the Chinese fits and tastes. We introduced our first localized design "Kinvara 11 — Xiamen edition" in November 2019 for the Xiamen International Marathon in January 2020. We successfully increased Saucony's exposure by engaging celebrities, KOLs and running communities to wear and promote the model, followed by a pop-up store at the China Marathon Expo in Xiamen. More resources will be allocated in marathon sponsorships with the aim of boosting Saucony's brand awareness.



Pop up store at China Marathon Expo in Xiamen

MANAGEMENT DISCUSSION AND ANALYSIS

K-Swiss

Founded in California in 1966, K-Swiss is a heritage American athletic shoe brand that offers performance tennis footwear, lifestyle and fitness footwear to meet the high-performance demands of world-class athletes and trendsetters. K-Swiss developed the world's first real leather tennis shoes, it has been regarded as a premium sports brand across the world over the past decades.

Since the acquisition by Xtep in August 2019, K-Swiss has been undergoing a two-year rebranding process to revamp the brand positioning, marketing, R&D, and product innovation. Upon completion, new products and brand image will first be launched in Mainland China before its global launch. K-Swiss will be positioned as a high-end fashion sportswear brand to capture the burgeoning athleisure trend. More apparel items will also be designed and produced to achieve a balanced product mix.



Crossover collection

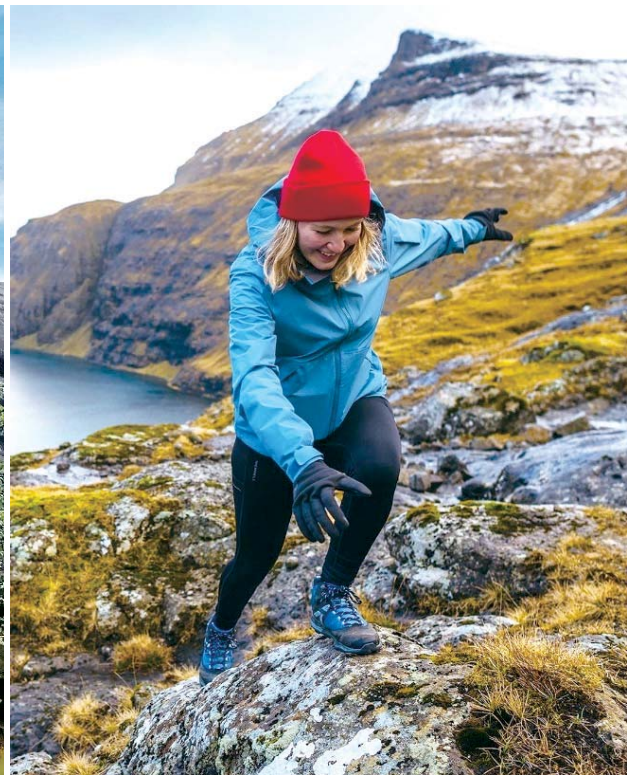
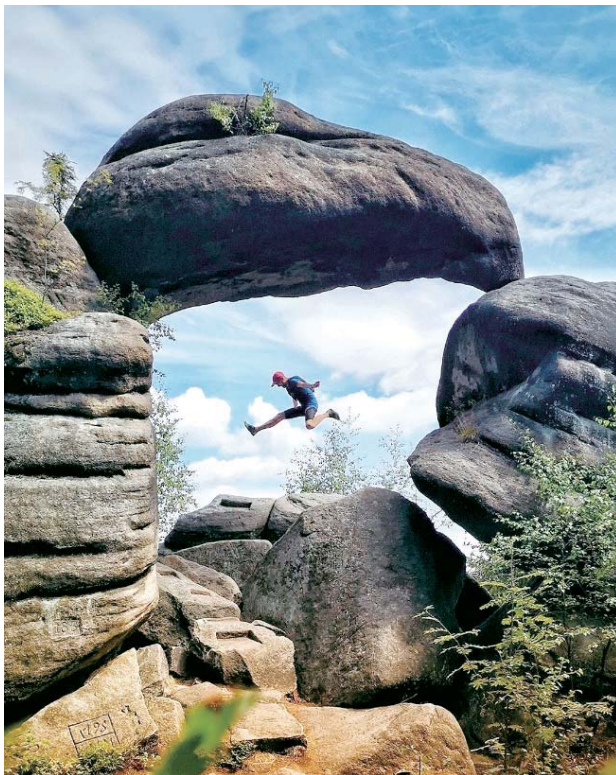
K-Swiss actively launches crossover products with industry influencers to increase its exposure. During the year, the brand collaborated with Lil Jupiter and LuisaViaRoma to launch the "CR-Terrati" shoe collection, which was featured in both Milan and Paris Fashion Week in January 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Merrell

Merrell, one of the most popular global outdoor lifestyle brands, is appreciated for its high quality and advanced technology. Combining contemporary design, renowned comfort and proven performance, Merrell is committed to creating high-quality professional products for outdoor sports lovers and make outdoor activities enjoyable. In addition to outdoor sports athletes, Merrell is perfectly suitable for travelers who demand non-slip, waterproof and durable footwear when traveling.

In addition to tapping the long-term growth opportunity of the outdoor sports market in Mainland China, we will also grasp the business opportunity arising from the increasing number of Mainland Chinese travelling abroad in recent years. According to the Ministry of Culture and Tourism of the People's Republic of China, approximately 150 million outbound trips were made by Mainland Chinese tourists in 2018, representing a 14.7% year-on-year growth. We are optimistic about the prospect of the outdoor market in the foreseeable future.



MANAGEMENT DISCUSSION AND ANALYSIS

Distribution Network

Xtep

As at 31 December 2019, there were 6,379 Xtep stores in Mainland China and overseas. Approximately 60% of total store count were directly operated by our 40 exclusive distributors, who are responsible for the associated capital expenditure arising from new store openings. Guidance on store location and design layout, universal tag price, product ordering controls, discount offerings and staff training will be provided by our professional retail management team. 90% of the Xtep stores were refurbished into new international-style sports store format with an average gross floor area of over 110 square meters.

Palladium

The majority of Palladium's business operations are in the Asia-Pacific region, with distribution network covering Mainland China, Asia-Pacific, Europe, Middle East, Africa and North America. As at 31 December 2019, there were 29 self-operated stores in Hong Kong and Taiwan.

Saucony

Saucony made its debut on its Tmall flagship store in July 2019, its first standalone store is expected to be opened in a tier I city in Mainland China in the second half of 2020, followed by more stores openings in other higher-tier cities in Mainland China by the end of 2020.

K-Swiss

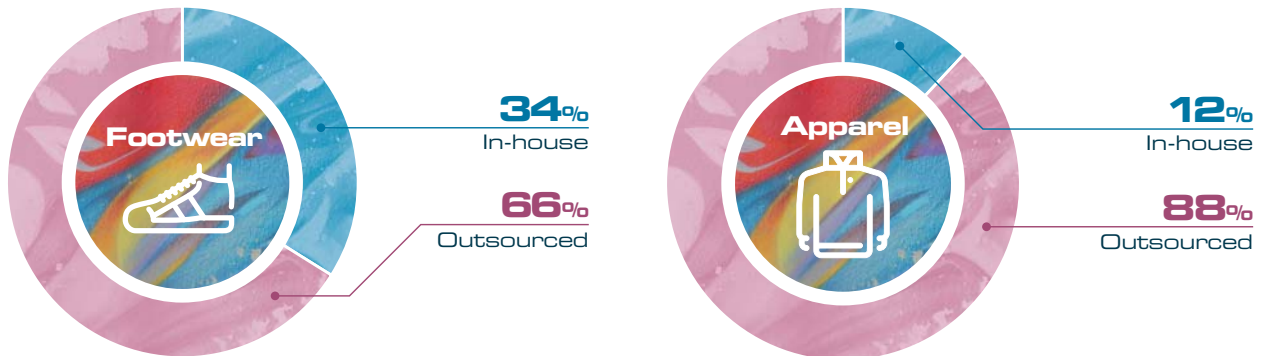
The first standalone store with a fresh brand image and new products will be opened in tier I cities in Mainland China by the end of 2021. Currently, K-Swiss is mainly engaged in the wholesale business in North America, Europe and Asia-Pacific, and we will shift its business focus to the Asia-Pacific region to capitalize on the athleisure trend. There were 40 self-operated stores in Asia-Pacific as at 31 December 2019.

Merrell

Merrell's Tmall flagship store was launched in March of 2020. For the first standalone store, it is expected to be opened in a city with famous landscapes for outdoor sports and activities in Mainland China in the second half of 2020, which will enable us to fully capture the sales opportunities in the peak season during fall and winter.



MANAGEMENT DISCUSSION AND ANALYSIS

Operations Management**Production capacity allocation****Supply chain**

The Group has a well-managed supply chain to ensure a seamless and vertically integrated business. We engaged outsourced suppliers around the world for the production of our footwear and apparel products and collectively sourced materials to maximize our operational efficiency. All suppliers are required to comply with our Supplier Code of Conduct to uphold high quality standards.

Logistics park

In order to automate and streamline our supply chain, we commenced the construction of a logistics park with a gross floor area of approximately 208,000 square meters in Jinjiang, Fujian Province in the second half of 2019. Upon its expected completion in 2022, products manufactured in our in-house factories will be automatically distributed directly to Xtep's retail stores. The automation will allow us to significantly shorten the lead time and accelerate replenishment cycle process.

Staff training and development

We invest heavily in staff training and development as we believe the success of corporate development is determined by on the quality of its staff. Established in 2014, our Xtep University offers ongoing training and development programs regarding corporate culture, leadership, retail and manufacturing. For instance, the Faculty of Retail provides various online and offline trainings to the retail staff, such as store manager workshops, product display instruction and store efficiency improvement skills, etc. As at 31 December 2019, the Xtep University has offered over 330,000 hours of online and offline training to employees.

Our retail management App "Super Shopping Guide" launched in 2015 was used by 90% of Xtep branded stores covering over 20,000 staff. Training videos and articles are frequently updated to complement new sales campaigns and new product launches. Staff would also be evaluated through the App, which serves as an integral part of their annual performance assessment.



MANAGEMENT DISCUSSION AND ANALYSIS

Our Prospect

The Group has entered into a new phase of development with encouraging results delivered in 2019 on the basis of our solid foundation built from the three-year strategic transformation. The Group remains cautious about the short-term prospect of the sportswear industry in view of the recent coronavirus outbreak in the country and the global trade tension before the next round of trade talks between the U.S. and Mainland China. The Group is proactively diverging its sales to its e-commerce platforms and executing various cost control measures to alleviate the impact of the outbreak. Nonetheless, we are confident in the long-term growth of the sportswear market in Mainland China supported by favorable government policies, increasing health awareness following the outbreak of the coronavirus and continuing popularity of fitness activities.

Looking back at 2019, our core Xtep brand continued to be the stable growth driver of the Group. Xtep Kids continued to record robust growth following the strategic transformation that completed in 2017. Our new basketball products had a promising start with encouraging sales and feedback since its launch. The restructuring plan for our e-commerce business commenced in the second half of 2019 would allow us to further achieve long-term quality growth in the second half of 2020 and beyond. Meanwhile, we will continue to increase our efforts in sustaining Xtep's organic growth by uplifting our brand through influential spokespersons and crossover collaborations, enhancing product innovation to solidify our leading position, maximizing customer experience and conversion rate with store revamp as well as expanding our global footprint to broaden our revenue base.

We are thrilled with the progress we have made in the year since becoming a global multi-brand company. Palladium recorded stable growth during the year thanks to its unique brand image and trendy product design that taps perfectly into the soaring athleisure trend. We will continue to expand Palladium's business in Asia-Pacific and increase investment in apparel product lines to further raise its brand awareness and market share. A pragmatic development plan to revamp K-Swiss from branding, product mix and design, to retail network is in the pipeline. Relaunch of K-Swiss stores with new marketing campaigns and products will take place by the end of 2021.

Saucony's Tmall flagship store debut in July 2019, its first store opening is expected to be launched in the second half of 2020. On the other hand, we will cautiously expand Merrell's business given outdoor sports is still a niche market in Mainland China. Merrell's Tmall flagship store was launched in March 2020 and its first offline store will be opened in the second half of 2020. High-end signature products as well as products customized to suit Chinese preferences will be available along with the openings of Saucony's and Merrell's standalone stores.

Looking forward, we will make the most of our multi-brand strategy to increase our market share and reinforce our leading position as a global sportswear player. The Group is well-prepared to achieve long-term sustainable growth and take our business to the next level.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Group Revenue Breakdown by Product Category

The following table sets out the contributions to the Group's revenue by product category for the year:

For the year ended 31 December

	2019 Revenue		2018 Revenue		Change in revenue (%)
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	
Footwear	4,653.1	56.8	3,925.0	61.5	18.6
Apparel	3,344.4	40.9	2,326.9	36.4	43.7
Accessories	185.2	2.3	131.3	2.1	41.1
Total	8,182.7	100.0	6,383.2	100.0	28.2

Group Revenue Breakdown by Brand Nature

The following table sets out the contributions to the Group's revenue by brand nature for the year:

For the year ended 31 December

	2019 Revenue		2018 Revenue		Change in revenue (%)
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	
Mass market	7,706.7	94.2	6,383.2	100.0	20.7
Athleisure	465.9	5.7	-	-	N/A
Professional sports	10.1	0.1	-	-	N/A
Total	8,182.7	100.0	6,383.2	100.0	28.2

The Group's total revenue can be analysed into mass market, athleisure and professional sports. The signature brands are:

Brand Nature	Signature Brands
Mass market	Xtep
Athleisure	K-Swiss, Palladium
Professional sports	Saucony, Merrell

The Group's total revenue for the year ended 31 December 2019 amounted to approximately RMB8.2 billion (2018: RMB6.4 billion), was mainly driven by:

- Robust apparel sales driven by strong product offerings and recognitions;
- Substantial revenue contributions from athleisure's signature brands since 1 August 2019; and
- More than 20% growth contribution from e-commerce channels.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin Breakdown by Product Category

The following table sets out the gross profit and the gross profit margin by product category for the year:

For the year ended 31 December

	2019		2018		Change in gross profit (%)	Change in gross profit margin point (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Footwear	2,011.9	43.2	1,789.8	45.6	12.4	-2.4
Apparel	1,469.4	43.9	991.8	42.6	48.2	+1.3
Accessories	69.1	37.3	46.7	35.6	48.0	+1.7
Total	3,550.4	43.4	2,828.3	44.3	25.5	-0.9

The Group's overall gross profit margin decreased by 0.9 percentage point to 43.4% (2018: 44.3%). The decrease in the overall gross profit margin was mainly contributed by the change in product mix, margin contributions from new brands and sales growth from e-commerce channel.

Gross Profit and Gross Profit Margin Breakdown by Brand Nature

The following table sets out the gross profit and gross profit margin by brand nature for the year:

For the year ended 31 December

	2019		2018		Change in gross profit (%)	Change in gross profit margin point (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Mass market	3,375.0	43.8	2,828.3	44.3	19.3	-0.5
Athleisure	171.0	36.7	-	-	N/A	N/A
Professional sports	4.4	43.2	-	-	N/A	N/A
Total	3,550.4	43.4	2,828.3	44.3	25.5	-0.9

Other Income and Gains

For the year ended 31 December 2019, other income and gains of the Group mainly represented the subsidized income from the PRC government, which amounted to approximately RMB126.3 million (2018: RMB94.7 million); the income derived from financial investments and structured bank deposits was approximately RMB96.8 million (2018: RMB82.6 million), which was the interest income derived from treasury deposit products. The increase in other income and gains was mainly due to the royalty income which amounted to approximately RMB19.2 million (2018: Nil) arising from athleisure brands and the gain on disposal of a subsidiary which amounted to approximately RMB53.2 million (2018: Nil).

Selling and Distribution Expenses

For the year ended 31 December 2019, the Group's selling and distribution expenses amounted to approximately RMB1,718.4 million (2018: RMB1,357.3 million), representing approximately 21.0% (2018: 21.3%) of the Group's total revenue. Excluding the impact arising from the new brands of approximately RMB147.1 million, the increase in selling and distribution expenses was mainly due to the increase in advertising and promotional costs.

The advertising and promotional costs for the year amounted to approximately RMB1,178.2 million (2018: RMB968.2 million), representing approximately 14.4% (2018: 15.2%) of the Group's total revenue. The increase in advertising and promotional costs was mainly due to the increase investments in channel development and market penetration, entertainment celebrity sportspersons endorsements, running events promotion and the expenses related to Xtep Run Club.

MANAGEMENT DISCUSSION AND ANALYSIS

General and Administrative Expenses

For the year ended 31 December 2019, the Group's general and administrative expenses amounted to approximately RMB906.3 million (2018: RMB622.4 million), which represented approximately 11.1% (2018: 9.8%) of the Group's total revenue. Excluding the impact arising from the new brands of approximately RMB106.3 million, the increase in general and administrative expenses was mainly attributed to:

- 1) an increase in staff costs amounted to RMB84.7 million during the year;
- 2) an increase in R&D cost — the R&D cost for the year amounted to approximately RMB195.4 million (2018: RMB166.3 million), representing approximately 2.4% (2018: 2.6%) of the Group's total revenue. The R&D cost was mainly related to the salary costs of the research and design team, material costs for research and development of new products and equipment costs for new production technology; and
- 3) an increase in legal and professional fee amounted to RMB35.8 million.

Net Finance Costs

The total net finance cost of the Group for the year ended 31 December 2019 amounted to approximately RMB110.9 million (2018: RMB68.1 million). The increase in net finance costs was mainly due to the decrease in bank interest income which amounted to RMB29.4 million (2018: RMB72.4 million) primarily caused by the decrease in time deposits during the year.

Operating Profit and Operating Profit Margin Breakdown

The following table sets out the contributions to the operating profit and operating profit margin for the year:

For the year ended 31 December

	2019		2018		Change in operating profit (%)	Change in operating profit/(loss) margin (% point)
	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Operating profit (RMB Million)	Operating profit margin (%)		
Mass market	1,287.9	16.7	1,044.3	16.4	23.3	+0.3
Athleisure	(46.4)	(10.0)	-	-	N/A	N/A
Professional sports	(7.5)	(73.7)	-	-	N/A	N/A
Total	1,234.0	15.1	1,044.3	16.4	18.2	-1.3

The mass market operating profit margin for the year ended 31 December 2019 increased by 0.3 percentage points to 16.7% (2018: 16.4%). This was mainly due to the increase in gross profit and other income and gains, but partially offset by the increase in selling and distribution expenses and general and administrative expenses. Overall, the operating profit margin decreased by 1.3 percentage points due to the operating losses arising from the new brands during the year.

Income Tax Expenses

Income tax provision of the Group for the year ended 31 December 2019 was approximately RMB389.7 million (2018: RMB306.2 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB336.9 million (2018: RMB274.9 million). Also, there was an under-provision of income tax of approximately RMB5.9 million (2018: RMB7.3 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. In this connection, the Company had provided a provision of withholding tax amounted to RMB48.0 million (2018: RMB24.0 million) during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the year ended 31 December 2019, the profit attributable to ordinary equity holders was approximately RMB727.7 million (2018: RMB656.5 million), representing an increase of approximately 10.8% over last year. The increase was mainly due to the significant improvement in operating profit, which partially offset by the increase in net finance costs and income tax expenses during the year.

The Group's net profit margin amounted to 8.9% (2018: 10.3%).

Dividend

The Group maintained a high level of cash and bank balances. The Board continued to maintain high Shareholders' dividend return and therefore recommended a final dividend of HK7.5 cents per Share (2018: a final dividend of HK9.5 cents per Share). The proposed final dividend will be offered with a scrip dividend option to the Shareholders, which will allow them to receive new shares of the Company in lieu of cash. Participation in the scrip dividend scheme will be optional. The scrip dividend scheme is subject to the Hong Kong Stock Exchange granting the listing of and permission to deal in the new Shares to be issued pursuant thereto. A circular containing details of this scrip dividend scheme will be dispatched to the Shareholders for the scrip dividend. Together with the interim dividend of HK12.5 cents (2018: HK10.5 cents) per Share payable in cash with a scrip dividend alternative, total dividend for 2019 was HK20.0 cents (2018: HK20.0 cents), equivalent to a dividend payout ratio of 60.0% (2018: 60.0%).

Working Capital Cycle

For the year ended 31 December 2019, the Group's overall working capital turnover days was 85 days (2018: 87 days).

For the year ended 31 December

WORKING CAPITAL TURNOVER DAYS	2019 Days	2018 Days	Changes Days
Inventories	77	80	-3
Trade receivables	96	105	-9
Trade payables	88	98	-10
Overall working capital turnover days	85	87	-2

The turnover days for inventories, trade receivables and trade payables decreased by 3 days, 9 days and 10 days respectively resulting in a decrease in overall working capital turnover days by 2 days.

Bills Receivables

In order to have more flexibilities in utilising working capital facilities, the Group utilised the acceptance and usage of bills receivables. As of 31 December 2019, the bills receivables amounted to approximately RMB313.5 million (2018: RMB161.8 million). For the year ended 31 December 2019, the number of turnover days of bills receivables was 10 days (2018: 7 days).

Liquidity and Capital Resources

As of 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB2,969.5 million (2018: RMB3,195.8 million), representing a decrease of approximately RMB226.3 million. This was mainly attributable to:

- net cash inflow from operating activities that amounted to RMB778.1 million, which was due to the cash generated from operations of approximately RMB1,212.5 million, but offset by the payment of income and withholding tax amounting to RMB334.1 million and the payment of net interest expenses of approximately RMB100.3 million;
- net cash outflow from investing activities that amounted to RMB2,044.6 million, which was mainly due to the increase in acquisition of subsidiaries of approximately RMB1,691.0 million and increase in pledged deposits amounting to RMB511.6 million, but offset by decrease in structured bank deposits amounting to RMB180.0 million; and
- net cash inflow from financing activities that amounted to RMB1,039.1 million, which was mainly due to net proceeds from issue of ordinary shares under share placing and subscription amounting to RMB1,160.2 million and the new loans amounting to RMB1,764.3 million, but offset by repayment of bank borrowings amounting to RMB1,377.9 million and dividends paid amounting to RMB436.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

The net cash and cash equivalents (including structured bank deposits and pledged deposits minus bank borrowings) were approximately RMB2,131.6 million as at 31 December 2019 (2018: RMB2,437.6 million).

	2019 RMB million	2018 RMB million
Cash and cash equivalents	2,969.5	3,195.8
Bank deposits	1,517.0	1,185.5
Total bank deposits and bank balances	4,486.5	4,381.3
Less: Bank borrowings	(2,354.9)	(1,943.7)
Net cash and cash equivalents	2,131.6	2,437.6

As of 31 December 2019, the Group's gearing ratio was 19.1% (2018: 21.1%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 31 December 2019, the total assets of the Group amounted to RMB12,322.6 million (2018: RMB9,198.6 million), represented by non-current assets of RMB3,056.7 million (2018: RMB1,139.0 million) and current assets of RMB9,265.9 million (2018: RMB8,059.6 million). The total liabilities of the Group amounted to RMB5,362.3 million (2018: RMB3,867.6 million), represented by non-current liabilities of RMB1,691.2 million (2018: RMB589.8 million) and current liabilities of RMB3,671.1 million (2018: RMB3,277.8 million). The total non-controlling interests of the Group amounted to RMB69.8 million (2018: RMB4.7 million). Hence, the total net assets of the Group amounted to RMB6,960.3 million (2018: RMB5,331.0 million), representing an increase of 30.6%. Net assets per Share as at 31 December 2019 were approximately RMB2.77 (2018: RMB2.38), representing an increase of 16.4%.

Impairment Provision for Inventories

During the year ended 31 December 2019, the Group recorded an impairment provision for inventories amounted to RMB5.6 million (2018: RMB26.2 million).

Write-Back of Impairment for Trade Receivables

During the year ended 31 December 2019, the Group recorded a write-back of impairment for trade receivables amounted to RMB79.4 million (2018: RMB79.2 million).

Commitments

Details of the Group's commitments are stated in note 39 of the financial statements.

Contingent Liabilities

As of 31 December 2019, the Group did not have any material contingent liabilities.

Charge of Assets

Save as disclosed in notes 25 and 28 of the financial statements relating to certain amounts of bank deposits pledged to secure certain banking facilities, none of the Group's assets was pledged as at 31 December 2019.

Foreign Currency Risks

The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks that would affect its operation. However, the management team will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

On 2 May 2019, a wholly-owned subsidiary of the Company and the Company entered into a stock purchase agreement with E-Land USA Holdings Inc., and E-Land World Limited, pursuant to which the Group agreed to acquire all of the outstanding shares of the capital stock of the K-Swiss Holdings, Inc. (previously known as E-Land Footwear USA Holdings Inc.) for a cash consideration of US\$260,000,000. The acquisition was successfully completed on 1 August 2019.

Placing of Existing Shares and Subscription of New Shares under General Mandate and the Use of Proceeds

Pursuant to a placing and subscription agreement entered into by the Company dated 29 March 2019, the Company completed (i) a placing of a total of 247,078,000 existing shares of the Company (the "Placing Share(s)") on 2 April 2019 at a placing price of HK\$5.56 per Placing Share, to not less than six placees who and whose ultimate beneficial owners were third parties independent of the Company and its connected persons (the "Placing"); and (ii) the allotment and issue of a total of 247,078,000 new Shares (the "Subscription Share(s)") to Group Success Investments Limited (群成投資有限公司), a controlling shareholder of the Company, on 10 April 2019 at the subscription price of HK\$5.56 per Subscription Share (the "Subscription"). The closing price of the shares of the Company on 29 March 2019, being the date on which the terms of the Placing were fixed, was HK\$5.61.

The net proceeds from the Subscription, after deducting the related placing commission, professional fees and all related expenses, were approximately HK\$1,355.1 million (equivalent to approximately RMB1,160.2 million). The net subscription price, after deduction of the relevant fees, costs and expenses, was approximately HK\$5.48. The net proceeds were fully utilised in the acquisition of the entire interest in K-Swiss Holdings, Inc. during the financial year.

Details of the Placing and the Subscription are set out in the Company's announcements dated 29 March 2019 and 10 April 2019.

Human Resources

As of 31 December 2019, the Group had approximately 8,500 employees (31 December 2018: 8,500 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered included industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of our staff. The Group will strive to strengthen human resources management to provide strong support for the development of its business through staff recruitment initiatives, optimization of the organizational structure and promotion of our corporate culture to ensure that it can maintain sustainable development in the future.

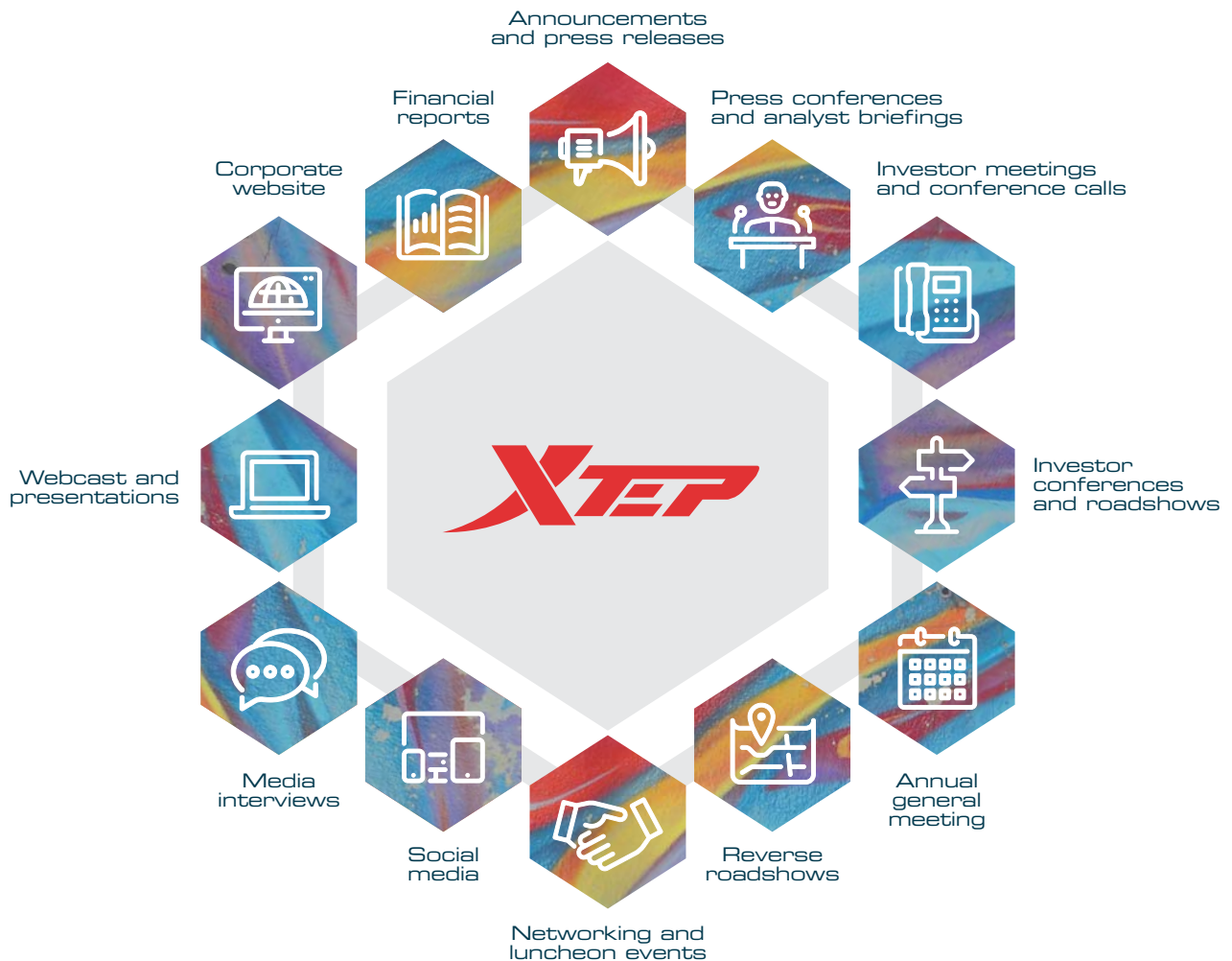
INVESTOR RELATIONS REPORT

To foster good corporate governance and build trust and confidence among investment community towards the Company, we are fully committed to transparent, accurate and timely communications with our shareholders, research analysts, investors and the public.

Uphold Transparency and Timely Disclosure

To facilitate transparency and enable the investors to make informed investment decision, we announce our financial results twice a year followed by press conferences and analyst briefings immediately. We also publish voluntary announcements of our business performances quarterly. During the year, constitutional documents and financial reports are made available on the websites of Hong Kong Stock Exchange and the Company on a timely basis. Presentations and webcasts are also uploaded to our corporate website for public access.

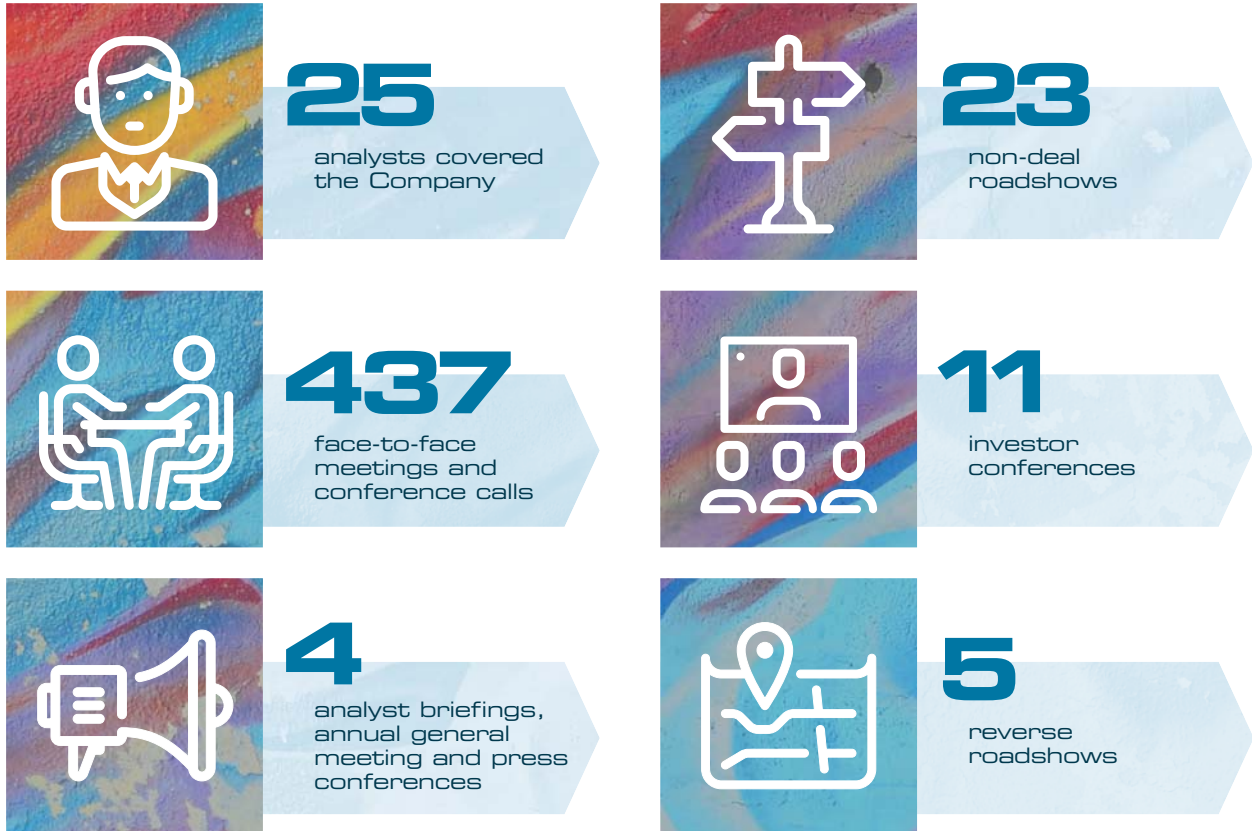
Multiple communication channels with investors and public:



INVESTOR RELATIONS REPORT

Effective Engagement with the Investment Community

To engage our investors effectively, our senior management and the investor relations team maintain two-way interactive dialogue with investors through the participation in various meetings, conferences and non-deal roadshows regularly. In order to enhance investors' understanding of the Company's operations, we proactively organized reverse roadshows to visit our Xiamen headquarters, running laboratory, Run Clubs and flagship stores with the investors.

Summary of analyst coverage and investor activities in 2019:

Annual general meeting in May 2019



1H2019 interim results analyst briefing in August 2019

INVESTOR RELATIONS REPORT

Non-deal roadshows and investor conferences:

Our non-deal roadshows and investor conferences participated in 2019 covered the cities where majority of the institutional investors are located.

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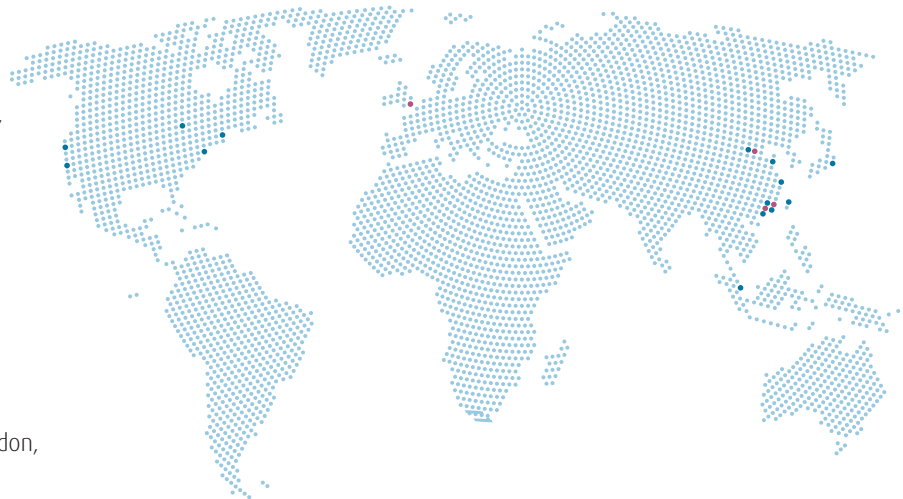
non-deal roadshows

covering Beijing, Boston, Chicago, Hong Kong, Los Angeles, New York, San Francisco, Shanghai, Shenzhen, Singapore, Taipei and Tokyo

11

investor conferences

covering Beijing, Hong Kong, London, Qingdao, Shenzhen and Zhuhai

*List of investor conferences attended during the year:*

Date	Event	Location
Jan 2019	Morgan Stanley China New Economy Summit	Beijing
Mar 2019	22nd Credit Suisse Asian Investment Conference	Hong Kong
May 2019	J.P. Morgan Global China Summit 2019	Beijing
May 2019	CLSA China Forum 2019 & Citic Securities Interim Capital Market Conference 2019	Qingdao
Jun 2019	Goldman Sachs Greater China Corporate Day	Hong Kong
Jun 2019	Credit Suisse 2019 HK/China Consumer Corporate Day	Hong Kong
Sep 2019	J.P. Morgan Asia Pacific CEO-CFO Conference 2019	London
Sep 2019	HSBC GEMs Investor Forum	London
Oct 2019	Guotai Junan Annual Capital Market Conference	Zhuhai
Nov 2019	10th Credit Suisse China Investment Conference	Shenzhen
Nov 2019	Daiwa Investment Conference Hong Kong 2019	Hong Kong

Reverse roadshows:

In 2019, we organized reverse roadshows for our analysts and investors to enhance their understanding of our Xiamen headquarters' operations, the first running research laboratory in Mainland China and the new retail experiences in our Run Clubs and flagship stores.



Reverse roadshow to visit our headquarters' running laboratory in Xiamen in September 2019



Reverse roadshow to visit our stores with distributor in Changsha in July 2019

INVESTOR RELATIONS REPORT

Awards and recognitions in 2019:

Our relentless effort over the past year was widely recognized by various industry awards.



5th Investor Relations Awards

- Best IR by Chairman/CEO — Small Cap
- Best IR by CFO — Small Cap
- Best IR Team — Small Cap
- Best IR Company — Small Cap

Hong Kong Investor Relations Associations



2018 “Golden HK Stock” Poll

- Best Value Award for Large Consumer and Service Companies

Zhitong Finance and Hithink RoyalFlush Finance

7th Top 100 Hong Kong Listed Companies Selection

- Top 10 Total Return

Top 100 Hong Kong Listed Companies Research Centre, Finet Group, People’s Daily Online — HK

2nd China Excellent IR Awards

- Best Leadership in Investor Relations

Roadshow China

INVESTOR RELATIONS REPORT

Information for Investors**Share information**

Company name: Xtep International Holdings Limited
 Listing: Hong Kong Stock Exchange
 Stock code: 1368
 Listing date: 3 June 2008
 Board lot size: 500 shares
 Number of issued shares as at 31 December 2019:
 2,512,444,722
 Market capitalization as at 31 December 2019:
 HK\$10,401,521,149
 Index constituent:

- Hang Seng Global Composite Index
- Hang Seng Composite Index Series
- MSCI Emerging Market Small Cap Index
- MSCI All Country Far East Ex Japan Small Cap Index
- MSCI China Small Cap Index

Basic earnings per Share for 2019:

- Interim: RMB20.2 cents
- Final: RMB30.7 cents

Dividend per Share for 2019:

- Interim: HK12.5 cents
- Final: HK7.5 cents
- Full year total: HK20.0 cents

Key dates for investors

18 March 2020
 8 May 2020
 14 May 2020
 15 to 19 May 2020
 26 June 2020

2019 annual results announcement
 Annual general meeting
 Dividend Ex-entitlement for Shares
 Closure of the Register of Shareholders (both days inclusive)
 Proposed Payment of 2019 Final Dividend

Registrar & Transfer OfficesCayman Islands Principal

Butterfield Fund Services (Cayman) Limited
 Butterfield House, 68 Fort Street, P.O. Box 705
 Grand Cayman KY1-1107, Cayman Islands

Hong Kong Branch

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

Enquiries

For information about the Group, please visit our corporate website:

www.xtep.com.hk

or contact our Investor Relations and Corporate Communications Department:

Unit A, 27/F, Tower A
 Billion Centre, 1 Wang Kwong Road
 Kowloon Bay, Kowloon, Hong Kong
 Tel: (852) 2152 0333
 Fax: (852) 2153 0330
 Investors enquiries: ir@xtep.com.hk
 Media enquiries: media@xtep.com.hk
 General enquiries: general@xtep.com.hk

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 49, is the founder, chairman and chief executive officer of the Group and an executive Director of the Company. Mr. Ding has over 30 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding founded the Group in 1999 and is currently also the chairman of the Board of Directors and the president of various subsidiaries of the Group.

Mr. Ding personally obtained the following awards:

Year	Award
2002	Outstanding Young Entrepreneur in Quanzhou
2003	Top 100 Individuals in PRC's Economic Development
2004	Top 10 Most Influential Entrepreneurs in China
2005	Fujian Young Entrepreneurs Achievement Award
2007	Fujian Province May 4th Youth Medal
2008	CAPITAL Leaders of Excellence in China 2008
2008	Fujian Province May 4th Youth Medal
2008	Outstanding Young Entrepreneur in Fujian
2009	Ernst & Young Entrepreneur of the Year China 2009
2009	May 1st Labor Medal
2009	Top Ten Eminent Young Entrepreneurs of Fujian
2010	Chinese Brands Awards – People of the Year
2010	Chinese Textile and Apparel Industry – Top 10 People of the Year
2011	The “Seeding of Hope, Contribution to Brightness” medal, presented by All-China Federation of Returned Overseas Chinese
2011	Most Innovative Entrepreneur of Quanzhou City
2013	Quanzhou Top Talent
2013	Outstanding Contribution Award on Community Donation by a Businessman in the Private Sector in Fujian Province
2013	Outstanding Contribution Award on Western Taiwan Straits Economic Zone Construction
2013	Top Ten Outstanding Young Persons in Quanzhou
2015	2nd China Footwear Industry Ceremony – Annual Leading Figure of 2015
2016	Top Ten Teaching Entrepreneurs in China 2016 presented by Enterprise Education Top 100 in China Committee
2016	Outstanding Entrepreneur in China 2015–2016 presented by China Enterprise Confederation
2017	Next Generation Education and Charity Motivation Award 2017 by the China Next Generation Education Foundation
2018	China Footwear Grand Ceremony 2018, 40th anniversary of the Chinese Economic Reform – Ingenious Person Award

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ding held the following public offices:

Year	Public Office
2003	Committee Member of the 9th Fujian Provincial Committee of the Political Consultative Conference
2006	Chairman of the 3rd Executive Committee Quanzhou Footwear Chamber
2008	Committee Member of the 10th Fujian Provincial Committee of the Political Consultative Conference
2009	Honorary Chairman of the Fujian Footwear Industry Association
2009	Honored Executive Director of Red Cross Society of China Fujian Branch
2010	Chairman of the 5th Board of China Young Entrepreneurs Association – Young Chamber of Commerce in Quanzhou
2010	Committee Member of the National Youth Committee
2011	Founding Chairman of the Hong Kong China Chamber of Commerce
2013	Committee Member of the 11th Fujian Provincial Committee of the Political Consultative Conference
2013	Executive Vice President of the 4th Congress of the China Federation of Overseas Chinese Entrepreneurs
2014	Chairman of the 2nd World Quanzhou Youth Friendship Association
2015	Committee Member of Marathon Committee of Chinese Athletic Association
2016	Chief Expert in the Sportswear Industry, for the Sports Economy Research Center of the Research Institute of Sports Science of the General Administration of Sport of China
2017	Deputy Director of Marathon Committee of Chinese Athletic Association
2017	Permanent Honorary Chairman of the Fourth Session of the Board of Education Fund Council of Quanzhou City
2018	Deputy President of the Seventh Session of the Board of the China National Garment Association
2019	Honorary President of Quanzhou Business Development Association
2019	Specially Invited Vice President of Chinese Athletic Association

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively, and studied for the China CEO/Finance CEO Program offered by Cheung Kong Graduate School of Business (長江商學院) in 2011. He also completed the CEO Program of the China Europe International Business School (中歐國際工商學院) and the EMBA program offered by Xiamen University (廈門大學) in 2014 respectively. He started attending China Europe International Business School's Sport and Leisure Management Program in 2015, Shanghai Advanced Institute of Finance's "CEO Program: Leading the Future" in 2016 and Harvard University's "Global CEO Program" in 2018. He is a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong.

Ms. Ding Mei Qing (丁美清), aged 47, is an executive Director of the Company and the group vice president of the Group. Ms. Ding has over 20 years of experience in the sportswear industry, and is primarily responsible for the management of the product design and development as well as supply chains business of the Group. She is mainly responsible for consolidating the position and reputation of the footwear category in the industry, and is directly responsible for product innovation, research and development of technical standards, flexible supply chain platforms, intelligent manufacturing, vertical auxiliary systems and information technology and intelligent management. She is also a deputy general manager, a director and a vice president of various subsidiaries. Ms. Ding is the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ding Ming Zhong (丁明忠), aged 43, is an executive Director of the Company and the group vice president of the Group. He has over 20 years of experience in the sportswear industry and is primarily responsible for the management of the accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing.

Independent Non-executive Directors

Mr. Tan Wee Seng (陳偉成), aged 64, is an independent non-executive director and chairman of the audit committee of Sa Sa International Holdings Limited, an independent non-executive director and chairman of the remuneration committee of Health and Happiness (H&H) International Holdings Limited, an independent non-executive director and chairman of audit committee of Sinopharm Group Company Limited, an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, and an independent non-executive director, chairman of the audit committee and remuneration committee of Shineroad International Holdings Limited, all of these companies are listed on the Main Board of Hong Kong Stock Exchange. He is also an independent director and chairman of the audit committee of ReneSola Ltd. whose shares are listed on the NYSE, and a board member of Beijing City International School, an academic institution in Beijing. Mr. Tan has been an independent director and chairman of audit committee for 7 Days Group Holdings Limited listed in the NYSE from November 2009 to July 2013 on which it was privatized. Mr. Tan was also the chairman of special committee for privatization of the 7 Days Group Holdings Limited from October 2012 to July 2013.

Mr. Tan has over 40 years of experience in financial management, corporate finance, merger and acquisition, business management and strategy development. He has also held various management and senior management positions in a number of multi-national and Chinese corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of Hong Kong Stock Exchange. From 1999 to 2002, he was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong mainly engaged in domestic equity and financial information services, and as the director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a professional accountant and a fellow member of both the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Directors.

Dr. Gao Xian Feng (高賢峰), aged 57, was the executive officer of the Human Resources Management Research Centre at Peking University (北京大學人本管理研究中心), and a guest professor of entrepreneurship programs at Peking University (北京大學), Tsinghua University (清華大學), Party School of the Central Committee of Communist Party of China (中央黨校) and Fudan University (復旦大學). Dr. Gao previously served as an associate professor at Shandong Economic University (山東經濟學院). He holds a bachelor's degree in enterprise management from Shandong Economic University (山東經濟學院) and a doctor of law degree from the Peking University (北京大學).

Dr. Bao Ming Xiao (鮑明曉), aged 58, has over 32 years of experience in physical education. Dr. Bao was a professor of physical education theory at the Capital Institute of Physical Education from 1998 to 2000. He has been a researcher and the chairman of the Research Center of Physical Education Sociology and Science at the Research Institute of Physical Education and Science (體育科學研究所體育社會科學研究中心) of the General Administration of Sport of China (國家體育總局) since 2001. In 2011, Dr. Bao was appointed as deputy chairman of the Second Sport Committee of China Sport Science Society (中國體育科學學會). Dr. Bao graduated from Anhui Normal University (安徽師範大學) with a bachelor's degree in physical education in 1983. Dr. Bao then obtained a master's degree in education and a doctoral degree in education from Shanghai University of Sport (上海體育學院) in 1988 and 2005, respectively. Dr. Bao was appointed as director of the China Sports Economy Research Center (中國體育經濟研究中心) in 2016 and was appointed as the head of China Sports Policy Research Institute (中國體育政策研究院) in 2018.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

The senior management of the Company is composed of all the executive Directors of the Company, namely, Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong. Please refer to the above section headed "Executive Directors" for their biographical details.

Company Secretary

Mr. Yeung Lo Bun (楊鸞彬), aged 42, is the company secretary and authorized representative of the Company as well as the chief financial officer and group vice president of the Group. He is responsible for the overall financial and accounting affairs, treasury, merger and acquisition, investor relations and company secretarial matters of the Group. He has over 18 years of experience in the field of audit, corporate finance and financial management. Mr. Yeung joined the Group on 20 September 2010. Prior to joining the Group, Mr. Yeung worked in DaChan Food (Asia) Limited (stock code: 3999), a company listed on the Main Board of the Hong Kong Stock Exchange, from 2003 to 2010 and his last position was a senior finance manager. Mr. Yeung also worked for an international audit firm from 2001 to 2003.

Mr. Yeung graduated from University of Melbourne with a bachelor's degree in commerce in 2000. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization that is open and accountable to the Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor for creating more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board, in order to optimize the returns for Shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2019, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code, with the exception of code provision A.2.1 (chairman and chief executive).

Under code provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and the chief executive. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of three executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

As at 31 December 2019 and the date of this annual report, the Board is comprised of three executive Directors and three independent non-executive Directors.

The followings are the members of the Board:

Executive Directors

Mr. Ding Shui Po (*Chairman and Chief Executive Officer*)

Ms. Ding Mei Qing

Mr. Ding Ming Zhong

Independent Non-Executive Directors

Mr. Tan Wee Seng

Dr. Gao Xian Feng

Dr. Bao Ming Xiao

Among members of the Board, Mr. Ding Shui Po is the elder brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong. Save as disclosed herein, to the best knowledge of the Directors, there is no other financial, business or family relationship among the members of the Board.

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his/her position, and has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently. Biographical information of the Directors is set out in the section headed "Directors and Senior Management" of this annual report.

CORPORATE GOVERNANCE REPORT

Meetings of the Board

Board meetings were held from time to time to discuss the business strategies of the Group, to monitor financial and operational performance, to approve the annual and interim results of the Group, and to discuss the corporate governance functions of the Board.

Directors may participate either in person or through electronic means of communications. The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2019 is set out below:

Name of Director	Attendance/Number of board meeting(s) held during a director's tenure	Attendance/Number of general meeting held during a director's tenure
Executive Directors		
Mr. Ding Shui Po	6/6	1/1
Ms. Ding Mei Qing	6/6	1/1
Mr. Ding Ming Zhong	6/6	1/1
Non-executive Director		
Mr. Ho Yui Pok, Eleutherius ^(Note)	3/3	1/1
Independent Non-Executive Directors		
Mr. Tan Wee Seng	6/6	1/1
Dr. Gao Xian Feng	6/6	1/1
Dr. Bao Ming Xiao	6/6	1/1

Note: Mr. Ho Yui Pok, Eleutherius retired from the office as a non-executive Director with effect from 6 May 2019.

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. When queries are raised by Directors, steps would be taken to respond as promptly and as fully as possible. All Directors have the opportunity to include matters in the agenda of board meetings. Notices of at least 14 days of board meetings are given to the Directors and the board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Functions and Duties of the Board

The overall management of the Company's operations is vested in the Board. The Board carries out its functions according to the powers conferred upon it by the memorandum and articles of association of the Company which is uploaded onto the websites of the Hong Kong Stock Exchange and the Company, and since the date of uploading, no significant change has been made.

CORPORATE GOVERNANCE REPORT

The main functions and duties conferred on the Board include:

- management of the overall business and strategic development;
- deciding business plans and investment plans;
- convening general meetings and reporting to the Shareholders;
- exercising other powers, functions and duties conferred by the Shareholders in general meetings; and
- performing corporate governance duties in compliance with the terms of reference set out in the Corporate Governance Code.

The day-to-day management, administration and operations of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Directors may have access to the advice and services of the company secretary of the Company to ensure that the board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, seek independent professional advice under appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate, appropriate, independent and professional advice to the Directors to assist the relevant Directors in discharging their duties.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgement to the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions; in particular, they bring an impartial view to issues relating to the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management to ensure that all interests of Shareholders are taken into account, and the interests of the Company and its Shareholders are protected.

The Board has three independent non-executive Directors in compliance with Rule 3.10(1) of the Listing Rules, which requires that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Mr. Tan Wee Seng, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors, representing more than one-third of the Board, in compliance with Rule 3.10A of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following trainings with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2019:

Name of Director	Corporate Governance/Updates on laws, rules and regulations		Accounting/Financial/Management or other professional skills	
	Read materials	Attended seminars/briefings	Read materials	Attended seminars/briefings
Executive Directors				
Mr. Ding Shui Po	✓	✓	✓	✓
Ms. Ding Mei Qing	✓	✓	✓	✓
Mr. Ding Ming Zhong	✓	✓	✓	✓
Independent Non-Executive Directors				
Mr. Tan Wee Seng	✓	✓	✓	✓
Dr. Gao Xian Feng	✓	✓	✓	✓
Dr. Bao Ming Xiao	✓	✓	✓	✓

CORPORATE GOVERNANCE REPORT

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Appointments and Re-Election of Directors

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of three executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Gao Xian Feng had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Mr. Tan Wee Seng had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of independent non-executive Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

BOARD COMMITTEES

The Board has established the (i) Audit Committee, (ii) Remuneration Committee, and (iii) Nomination Committee with defined terms of reference. The terms of reference of the board committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Hong Kong Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee was established on 7 May 2008, in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee consists of three members, namely, Mr. Tan Wee Seng, Dr. Gao Xian Feng and Dr. Bao Ming Xiao, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Tan Wee Seng, who has appropriate professional qualifications and experience in accounting matters. None of the members of the Audit Committee have any financial interest in or is a former partner of the existing external auditor of the Company, Ernst & Young.

The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, and oversee the risk management and internal control procedures of the Company.

During the year ended 31 December 2019, the Audit Committee mainly performed the following duties:

- reviewed the Group's audited annual results for the year ended 31 December 2018 and the unaudited interim results for the six months ended 30 June 2019, met with the external auditors to discuss such interim results and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;
- reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and
- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2019, two meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	Attendance/Number of Audit Committee meeting(s) held during a director's tenure
Mr. Tan Wee Seng	2/2
Dr. Gao Xian Feng	2/2
Dr. Bao Ming Xiao	2/2

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee consists of three members, namely Dr. Gao Xian Feng, Ms. Ding Mei Qing and Dr. Bao Ming Xiao, the majority of whom are independent non-executive Directors. Dr. Gao Xian Feng is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors.

During the year ended 31 December 2019, the Remuneration Committee mainly performed the following duties:

- reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2019.

During the year ended 31 December 2019, one meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meeting of the Remuneration Committee is set out below:

Name of Director	Attendance/Number of Remuneration Committee meeting held during a director's tenure
Ms. Ding Mei Qing	1/1
Dr. Gao Xian Feng	1/1
Dr. Bao Ming Xiao	1/1

Nomination Committee

The Nomination Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee consists of three members, namely, Mr. Ding Shui Po, an executive Director and the chairman of the Board, and two independent non-executive Directors, namely, Mr. Tan Wee Seng and Dr. Gao Xian Feng. Mr. Ding Shui Po is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least once a year and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable director candidates and making such recommendations to the Board, the Nomination Committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, the Nomination Committee mainly performed the following duties:

- reviewed the annual confirmations of independence submitted by the independent non-executive Directors and assessed their independence; and
- reviewed the structure, size and composition of the Board during the year of 2019.

The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

A "Nomination Policy" for Directors was formally adopted and this incorporated the nomination criteria and principles for Directors that are set out in the Nomination Committee's terms of reference. The Nomination Policy applies to the directors of the Company and where applicable, senior management prepared for Board positions under the succession planning of the Company.

The Nomination Policy aims to (i) set out the criteria and process in the nomination and appointment of directors of the Company; (ii) ensure that the Board of the Company has a balance of skills, experience and diversity of perspectives appropriate to the Company; and (iii) ensure the Board continuity and appropriate leadership at Board level.

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

CORPORATE GOVERNANCE REPORT

Nomination Process

Appointment of New Director

- i. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.
- ii. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- iii. If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
- iv. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
- v. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of Director at General Meeting

- i. The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.
- ii. The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.
- iii. The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

Pursuant to code provisions of the Corporate Governance Code, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

During the year ended 31 December 2019, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meeting of the Nomination Committee is set out below:

Name of Director	Attendance/Number of Nomination Committee meeting held during a director's tenure
Mr. Ding Shui Po	1/1
Mr. Tan Wee Seng	1/1
Dr. Gao Xian Feng	1/1

AUDITOR'S REMUNERATION

The Company has re-appointed Ernst & Young as its external auditor during the year ended 31 December 2019. The external auditor is refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	HK\$
Review of interim results	870,000
Annual audit services	6,900,000
Due diligence on acquisition of subsidiaries	3,549,000
Other non-audit services	1,727,780
Total	13,046,780

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that financial year. The Directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2019, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditor, are set out in the section headed "Independent Auditor's Report" in this annual report.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness on an ongoing basis.

The risk management and internal control systems of the Group are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The Group's risk management and internal control system are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of risk management and internal controls systems. The Company also has a process for identifying, evaluating, and managing the significant risks associated with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2019. The day-to-day operations are entrusted to individual departments, which are accountable for their own conducts and performance, and are required to strictly adhere to the policies set by the Board. The Company carries out reviews of the effectiveness of the risk management and internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

In addition, the procedures on disclosure of inside information were in place to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

During the year under review, the Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control systems on all major operations of the Group, with assistance from the Group's risk management and internal audit department. The Group's risk management and internal audit department has reported major risk management and internal control review findings to the Board and Audit Committee. No major issues but areas for improvement have been identified. All of the recommendations from the Group's risk management and internal audit department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding risk management and internal control systems in general for the year ended 31 December 2019.

Objectives

The Board acknowledges its overall responsibility for overseeing the Group's risk management and internal control systems and ensures that a review of their effectiveness on ongoing basis. The Board has delegated and authorized its responsibilities of risk management to the Audit Committee, which is responsible for assisting the Board to evaluate and determine the nature and extent of the risks that the Group is willing to take to achieve its business strategic objectives and to ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems and oversees the design, implementation and supervision of risk management and internal control systems. The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to meet its business strategic objectives and to provide a reasonable, but not absolute, assurance against material misstatement or loss.

The management has confirmed to the Audit Committee and the Board that risk management and internal control systems were effective for the year ended 31 December 2019.

CORPORATE GOVERNANCE REPORT

Main Features of the Risk Management and Internal Control Systems

The Company has established a risk governance organization structure with clear responsibilities and authorities.

Risk Governance Organization Structure

The primary responsibilities of each parties of the Group's risk governance structure are summarized as follows:

(a) Board

It determines the business strategic objectives of the Group, and evaluates the nature and extent of the risks that the Group is willing to take to achieve the strategic objectives of the Group. It also ensures that the Group appropriately and effectively establishes and maintains risk management and internal control systems and oversees the overall design, implementation and supervision of risk management and internal control systems.

(b) Audit Committee

It is responsible for supervising and guiding the risk management and internal audit department and the management to establish and operate the internal control systems, regularly supervising the Group's risk management and internal control systems, and making recommendations to the Board. The risk management and internal control systems are reviewed, at least annually, for its effectiveness and the review includes all major aspects of control, including financial, operational and compliance controls.

During the annual review, it ensures the effective risk management and internal control systems have the adequacy of resources, budget, adequate staff qualifications and experience and staff training programs of the Group's accounting, internal audit and financial reporting functions.

(c) Risk Management and Internal Audit Department

It assesses the effectiveness and adequacy of the Group's risk management and internal control systems and reports the findings to the Audit Committee for improvement of the identified control weaknesses or material systems deficiencies.

(d) Management

It is delegated and authorized to (i) design, implement and maintain risk management and internal control systems appropriately and effectively; (ii) identify, evaluate, manage and control the risks that may have potential and material impacts on the processes of the operations; (iii) monitor risks and take appropriate methods to mitigate risks; (iv) respond promptly to and follow up the findings of the risk management and internal control issues raised by the risk management and internal audit department; and (v) provide confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems.

CORPORATE GOVERNANCE REPORT

Process for Identification, Assessment and Management of Material Risks

The processes used by the Group for identification, assessment and management of material risks are summarized as follows:

Risk Identification: The Group identifies risks that may potentially and materially affect its strategies, business, operations and finance.

Risk Evaluation: Evaluates the identified risks by using the designated risk assessment criteria developed by the management; and evaluates the potential impacts and the likelihood of their occurrence.

Risk Response: Prioritizes the material risks by comparison of the risk assessment results; and determines the risk control strategies and internal control processes to avoid, prevent or mitigate the identified risks.

Risk Reporting and Monitoring: Discusses about the results of risk management to the Board, the Audit Committee and the management regularly; continuously monitors the identified risks and ensures that internal control system processes appropriately; and reassesses the risk control strategies and internal control processes in case of any material changes in business and the external environment.

Process Used to Review the Effectiveness of the Risk Management and Internal Control Systems

During the year under review, the Board have conducted annual review of the effectiveness of the Group's risk management and internal control systems on all major operations of the Group for the year ended 31 December 2019, with assistance from the Group's Audit Committee, risk management and internal audit department and the management. The Group's risk management and internal audit department has reported major risk management and internal control review findings to the Audit Committee. The Board considered that all recommendations from the Audit Committee will be properly followed up to ensure that the effectiveness of risks control and proper internal control systems.

Annual Review

A comprehensive review on the effectiveness of the Group's risk management and internal control system is conducted by the Board and the Audit Committee annually, covering all material controls including financial, operational and compliance monitoring.

The Group has conducted regular review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2019. The Board and the Audit Committee discussed the risk management and internal control systems with management, which includes the adequacy of resources, staff qualifications and experience, training programs and budget to the Group's accounting, internal audit and financial reporting function, to ensure that management has performed its duty to have effective systems. The Board and the Audit Committee also considered the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of the risk management and internal audit department.

During the year under review, the Board and the Audit Committee considered that the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and considered that the risk management and internal audit department and the management are competent to carry out their roles and responsibilities. In accordance with such results, the Board and the Audit Committee are of the view that the Group has adequate workforce to satisfy with accounting and financial reporting duties and to comply with the Listing Rules. The Board and the Audit Committee also discussed the extent and communication of monitoring results annually to enables for the assessment of the Group's control and the effectiveness of risk management.

In the annual review, the Group's risk management and internal control system is subject to continuous review and improvement to enable timely responses to any changes of risks facing by the Group. The Board and the Audit Committee have considered major findings on risk management and internal control matters from the risk management and internal audit department and the management. No material control failure or weaknesses to the extent that have resulted in unforeseen outcomes or contingencies in the future which may have material impacts on the Group's financial performance or conditions have been identified by the Group.

The Board confirms that the Group has complied with provisions of the Corporate Governance Code regarding risk management and internal control systems for the year ended 31 December 2019. The Group therefore considers that the risk management and internal control systems are effective and adequate.

CORPORATE GOVERNANCE REPORT

Internal Audit Function

The Group's internal audit function is performed by its risk management and internal audit department, which plays an important role in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports regularly. The Board and the Audit Committee considered that the risk management and internal audit department had been provided with adequate resources and budget and comprised qualified staff with sufficient experience and training programs to perform its internal audit function. For the year ended 31 December 2019, the risk management and internal audit department implemented the internal audit functions and reports findings regularly to the Audit Committee, which makes recommendations based on the findings to the Board.

Whistle-blowing

The Group is committed to achieving and maintaining the highest possible standards of openness, integrity and accountability. To prevent as far as possible violations and ensure compliance and operation by the highest ethical standards, the Group has designated specific whistle-blowing policies to allow employees, business partners and other relevant stakeholders to report illegal or non-compliant activities involving the Group to the risk management and internal audit department and the Audit Committee confidentially. The identity of the whistle-blower and the relevant records of the whistle-blowing are treated with the strictest confidentiality.

Inside Information and Information Disclosure

The Group has established a policy for ensuring that inside information is disclosed to the public in an equal and timely manner in compliance with the relevant laws and regulations. The policy regulates the handling and dissemination of inside information, including designates specific persons to be the main spokesperson of the Group to respond to external enquiries; designates reporting paths to facilitate each party to give an account of potential inside information to the designated responsible personnel; and designates responsible persons and departments to make decision about further actions to be taken and the ways to be disclosed.

COMPANY SECRETARY

The company secretary of the Company is Mr. Yeung Lo Bun, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report.

Mr. Yeung has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he has confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting and to Put Forward Proposals at Shareholders' Meeting

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries May Be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2019.

Communication with Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and its investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.xtep.com.hk. The Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. At the general meeting, separate resolutions are proposed to resolve each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Hong Kong Stock Exchange and the Company.

Dividend Policy

On 19 February 2019, the Board has approved and adopted a dividend policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements, future business growth and its shareholding value.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacturing and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand and four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2019 are set out in note 1 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2019 and the Group's financial position as at that date are set out in the financial statements on pages 80 to 157 of this annual report.

DIVIDENDS

An interim dividend of HK12.5 cents (equivalent to approximately RMB11.0 cents) per Share was declared during the year, with an option to receive new fully paid shares of the Company in lieu of cash. The Board recommended a final dividend of HK7.5 cents (equivalent to approximately RMB6.4 cents) per Share for the year ended 31 December 2019, subject to approval by the Shareholders at the annual general meeting to be held on 8 May 2020. The proposed final dividend will be offered with a scrip dividend option to the Shareholders, which will allow them to receive new shares of the Company in lieu of cash. Participation in the scrip dividend scheme will be optional. The scrip dividend scheme is subject to the Hong Kong Stock Exchange granting the listing of and permission to deal in the new Shares to be issued pursuant thereto. A circular containing details of this scrip dividend scheme will be dispatched to the Shareholders for the scrip dividend.

The total dividends for the year ended 31 December 2019, which included the interim dividend and final dividend, amounted to HK20.0 cents (equivalent to approximately RMB17.4 cents) per Share and they represented a dividend payout ratio of approximately 60%. Details of the dividends for the year ended 31 December 2019 are set out in note 11 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB1,395.7 million (2018: RMB371.7 million). Details of the reserves of the Company as at 31 December 2019 are set out in note 46 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2019 amounted to approximately RMB54.3 million.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2019 are set out in note 31 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2019 were:

Executive Directors

Ding Shui Po (*Chairman*)
Ding Mei Qing
Ding Ming Zhong

Non-executive Director

Ho Yui Pok, Eleutherius (Mr. Ho retired from the office as a non-executive Director with effect from 6 May 2019)

Independent Non-Executive Directors

Tan Wee Seng
Gao Xian Feng
Bao Ming Xiao

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Each of the executive Directors on the Board had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008.

For the independent non-executive Directors, Dr. Gao Xian Feng had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Mr. Tan Wee Seng had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

In accordance with article 87 of the Company's articles of association, Mr. Ding Shui Po and Ms. Ding Mei Qing will retire from the Board by rotation at the forthcoming annual general meeting. Mr. Ding Shui Po and Ms. Ding Mei Qing, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management are set out on pages 42 to 45 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the paragraphs headed "Continuing connected transactions" below, there was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2019.

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

As at 31 December 2019, the Directors and the chief executive of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust ⁽²⁾ /Beneficial interests ⁽³⁾	1,353,974,500	53.89%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	52.14%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	52.14%
Mr. Tan Wee Seng	Beneficial interests	880,000 ⁽⁴⁾	0.04%

Notes:

- (1) It was based on 2,512,444,722 issued Shares of the Company as at 31 December 2019.
- (2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts.

The Family Trusts (through their controlled companies) indirectly hold 1,310,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,310,059,500 Shares of the Company.
- (3) Mr. Ding Shui Po was also beneficially interested in 43,915,000 Shares of the Company.
- (4) 600,000 of these shares were subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 100,000 of these shares were issued to Mr. Tan Wee Seng upon the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 shares of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding companies and subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 40 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The details of such confirmed connected transactions are set out below.

During the financial year, certain subsidiaries of the Company leased certain office units in Xiamen from Hu Du Century (Xiamen) Investment Management Co., Ltd. ("HD Century", an indirect wholly-owned subsidiary of Wan Xing International Holdings Limited, a controlling shareholder of the Company and is therefore a connected person of the Company).

The rental amounts under the lease agreements were determined based on arm's length negotiations between HD Century and the Group with reference to the prevailing market price of leases of comparable office buildings.

During the year ended 31 December 2019, the Group's rental payments to HD Century amounted to RMB8,885,000.

For details, please refer to the Company's announcement dated 21 December 2018.

The Directors (including the independent non-executive Directors) have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and
- (3) according to the agreements governing them on terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company's auditor has been engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions disclosed by the Group in accordance with Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

Share Option Scheme

The Company has adopted the Share Option Scheme on 7 May 2008 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of Shares that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the Listing Date, i.e. 220,000,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 30 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and
- (c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

REPORT OF THE DIRECTORS

Details of the share options granted under the Share Option Scheme as at 31 December 2019 are as follows:

Name	Date of grant	Exercise price per Share ⁽¹⁾	Exercise period ⁽²⁾⁽³⁾⁽⁴⁾	Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Cancelled during the year ended 31 December 2019	Exercised during the year ended 31 December 2019	Lapsed during the year ended 31 December 2019	Outstanding as at 31 December 2019
Director									
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2011 – 29 March 2020	600,000	–	–	–	–	600,000
Former Director									
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	1,500,000	–	–	(1,500,000)	–	–
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	–	1,000,000
Employees									
In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	5,310,000	–	–	(5,310,000)	–	–
In aggregate	28 January 2010	HK\$5.01	28 January 2011 – 27 January 2020	500,000	–	–	–	–	500,000
In aggregate	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	8,000,000	–	–	–	–	8,000,000
In aggregate	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	15,655,000	–	–	(2,700,000)	–	12,955,000
Total				32,565,000	–	–	(9,510,000)	–	23,055,000

The total number of shares available for issue under the Share Option Scheme is 23,055,000 representing 0.9% of the Company's issued share capital as at the date of this annual report.

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2019.

REPORT OF THE DIRECTORS

Notes:

(1) The closing prices per Share immediately before 28 January 2010, 30 March 2010, 28 May 2010 and 7 December 2011 (the dates on which the share options were granted) were HK\$4.86, HK\$5.95, HK\$5.67 and HK\$2.31 respectively.

(2) Share options granted under the Share Option Scheme on 29 July 2009, 28 January 2010 and 30 March 2010 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of share options to vest
First anniversary of the date of grant	30% of the total number of options granted
Second anniversary of the date of grant	30% of the total number of options granted
Third anniversary of the date of grant	40% of the total number of options granted

(3) Share options granted under the Share Option Scheme on 28 May 2010 shall vest in the grantee in accordance with the timetable below:

Vesting Date	Percentage of share options to vest
Second anniversary of the date of grant	30% of the total number of options granted
Third anniversary of the date of grant	70% of the total number of options granted

(4) Share options granted under the Share Option Scheme on 7 December 2011 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of share options to vest
14 January 2012	40% of the total number of options granted
14 January 2013	30% of the total number of options granted
14 January 2014	30% of the total number of options granted

(5) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$4.99.

Further details of the Share Option Scheme are set out in note 33 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of its holding companies and its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

REPORT OF THE DIRECTORS

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2019, the persons or corporations (other than Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Group Success	Beneficial interests	1,310,059,500	52.14%
Wan Xing International Holdings Limited	Interests of controlled corporation ⁽²⁾	1,310,059,500	52.14%
Ding Wang Fortune Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	52.14%
Guan Hong Development Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	52.14%
Ming Zhong Family Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	52.14%
UBS Trustees (BVI) Limited	Trustee ⁽³⁾	1,310,059,500	52.14%

Notes:

- (1) It was based on 2,512,444,722 issued Shares of the Company as at 31 December 2019.
- (2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.

Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 55%, 35% and 10% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 31 December 2019, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

SHARE AWARD SCHEME

On 1 August 2014, the Company adopted the Share Award Scheme (the "Share Award Scheme") in which the Group's employees, executives, officers or directors will be entitled to participate. Details of the Share Award Scheme are set out in the Company's announcement dated 1 August 2014.

On 15 May 2015, the Board paid to the trust established for the Share Award Scheme HK\$160,000,000, and HK\$152,600,000 of which was used to purchase 50,000,000 Shares as part of the trust fund and such Shares are held by the trustee for the benefit of the eligible participants under the trust. Details of the purchase are set out in the Company's announcement dated 15 May 2015.

On 10 January 2017, the Board resolved to grant a total of 50,000,000 Shares to employees of the Group at nil consideration. These 50,000,000 Shares granted under the Share Award Scheme represent approximately 2.25% of the issued share capital of the Company as at the date of grant.

As of 31 December 2019, there were a total of 34,070,000 outstanding awarded Shares granted to certain employees of the Group, details of which are as follows:

Number of Awarded Shares

Name	Date of grant	As at 1 January 2019	Granted during the year	Vested during the year	Forfeited during the year	As at 31 December 2019	Vesting period
Employees	10 January 2017	41,210,000	—	(6,940,000)	(200,000)	34,070,000	10 January 2018 to 10 January 2022

Further details of the Share Award Scheme are set out in note 34 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019 and up to the date of this annual report.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2019.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 3 January 2017, the Company as borrower entered into a facility agreement (the "2017 Facility Agreement") with a consortium of 9 banks arranged by Hang Seng Bank Limited ("HASE"), The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, Industrial and Commercial Bank of China (Asia) Limited and CTBC Bank Co., Ltd. as mandated lead arrangers and bookrunners and HASE as the facility agent, pursuant to which a 3.5-year dual currency term loan facility in the principal amount of US\$116,000,000 and HK\$651,000,000 (equivalent to approximately HK\$1,555,800,000 in aggregate) (the "2017 Facility") was made available to the Company on the terms and conditions stated therein.

On 2 September 2019, the Company as borrower entered into another facility agreement (together with the 2017 Facility Agreement, the "Facility Agreement") with a consortium of nine banks which is arranged by HASE, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited and CTBC Bank Co., Ltd. as mandated lead arrangers and bookrunners and HASE as facility agent, pursuant to which a 4-year term loan facility in the principal amount of HK\$1,800,000,000 (together with the 2017 Facility, the "Facility") was made available to the Company on the terms and conditions stated therein.

The Facilities are guaranteed by certain subsidiaries of the Company.

REPORT OF THE DIRECTORS

It is provided in the Facility Agreements, among other things, that an event of default will occur if the following undertakings are not complied with and not remedied within 20 days of the earlier of (i) HASE, as the facility agent, giving notice to the Company and (ii) any of the Company or the guarantors named therein becoming aware of the failure to comply:

- (a) Mr. Ding Shui Po will remain as the chairman of the Board;
- (b) Mr. Ding Shui Po will maintain control over the management and business of the Group;
- (c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the "Majority Shareholders") collectively will continue to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or
- (d) the Majority Shareholders collectively will remain to be the single largest shareholder of the Company.

In case of occurrence of an event of default which is continuing, HASE, as the facility agent, may by notice to the Company (a) cancel the whole or any part of the Facilities whereupon the whole or relevant part of the Facilities shall immediately be cancelled; (b) declare that all or part of the Facilities, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreements and related documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or (c) declare that all or part of the Facilities be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

As at 31 December 2019 and as at the date of this report, Mr. Ding Shui Po was an executive Director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive Director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 52.14% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 1.75% of the issued share capital of the Company.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company, who is an obligor under the Deed of Non-compete (as defined in the prospectus of the Company dated 21 May 2008), has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company thereunder. The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by such controlling shareholders of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2019 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

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

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 33 to the financial statements.

The Company has adopted a share award scheme in which the Group's employees, executives, officers or Directors will be entitled to participate. Details of this scheme are set out in this paragraph headed "Share Award Scheme" above and note 34 to the financial statements.

None of the Directors waived any emoluments during the year.

PENSION SCHEME

The Group operates a defined contribution mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2019 is shown on pages 10 to 36.

PERMITTED INDEMNITY PROVISION

Article 167 of the Company's articles of association provides that every Director, secretary and other officers shall be indemnified out of the assets and profits of the Company against all actions, costs, losses and damages which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his duty, or supposed duty, in his office, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to him.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 3.7% (2018: 3.3%) and 15.1% (2018: 15.1%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 5.3% (2018: 5.8%) and 18.6% (2018: 19.6%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2019, did a Director, his/her close associate(s) or a Shareholder which to the knowledge of the Director owns more than 5% of the Company's share capital have an interest in any of the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

AUDITOR

Ernst & Young will retire and, being eligible, offer themselves for reappointment. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2019.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2019 are set out in note 28 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

On behalf of the Board

Ding Shui Po

Chairman

Hong Kong, 18 March 2020

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Xtep International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Xtep International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 80 to 157, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter**How our audit addressed the key audit matter***Impairment assessment of trade receivables*

As at 31 December 2019, the Group had gross trade receivables of RMB3,004 million, after netting off the impairment provision of RMB408 million, resulted in a net trade receivables of RMB2,596 million. Significant judgement and estimation by management are involved in the assessment of impairment, based on the lifetime expected credit loss to be incurred, by taking into account the ageing of trade receivable balances, the credit quality and credit loss history of debtors, and the prevailing sportswear market conditions. Both current and future general economic conditions are also taken into consideration by management in the estimation. Where the expectation is different from the original estimate, such difference will impact the carrying value of the trade receivables and the loss allowance for trade receivables in the year in which such estimate has been changed.

The significant judgement and estimates and disclosures for the recognition of impairment of trade receivables are included in notes 3 and 22 to the consolidated financial statements.

Our procedures included, among others, reviewing management's assessment on the recoverability of the trade receivable balances with reference to various factors such as historical settlement trend and settlement received from customers subsequent to the end of the reporting period. We test checked the accuracy of the ageing classification of these balances. We also evaluated management's assessment of the credit quality of individual customers based on the historical sales trend and repayment patterns of customers. In addition, we examined the information used by management to estimate the loss allowance for trade receivables, including testing of the historical default data, evaluating adjustments made to the historical loss rates based on current economic conditions and forward-looking information by checking to the published macroeconomics factors, and examining the actual losses recorded during the current financial year.

Provision for inventories

As at 31 December 2019, the Group had gross inventories of RMB1,104 million, after netting off the provision of RMB58 million, resulted in a net inventories of RMB1,046 million. Because of the fast changing market conditions, significant judgement and estimation by management are involved in identifying inventories with net realisable values that are lower than their costs, and obsolescence, with reference to the selling prices and salability of inventories, and the prevailing sportswear sales trend in markets.

The related judgement and estimates and the provision for inventories are disclosed in notes 3 and 21 to the consolidated financial statements.

Our procedures included, among others, selecting samples of inventories and reviewing their net realisable values with reference to their selling prices subsequent to the end of the reporting period and the Group's pricing strategy, including any management's plan for significant discounts to be offered which may affect the net realisable values of these inventory items. We evaluated management's assessment of obsolescence of inventories with reference to their ageing, the condition of inventories during our observation of physical inventory count, and the historical sales trend of sportswear products. We also evaluated sales forecasts prepared by management through comparing with historical sales trend and interviewing with customers of the Group.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Purchase price allocation for a business combination

In August 2019, the Group acquired the entire equity interests of E-Land Footwear USA Holdings Inc. (subsequently changed name to K-Swiss Holdings, Inc.) ("K-Swiss Holdings") at a cash consideration of US\$260 million (equivalent to approximately RMB1,792 million). The acquisition constituted a business combination which required the identifiable assets, liabilities and contingent liabilities to be recognised at fair values on acquisition date, with the excess of the acquisition cost over the identified fair values to be recognised as goodwill. As at the date of acquisition, the aggregate fair value of identifiable net assets of K-Swiss Holdings amounting to RMB977 million, so a goodwill of RMB815 million arising from this acquisition was recognised in current year.

Our procedures included, among others, reviewing the purchase price allocation schedules prepared by management and discussing with management to understand management's identification and measurement of the acquired assets and liabilities assumed. We involved our internal specialists to assist us to evaluate the assumptions and methodologies used in the valuations and evaluated the objectivity, independence and competency of the valuer. We also assessed the Group's disclosures of the business combination.

Significant judgements and estimations are required in respect of the fair value assessments and the allocation of the purchase price to the assets acquired and liabilities assumed. To support management's determination of the fair values, the Group engaged an external valuer to assist.

Related disclosures are disclosed in notes 3 and 35 to the consolidated financial statements.

Impairment assessment of goodwill and intangible assets

As at 31 December 2019, the goodwill and intangible assets amounted to RMB834 million and RMB801 million, respectively, which arose from the business combination with K-Swiss Holdings as detailed in note 35 to the financial statements.

We reviewed management's method in determination of the CGU.

The Group is required to, at least annually, perform impairment assessments of goodwill and intangible assets that have an indefinite useful life. For intangible assets with useful lives, the Group is required to review these for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

With the assistance of our internal valuation specialists, we assessed the appropriateness of the valuation methodology and reviewed the key assumptions used in the VIU calculations which related to the forecasted revenue growth rates, the gross margin, discount rate and long term growth rate taking into consideration external data as well as our knowledge and experience. We reviewed the VIU calculations prepared by management and reperformed the calculations to check their accuracy.

For the purpose of performing impairment assessments, the goodwill and intangible assets have been allocated to the relevant cash generating unit ("CGU"). The recoverable amount of the underlying CGUs is supported by value-in-use ("VIU") calculations based on discounted cash flows projections.

We reviewed the discounted cash flow projections used, by comparing them to historical performance of market players and current actual performance of the CGU. We also assessed the adequacy of the disclosures made in the financial statements on the impairment assessment.

The assumptions used in the discounted cash flows projections requires significant judgement and estimates by management, particularly management's view of key internal inputs and external market conditions which impacts the forecasted revenue growth rates, the gross margin, the discount rate and the long term growth rate.

Disclosures are disclosed in notes 3, 17 and 18 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

From the matters communicated with the Audit Committee, 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 Lai Wan Fung.

Ernst & Young

Certified Public Accountants

22/F CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

18 March 2020

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	8,182,721	6,383,165
Cost of sales		(4,632,296)	(3,554,827)
Gross profit		3,550,425	2,828,338
Other income and gains	5	308,283	195,620
Selling and distribution expenses		(1,718,446)	(1,357,294)
General and administrative expenses		(906,261)	(622,360)
Operating profit		1,234,001	1,044,304
Net finance costs	7	(110,871)	(68,136)
Share of losses of associates	19	(1,982)	-
PROFIT BEFORE TAX	6	1,121,148	976,168
Income tax expense	10	(389,701)	(306,189)
PROFIT FOR THE YEAR		731,447	669,979
Attributable to:			
Ordinary equity holders of the Company		727,652	656,518
Non-controlling interests		3,795	13,461
		731,447	669,979
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
— Basic		RMB30.72 cents	RMB30.19 cents
— Diluted		RMB30.19 cents	RMB29.50 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR		731,447	669,979
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements of operations outside Mainland China		56,239	(92,856)
		56,239	(92,856)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	20	8,900	18,000
Income tax effect	29	(1,335)	(2,700)
		7,565	15,300
Other comprehensive income/(expense) for the year, net of tax		63,804	(77,556)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		795,251	592,423
Attributable to:			
Ordinary equity holders of the Company		791,456	578,962
Non-controlling interests		3,795	13,461
		795,251	592,423

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	661,732	640,687
Investment properties	14	33,985	36,800
Prepaid land lease payments	15(a)	-	234,119
Right-of-use assets	15(b)	356,242	-
Deposits for acquisition of land use rights	16	60,105	60,105
Goodwill	17	833,938	-
Intangible assets	18	809,892	7,919
Investments in associates	19	39,161	-
Equity investments designated at fair value through other comprehensive income	20	158,100	114,200
Deposits and other assets	23	103,557	45,122
Total non-current assets		3,056,712	1,138,952
CURRENT ASSETS			
Inventories	21	1,046,286	835,758
Trade receivables	22	2,596,449	1,953,303
Bills receivables	22	313,500	161,800
Prepayments, other receivables and other assets	23	817,739	727,408
Tax recoverable		5,359	85
Structured bank deposits	24	800,000	980,000
Pledged bank deposits	25	717,034	205,480
Cash and cash equivalents	25	2,969,504	3,195,809
Total current assets		9,265,871	8,059,643
CURRENT LIABILITIES			
Trade payables	26	1,419,700	878,686
Other payables and accruals	27	980,586	861,393
Interest-bearing bank borrowings	28	1,086,338	1,482,775
Lease liabilities	15(c)	68,850	-
Deferred subsidies	30	577	577
Tax payable		115,093	54,377
Total current liabilities		3,671,144	3,277,808
NET CURRENT ASSETS		5,594,727	4,781,835
TOTAL ASSETS LESS CURRENT LIABILITIES		8,651,439	5,920,787
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	1,268,527	460,875
Lease liabilities	15(c)	107,308	-
Deferred tax liabilities	29	280,393	107,295
Deferred subsidies	30	21,074	21,651
Other liabilities		13,899	-
Total non-current liabilities		1,691,201	589,821
NET ASSETS		6,960,238	5,330,966
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	31	22,093	19,782
Reserves	32	6,868,381	5,306,497
Non-controlling interests		6,890,474	5,326,279
		69,764	4,687
Total equity		6,960,238	5,330,966

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

Attributable to ordinary equity holders of the Company

Notes	Reserves													Non-controlling interests	Total equity
	Share capital	Share premium account	Capital reserve	Statutory surplus fund	Treasury shares	Share award reserve	Share option reserve	Exchange fluctuation reserve	Fair value reserve	Retained profits	Total reserves	Total	Total		
	RMB'000 (note 31)	RMB'000 (note 46)	RMB'000 (note 32(i))	RMB'000 (note 32(ii))	RMB'000 (note 32(v))	RMB'000 (note 46)	RMB'000 (note 46)	RMB'000 (note 32(iii))	RMB'000 (note 32(iv))	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2018	19,603	259,874	118,600	663,109	(81,189)	6,163	89,679	(45,226)	3,200	4,190,256	5,204,466	5,224,069	107,739	5,331,808	
Profit for the year	-	-	-	-	-	-	-	-	-	656,518	656,518	656,518	13,461	669,979	
Other comprehensive income/ (expense) for the year	-	-	-	-	-	-	-	(92,856)	15,300	-	(77,556)	(77,556)	-	(77,556)	
Total comprehensive income/ (expense) for the year	-	-	-	-	-	-	-	(92,856)	15,300	656,518	578,962	578,962	13,461	592,423	
Awarded shares forfeited	34	-	-	-	(261)	(40)	-	-	-	301	-	-	-	-	
Equity-settled share award arrangement	34	-	-	-	32,680	-	-	-	-	-	32,680	32,680	-	32,680	
Awarded shares vested	34	-	-	-	-	(644)	-	-	-	644	-	-	-	-	
2017 final and special dividends declared and paid	11	-	-	-	-	-	-	-	-	(258,081)	(258,081)	(258,081)	-	(258,081)	
2018 interim dividend declared and paid	11	-	-	-	-	-	-	-	-	(201,248)	(201,248)	(201,248)	-	(201,248)	
Exercise of share options	31(i)	194	72,229	-	-	-	(13,625)	-	-	-	58,604	58,798	-	58,798	
Cancellation of repurchased shares	31(ii)	(15)	(5,556)	15	-	-	-	-	-	(15)	(5,556)	(5,571)	-	(5,571)	
Repurchase of shares	-	-	-	-	(83,921)	-	-	-	-	-	(83,921)	(83,921)	-	(83,921)	
Transfer to statutory surplus fund	-	-	-	170,248	-	-	-	-	-	(170,248)	-	-	-	-	
Acquisition of additional interests of non-controlling interests	1	-	-	-	-	-	-	-	-	(19,409)	(19,409)	(19,409)	(116,271)	(135,680)	
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	(242)	(242)	
At 31 December 2018	19,782	326,547	118,615	833,357	(132,691)	5,479	76,054	(138,082)	18,500	4,198,718	5,306,497	5,326,279	4,687	5,330,966	
At 31 December 2018	19,782	326,547	118,615	833,357	(132,691)	5,479	76,054	(138,082)	18,500	4,198,718	5,306,497	5,326,279	4,687	5,330,966	
Effect of adoption of HKFRS 16	2.2	-	-	-	-	-	-	-	-	(2,252)	(2,252)	(2,252)	-	(2,252)	
At 1 January 2019 (restated)	19,782	326,547	118,615	833,357	(132,691)	5,479	76,054	(138,082)	18,500	4,196,466	5,304,245	5,324,027	4,687	5,328,714	
Profit for the year	-	-	-	-	-	-	-	-	-	727,652	727,652	727,652	3,795	731,447	
Other comprehensive income for the year	-	-	-	-	-	-	-	56,239	7,565	-	63,804	63,804	-	63,804	
Total comprehensive income for the year	-	-	-	-	-	-	-	56,239	7,565	727,652	791,456	791,456	3,795	795,251	
Awarded shares forfeited	34	-	-	-	(437)	(29)	-	-	-	466	-	-	-	-	
Equity-settled share award arrangement	34	-	-	-	24,327	-	-	-	-	-	24,327	24,327	-	24,327	
Awarded shares vested	34	-	-	-	-	(990)	-	-	-	990	-	-	-	-	
2018 final dividend declared and paid	11	-	-	-	-	-	-	-	-	(203,018)	(203,018)	(203,018)	-	(203,018)	
2019 interim dividend declared and paid	11	-	-	-	-	-	-	-	-	(274,728)	(274,728)	(274,728)	-	(274,728)	
Exercise of share options	31(i)	83	37,827	-	-	-	(8,023)	-	-	-	29,804	29,887	-	29,887	
Placing of shares	31(iii)	2,115	1,158,123	-	-	-	-	-	-	-	1,158,123	1,160,238	-	1,160,238	
Shares issued in lieu of cash dividend	31(iv)	113	48,231	-	(7,030)	-	-	-	-	-	41,201	41,314	-	41,314	
Repurchase of shares	-	-	-	-	(3,029)	-	-	-	-	-	(3,029)	(3,029)	-	(3,029)	
Formation of subsidiaries	1	-	-	-	-	-	-	-	-	-	-	-	58,800	58,800	
Transfer to statutory surplus fund	-	-	-	40,051	-	-	-	-	-	(40,051)	-	-	-	-	
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	2,482	2,482	
At 31 December 2019	22,093	1,570,728	118,615	873,408	(118,860)	4,460	68,031	(81,843)	26,065	4,407,777	6,868,381	6,890,474	69,764	6,960,238	

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,121,148	976,168
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	13, 14	83,883	83,936
Depreciation of right-of-use assets/amortisation of prepaid land lease payments	15	45,788	5,934
Share of losses of associates	19	1,982	-
Amortisation of intangible assets	18	6,800	1,755
Loss on write-off of items of property, plant and equipment	6	8,950	411
Loss on disposal of intangible assets	6	-	18
Gain on disposal of a subsidiary	36	(53,175)	-
Bank interest income	7	(29,448)	(72,404)
Interest income on a currency swap	7	-	(577)
Interest income from a loan to a then investee company	5	-	(2,072)
Interest expense on bank loans	7	65,964	56,729
Interest expense on lease liabilities	7	6,546	-
Interest expense on discounted bills receivables	7	63,756	71,165
Amortisation of bank charges on syndicated loans	7	4,053	12,589
Dividend income derived from an equity investment designated at fair value through other comprehensive income	5	(3,600)	-
Fair value loss, net:			
Derivative financial instruments — transactions not qualified as hedges	7	-	634
Equity-settled share award scheme expense	34	24,327	32,680
Write-back of impairment of trade receivables, net	6	(79,406)	(79,181)
Provision for inventories	6	5,632	26,166
Income derived from financial assets at fair value through profit or loss and structured bank deposits	5	(96,786)	(82,587)
		1,176,414	1,031,364
Decrease/(increase) in inventories		61,409	(144,073)
Increase in trade and bills receivables		(522,425)	(229,415)
Increase in prepayments, other receivables and other assets		(15,269)	(155,765)
Increase/(decrease) in trade payables		433,817	(149,028)
Increase in other payables and accruals		78,521	164,916
Cash generated from operations		1,212,467	517,999
Interest received		29,448	72,981
Interest paid		(129,720)	(127,894)
Overseas taxes paid		(334,119)	(308,677)
Net cash flows from operating activities		778,076	154,409

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(96,981)	(72,399)
Additions of intangible assets	18	(2,834)	(2,171)
Decrease/(increase) in deposits for purchase of items of property, plant and equipment		6,575	(18,914)
Additions of investments in associates		(39,200)	-
Acquisition of subsidiaries	35	(1,690,983)	-
Proceed from disposal of a subsidiary	36	45,000	-
Increase in pledged deposits		(511,554)	(148,954)
Decrease/(increase) in structured bank deposits		180,000	(265,000)
Decrease in time deposits with original maturity more than three months when acquired		-	180,000
Increase in deposits for acquisition of land use right		-	(60,105)
Capital injection in an equity investment designated at fair value through other comprehensive income	20	(35,000)	(25,000)
Proceed from disposal of an equity investment designated at fair value through other comprehensive income		-	24,000
Income derived from financial assets at fair value through profit or loss and structured bank deposits	5	96,786	82,587
Interest income from a loan to a then investee company	5	-	2,072
Dividend income from an equity investment designated at fair value through other comprehensive income	5	3,600	-
Receipt of subsidies for acquisition of land use rights	30	-	22,805
Net cash flows used in investing activities		(2,044,591)	(281,079)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of bank charges on syndicated loans		1,764,270	539,148
Repayment of bank loans		(1,377,851)	(549,174)
Net proceeds from issue of ordinary shares	31(i)	29,887	58,798
Net proceeds from placing of shares	31(iii)	1,160,238	-
Principal elements of lease payments	37(c)	(44,255)	-
Capital contribution from an non-controlling interest		58,800	-
Cancellation of repurchased shares		-	(5,571)
Repurchase of shares under share award scheme	32(v)	(3,029)	(83,921)
Acquisition of non-controlling interests	1(d),1(e)	(131,860)	(3,820)
Dividends paid	11	(436,432)	(459,329)
Exchange realignment		19,302	(6,941)
Net cash flows from/(used in) financing activities		1,039,070	(510,810)
DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		3,195,809	3,832,272
Effect of foreign exchange rate changes, net		1,140	1,017
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,969,504	3,195,809
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		2,969,504	3,195,809

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The Company's principal place of business in Hong Kong is located at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company is Wan Xing International Holdings Limited ("Wan Xing"), which is a limited liability company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation or establishment/business	Issued ordinary share/registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xtep International Development Limited	BVI	US\$10,000	100	-	Investment holding
Xtep International E-Commerce Investment Limited ("E-Commerce") (note (d))	BVI	US\$50,000	100	-	Investment holding
Xtep Global Limited (note (f))	Hong Kong	HK\$10,000	-	100	Investment holding
特步中國有限公司* ("Xtep China") (notes (b) and (c))	People's Republic of China ("PRC")/ Mainland China	HK\$830 million	-	100	Manufacture and trading of sportswear
Koling (Fujian) Garment Co., Ltd.* (notes (b) and (c))	PRC/Mainland China	HK\$158 million	-	100	Manufacture and trading of sportswear
Xtep Sports Goods Co., Ltd. Jinjiang* (notes (b) and (c))	PRC/Mainland China	US\$6 million	-	100	Manufacture and trading of sportswear
Xiamen Xtep Investment Company Limited* (notes (a) and (c))	PRC/Mainland China	RMB50 million	-	100	Trading of sportswear
特步(安徽)有限公司* ("Xtep Anhui") (notes (b) and (c))	PRC/Mainland China	RMB450 million	-	100	Manufacture and trading of sportswear
特步湖南體育用品有限公司* (notes (b) and (c))	PRC/Mainland China	RMB50 million	-	100	Manufacture of sportswear
晉江特步貿易有限公司* (notes (b) and (c))	PRC/Mainland China	RMB10 million	-	100	Trading of sportswear

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (Continued)

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
廈門市特步兒童用品有限公司* (notes (b) and (c))	PRC/Mainland China	HK\$30 million	-	82	Trading of sportswear
廈門特興貿易有限公司* (notes (b) and (c))	PRC/Mainland China	RMB30 million	-	100	Trading of sportswear
廈門天鄰緣電子商務有限公司* (notes (a) and (c))	PRC/Mainland China	HK\$20 million	-	100	Trading of sportswear
福建省特步一名服飾有限公司* ("Xtep YiMing") (notes (b), (c) and (e))	PRC/Mainland China	RMB10 million	-	100	Trading of sportswear
K-Swiss Holdings, Inc* (formerly known as E-Land Footwear USA Holdings Inc.) ("K-Swiss Holdings") (notes (c), (f) and (g))	U.S.	US\$212	-	100	Investment holding
K-Swiss Inc.* (notes (c) and (g))	U.S.	US\$60	-	100	Trading of sportswear
KSGB Europe SAS* (notes (c) and (i))	France	Euro2.6 million	-	100	Trading of sportswear
K-Swiss (Hong Kong) Ltd. (notes (c) and (h))	Bermuda/Hong Kong	US\$10,000	-	100	Trading of sportswear
Merrell Distribution Operations Limited (notes (c) and (j))	BVI	US\$100	-	51	Investment holding
Saucony Distribution Operations Limited (notes (c) and (j))	BVI	US\$100	-	51	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Notes:

- (a) The entities are wholly-foreign-owned enterprises and limited liability companies established in the PRC.
 - (b) The entities are registered as limited liability companies in the PRC.
 - (c) The registered capital of these entities was fully paid up as at 31 December 2019.
 - (d) Pursuant to the sale and purchase agreements entered by the Group and non-controlling interests on 31 December 2018, the Group acquired the remaining 25% equity interest in E-Commerce at a cash consideration of RMB131,860,000. E-Commerce and its subsidiaries has become wholly-owned subsidiaries of the Group since then. The difference of RMB19,513,000 between the consideration of RMB131,860,000 and the carrying amount of the non-controlling interests of RMB112,347,000 was debited to the retained profits as at 31 December 2018. The entire consideration was settled during the year ended 31 December 2019.
 - (e) During the year ended 31 December 2018, pursuant to the sale and purchase agreement entered by the Group and a non-controlling interest, the Group acquired the remaining 49% equity interest in Xtep YiMing at a cash consideration of RMB3,820,000. Xtep YiMing has become a wholly-owned subsidiary of the Group since then. The difference of RMB104,000 between the consideration of RMB3,820,000 and the carrying amount of the non-controlling interest of RMB3,924,000 was credited to the retained profits during the year end 31 December 2018.
 - (f) During the year ended 31 December 2019, Xtep Global Limited acquired 100% equity interests in K-Swiss Holdings at a cash consideration of US\$260,000,000. Details are disclosed in note 35 to the financial statements.
 - (g) These entities are registered under the laws of the State of Delaware, the United States.
 - (h) This entity is incorporated in Bermuda with limited liability under the Companies Act 1981 of Bermuda.
 - (i) This entity is incorporated in France with limited liability under the Commercial Code of France.
 - (j) During the year ended 31 December 2019, these entities together with the associates detailed in note 19 were established for holding the subsidiaries carrying out the development, marketing and distribution of footwear, apparel and accessories under the Merrell and Saucony brands in Mainland China, Hong Kong and Macau. Investment costs of RMB58.8 million was contributed from a non-controlling interest during the year.
- * Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network had not been appointed as the statutory auditors of these entities.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, structured bank deposits and bills receivables which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in income statement. The Group’s share of components previously recognised in other comprehensive income is reclassified to income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

- (a)** HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for plant and buildings. As a lessee, the Group previously classified leases as operating leases. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES
(CONTINUED)

(a) (Continued)

As a lessee — Leases previously classified as operating leases (Continued)*Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease; and
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	292,364
Decrease in prepaid land lease payments	(234,119)
Decrease in prepayments, other receivables and other asset	(5,975)
Increase in total assets	52,270
Liabilities	
Increase in lease liabilities and total liability	54,522
Decrease in retained earnings	(2,252)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

Operating lease commitments as at 31 December 2018 (in RMB'000)	62,746
Weighted average incremental borrowing rate as at 1 January 2019	5.28%
Discounted operating lease commitments as at 1 January 2019 (in RMB'000)	54,522
Lease liabilities as at 1 January 2019 (in RMB'000)	54,522

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that 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. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Other than the above, the Group is also in the process of making an assessment of the impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

If an investment in an associate becomes an investment in a joint venture, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)****Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Fair value measurement

The Group measures its financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	—	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	—	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of lease terms and 20 years
Leasehold improvements	Over the shorter of lease terms and 5 years
Moulds, plant and machinery	3 to 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	3 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use. Such properties are stated at cost less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of investment properties over the estimated useful life of 20 years.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Brand names

Brand names are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of brand names with indefinite life are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Business relationship

Business relationship are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives from 7 years to 15 years.

Patents and trademarks

Purchased patents and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the product so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the income statement.

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. This category includes derivative financial instruments and structured bank deposits.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for expected credit loss (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt instruments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade payables, other payables, financial liabilities included in accruals and interest-bearing bank borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps and currency swap, to hedge its interest rate risk and foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective position of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedged item affects the income statement.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treasury shares

Own equity instruments which are reacquired and held by the Company (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Other asset

Other asset is the right to receive the new properties under a disposal arrangement, further details of which are given in note 36 to the financial statements. Such asset, being the partial consideration to be received upon disposal of a subsidiary, is initially recognised at its fair value. Subsequent to the initial recognition, other asset is stated at cost less any impairment losses.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Plant	2 to 10 years
Buildings	14 to 120 months
Prepaid land lease payments	40 to 51 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee, are accounted for as finance leases.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)****Leases (applicable before 1 January 2019) (Continued)**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of sportswear goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the sportswear goods.

Some contracts for the sale of sportswear provide customers with rights of return. The rights of return give rise to variable consideration.

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Royalty income is recognised on an accrual basis based on the agreement terms and correspondence with the licensees regarding actual sales.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns, and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Share-based payments

The Company operates two share option schemes and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the government of the PRC. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for the benefits for their qualified employees under these plans.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollars which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the Mainland China, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain subsidiaries operating outside Mainland China are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of an operation outside Mainland China, the component of other comprehensive income relating to that particular operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its subsidiaries operating outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its subsidiaries operating outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has an effect on the amounts recognised in the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period. As at 31 December 2019, the provision for inventories was RMB57,949,000 (2018: RMB52,200,000). The related disclosures are included in note 21 to the financial statements.

Provision for expected credit losses on trade receivables and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products and inflation) are expected to deteriorate over the next year which can lead to an increased number of defaults in the retail and manufacturing sectors, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables and other receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. As at 31 December 2019, the impairment of trade receivables was RMB407,637,000 (2018: RMB497,520,000). The information about the ECLs on the Group's trade receivables and other receivables is disclosed in notes 22 and 23 to the financial statements, respectively.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2019 was RMB310,255,000 (2018: RMB170,938,000). The related disclosures are included in note 29 to the financial statements.

Fair values of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 44 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB158,100,000 (2018: RMB114,200,000). The related disclosures are included in notes 20 and 44 to the financial statements, respectively.

Withholding taxes arising from the distributions of dividends

In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on factors including future profitability, the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. The related disclosures are included in note 29 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB833,938,000 (2018: Nil). The related disclosures are included in note 17 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The related disclosures are included in note 18 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single reportable segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical region is presented.

Information about major customers

For the years ended 31 December 2019 and 2018, no revenue derived from a single customer of the Group accounted for over 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

(i) Revenue

Revenue represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts. The performance obligation is satisfied upon delivery of the sportswear goods and the payment is generally due within 90 to 120 days from delivery, except for new customers, where payment in advance is normally required. Disaggregation of revenue from contracts with customers by product categories and markets is as follows:

	2019 RMB'000	2018 RMB'000
Product categories		
Footwear	4,653,130	3,924,962
Apparel	3,344,420	2,326,861
Accessories	185,171	131,342
	8,182,721	6,383,165

(ii) Other income and gains

	2019 RMB'000	2018 RMB'000
Subsidy income from the PRC government *	126,308	94,677
Rental income	9,187	6,885
Royalty income	19,227	-
Income derived from financial assets at fair value through profit or loss ("FVPL") and structured bank deposits	96,786	82,587
Dividend income derived from an equity investment designated at fair value through other comprehensive income ("FVOCI")	3,600	-
Gain on disposal of a subsidiary (note 36)	53,175	-
Scrap sales income	-	6,284
Interest income from a loan to a then investee company	-	2,072
Others	-	3,115
	308,283	195,620

* There are no unfulfilled conditions or contingencies relating to these subsidies.

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold ¹		4,632,296	3,554,827
Depreciation of property, plant and equipment and investment properties	13, 14	83,883	83,936
Depreciation of right-of-use assets ² (2018: amortisation of land lease payments)	15(a),(b)	45,788	5,934
Amortisation of intangible assets ²	18	6,800	1,755
Advertising and promotional costs		1,178,152	968,195
Employee benefit expenses (including directors' remuneration — note 8):			
Wages and salaries		792,849	632,887
Other allowances and benefits		64,973	56,152
Pension scheme contributions ³		18,992	16,334
Equity-settled share award scheme expense ²	34	24,327	32,680
		901,141	738,053
Auditor's remuneration		6,059	4,209
Loss on write-off of items of property, plant and equipment	13	8,950	411
Loss on disposal of intangible assets	18	-	18
Minimum lease payments under operating leases of land and buildings		-	21,981
Lease payments not included in the measurement of lease liabilities	15(d)	10,598	-
Write-back of impairment of trade receivables, net ²	22	(79,406)	(79,181)
Provision for inventories ²		5,632	26,166
Research and development costs ⁴		195,427	166,260
Foreign exchange differences, net ²		10,638	1,834
Fair value loss, net:			
Derivative financial instruments — transactions not qualified as hedges	7	-	634
Dividend income derived from an equity investment at FVOCI	20	(3,600)	-

1 The cost of inventories sold for the year includes RMB344,168,000 (2018: RMB346,070,000) relating to staff costs and depreciation of manufacturing facilities, minimum lease payments for land and building, depreciation of right-of-use assets and lease payments not included in the measurement of lease liabilities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

2 The depreciation of investment properties and right-of-use assets, amortisation of intangible assets, equity-settled share award scheme expense, write-back of impairment of trade receivables, net, provision for inventories and foreign exchange differences, net for the year are included in "General and administrative expenses" in the consolidated income statement.

3 As at 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: Nil).

4 The research and development costs for the year include RMB112,716,000 (2018: RMB91,916,000) relating to depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	2019	2018
	RMB'000	RMB'000
Interest expense on bank loans	(65,964)	(56,729)
Interest expense on discounted bills receivable	(63,756)	(71,165)
Interest on lease liabilities	(6,546)	-
Amortisation of bank charges on syndicated loans	(4,053)	(12,589)
Bank interest income	29,448	72,404
Fair value loss, net:		
Derivative instruments – transactions not qualified as hedges	-	(634)
Interest income on a currency swap	-	577
	(110,871)	(68,136)

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019	2018
	RMB'000	RMB'000
Fees:		
Executive directors	-	-
Non-executive director	-	-
Independent non-executive directors	999	916
	999	916
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	3,479	1,879
Performance related bonuses	1,080	-
Pension scheme contributions	46	46
	4,605	1,925
Other emoluments of a non-executive director:		
Salaries, other allowances and benefits in kind	201	556
	5,805	3,397

Share options were granted to directors, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in notes 33(b) to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' REMUNERATION (CONTINUED)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

	Fees RMB'000	Salaries, other allowances and benefits in kind RMB'000	Performance- related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019						
a) <i>Executive directors</i>						
Ding Shui Po ¹	-	1,319	360	-	18	1,697
Ding Mei Qing	-	1,080	360	-	14	1,454
Ding Ming Zhong	-	1,080	360	-	14	1,454
	-	3,479	1,080	-	46	4,605
b) <i>Non-executive director</i>						
Ho Yui Pok, Eleutherius ²	-	201	-	-	-	201
c) <i>Independent non-executive directors</i>						
Tan Wee Seng	579	-	-	-	-	579
Gao Xian Feng	240	-	-	-	-	240
Bao Ming Xiao	180	-	-	-	-	180
	999	-	-	-	-	999
	999	3,680	1,080	-	46	5,805

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. DIRECTORS' REMUNERATION (CONTINUED)

	Fees RMB'000	Salaries, other allowances and benefits in kind RMB'000	Performance- related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018						
<i>a) Executive directors</i>						
Ding Shui Po ¹	-	939	-	-	18	957
Ding Mei Qing	-	470	-	-	14	484
Ding Ming Zhong	-	470	-	-	14	484
	-	1,879	-	-	46	1,925
<i>b) Non-executive director</i>						
Ho Yui Pok, Eleutherius ²	-	556	-	-	-	556
<i>c) Independent non-executive directors</i>						
Tan Wee Seng	556	-	-	-	-	556
Gao Xian Feng	180	-	-	-	-	180
Bao Ming Xiao	180	-	-	-	-	180
	916	-	-	-	-	916
	916	2,435	-	-	46	3,397

¹ Mr. Ding Shui Po is also the chief executive officer of the Group.

² Mr. Ho Yui Pok, Eleutherius had retired as a non-executive director with effect from 6 May 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

9. FIVE HIGHEST PAID EMPLOYEES

During the years ended 31 December 2019 and 31 December 2018, there was no director included in the five highest paid employees.

Details of the remuneration for the year of the five (2018: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, other allowances and benefits in kind	10,280	6,658
Performance-related bonuses	4,589	-
Pension scheme contributions	80	69
Equity-settled share award scheme expense	6,935	7,492
	21,884	14,219

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
HK\$1,500,001-HK\$2,000,000	-	2
HK\$2,500,001-HK\$3,000,000	-	2
HK\$3,500,001-HK\$4,000,000	3	-
HK\$4,500,001-HK\$5,000,000	1	-
HK\$5,000,001-HK\$5,500,000	-	1
HK\$5,500,001-HK\$6,000,000	1	-
	5	5

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2019 RMB'000	2018 RMB'000
Current tax — Overseas		
Charge for the year	336,864	274,912
Underprovision in prior years	5,908	7,277
	342,772	282,189
Deferred tax (note 29)	46,929	24,000
	389,701	306,189

Xtep China, a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2019 and 2018 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the relevant HNTE certificates in 2016 and 2019.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the applicable statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rate is as follows:

	2019	2018
	RMB'000	RMB'000
Profit before tax	1,121,148	976,168
Tax at the applicable tax rates	305,049	256,653
Effect of tax concessions	(36,115)	(30,331)
Adjustments in respect of current tax of previous years	5,908	7,277
Income not subject to tax	(21,852)	(20,203)
Expenses not deductible for tax	58,721	44,315
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	48,000	24,000
Tax losses utilised from previous periods	(261)	(363)
Tax losses not recognised	30,251	24,841
Tax charge at the Group's effective rate	389,701	306,189

11. DIVIDENDS

	2019	2018
	RMB'000	RMB'000
Dividends paid during the year:		
Final — HK9.5 cents (2018: HK4.5 cents) per ordinary share	203,018⁽ⁱⁱ⁾	80,094 ⁽ⁱ⁾
Special — Nil (2018: HK10 cents) per ordinary share	-	177,987 ⁽ⁱ⁾
Interim — HK12.5 cents (2018: HK10.5 cents) per ordinary share	274,728⁽ⁱⁱⁱ⁾	201,248 ⁽ⁱⁱ⁾
	477,746	459,329
Proposed final dividend:		
HK7.5 cents (2018: HK9.5 cents) per ordinary share	161,863⁽ⁱⁱⁱ⁾	189,252 ⁽ⁱⁱ⁾

(i) In respect of the financial year ended 31 December 2017

(ii) In respect of the financial year ended 31 December 2018

(iii) In respect of the financial year ended 31 December 2019

Scrip dividend election was offered to shareholders for interim dividend for the year ended 31 December 2019 (note 31(iv)).

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect it as dividends payable.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of RMB727,652,000 (2018: RMB656,518,000) and the weighted average number of ordinary shares in issue during the year as adjusted to reflect the share options exercised (note 33), the Awarded Shares vested (note 34), placing shares issued, scrip dividend issued, repurchase of treasury shares and shares repurchased and cancelled, which is calculated as follows:

	2019	2018
Issued ordinary shares at 1 January	2,243,380,000	2,223,185,000
Effect of share options exercised	5,813,890	14,730,867
Effect of Awarded Shares vested	10,750,932	4,476,822
Effect of placing shares issued	180,062,323	-
Effect of scrip dividend issued	2,119,334	-
Less: Repurchase of treasury shares	(73,772,425)	(66,224,468)
Less: Shares repurchased and cancelled	-	(1,601,096)
Weighted average number of ordinary shares	2,368,354,054	2,174,567,125

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of RMB727,652,000 (2018: RMB656,518,000) and the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, as adjusted to reflect the Awarded Shares forfeited, vested and granted (note 34) and dilutive effect of shares under the Company's share option schemes (note 33), which is calculated as follows:

	2019	2018
Weighted average number of ordinary shares as used in the basic earnings per share calculation	2,368,354,054	2,174,567,125
Effect of Awarded Shares forfeited	(4,400,000)	(4,200,000)
Effect of Awarded Shares vested	(10,750,932)	(4,476,822)
Effect of Awarded Shares granted	50,000,000	50,000,000
Effect of dilutive potential shares under share option schemes	7,298,115	9,482,084
Weighted average number of ordinary shares	2,410,501,237	2,225,372,387

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
Cost:							
At beginning of year	610,454	31,522	138,308	69,529	185,521	32,784	1,068,118
Additions	183	3,785	17,922	248	37,294	37,549	96,981
Acquisition of subsidiaries (note 35)	-	15,099	401	347	19,623	-	35,470
Disposal of a subsidiary (note 36)	-	(192)	-	-	(44)	(22,928)	(23,164)
Transfer	9,468	-	-	-	-	(9,468)	-
Write-off	-	(57)	(7,181)	(184)	(11,357)	-	(18,779)
Exchange realignment	1,340	396	(119)	11	486	-	2,114
At 31 December 2019	621,445	50,553	149,331	69,951	231,523	37,937	1,160,740
Accumulated depreciation:							
At beginning of year	117,738	28,902	89,589	59,294	131,908	-	427,431
Provided during the year	28,880	2,105	16,515	4,127	29,441	-	81,068
Disposal of a subsidiary (note 36)	-	-	-	-	(6)	-	(6)
Write-off	-	-	(6,252)	(179)	(3,398)	-	(9,829)
Exchange realignment	160	57	(2)	4	125	-	344
At 31 December 2019	146,778	31,064	99,850	63,246	158,070	-	499,008
Net carrying amount: At 31 December 2019	474,667	19,489	49,481	6,705	73,453	37,937	661,732
31 December 2018							
Cost:							
At beginning of year	581,756	29,083	131,661	68,926	157,412	24,818	993,656
Additions	-	2,414	7,078	821	29,490	32,596	72,399
Transfer	24,630	-	-	-	-	(24,630)	-
Write-off	-	-	(431)	(240)	(1,446)	-	(2,117)
Exchange realignment	4,068	25	-	22	65	-	4,180
At 31 December 2018	610,454	31,522	138,308	69,529	185,521	32,784	1,068,118
Accumulated depreciation:							
At beginning of year	89,894	28,241	77,084	51,743	100,766	-	347,728
Provided during the year	27,685	620	12,697	7,746	32,373	-	81,121
Write-off	-	-	(192)	(216)	(1,298)	-	(1,706)
Exchange realignment	159	41	-	21	67	-	288
At 31 December 2018	117,738	28,902	89,589	59,294	131,908	-	427,431
Net carrying amount: At 31 December 2018	492,716	2,620	48,719	10,235	53,613	32,784	640,687

Included in "Buildings" are certain self-used properties with a net carrying amount of approximately RMB5,977,000 at 31 December 2019 (2018: RMB6,483,000), for which the Group has not obtained the building ownership certificates.

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	36,800	39,615
Depreciation provided during the year	(2,815)	(2,815)
Carrying amount at 31 December	33,985	36,800

The Group's investment properties are commercial properties situated at certain floors of a building located at No. 168, Tabu East Road, Siming District, Xiamen City, Fujian Province, the PRC. These investment properties are stated at cost less accumulated depreciation and less any impairment losses.

As at 31 December 2019, the fair value of the Group's investment properties was RMB107,900,000 (2018: RMB107,800,000), based on a valuation performed by Knight Frank Petty Limited, a firm of independent and professionally qualified valuers.

The investment properties were valued by the sales comparison approach with reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and presupposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. The fair value of these properties falls into the category of fair value measurements using significant unobservable inputs (Level 3) including adjusted comparable prices in the market.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 51 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 14 and 120 months, while plant generally have lease terms between 2 and 10 years.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	246,605
Release of subsidy (note 30)	(577)
Recognised in income statement for the year	(5,934)
Carrying amount at 31 December 2018	240,094
Current portion included in prepayments, other receivables and other assets	(5,975)
Non-current portion	234,119

NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. LEASES (CONTINUED)

The Group as a lessee (Continued)

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Plant RMB'000	Buildings RMB'000	Prepaid land lease payments RMB'000	Total RMB'000
As at 31 December 2018	-	-	-	-
Effect of adoption of HKFRS 16 (note 2.2)	22,219	30,051	240,094	292,364
As at 1 January 2019 (restated)	22,219	30,051	240,094	292,364
Additions	-	49,930	-	49,930
Additions as a result of acquisition of subsidiaries (note 35)	-	90,587	-	90,587
Disposal of a subsidiary (note 36)	-	-	(32,248)	(32,248)
Release of subsidy (note 30)	-	-	(577)	(577)
Depreciation charge	(6,497)	(33,742)	(5,549)	(45,788)
Exchange realignment	-	1,974	-	1,974
As at 31 December 2019	15,722	138,800	201,720	356,242

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Notes	RMB'000
As at 31 December 2018		-
Effect of adoption of HKFRS16 (note 2.2)		54,522
As at 1 January 2019 (restated)		54,522
New leases		49,930
Additions as a result of acquisition of subsidiaries	35	112,205
Accretion of interest recognised during the year	7	6,546
Payments	37(c)	(44,255)
Exchange realignment		(2,790)
As at 31 December 2019		176,158
Analysed into:		
Current portion		68,850
Non-current portion		107,308

The maturity analysis of lease liabilities is disclosed in note 45 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. LEASES (CONTINUED)

The Group as a lessee (Continued)

(d) The amounts recognised in income statement in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	6,546
Depreciation charge of right-of-use assets	45,788
Expenses relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	10,245
Expenses relating to leases of low-value assets (included in administrative expenses)	353
Total amount recognised in income statement	62,932

The Group as a lessor

The Group leases its investment properties (note 14) representing commercial properties situated at certain floors of a building located at No. 168, Tabu East Road, Siming District, Xiamen City, Fujian Province, the PRC under operating lease arrangements. Rental income recognised by the Group during the year was RMB9,187,000 (2018: RMB6,885,000), details of which are included in note 5 to the financial statements.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2019 RMB'000	2018 RMB'000
Within one year	9,269	4,495
After one year but within two years	1,245	4,554
After two years but within three years	769	-
After three years but within four years	127	-
	11,410	9,049

16. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

During the year ended 31 December 2018, the Group has entered into a sale and purchase agreement with local government authority and paid RMB60,105,000 in connection with the acquisition of a parcel of land in Fujian Province, the PRC. As at 31 December 2019, the Group was still in the process of obtaining the land use right certificate of this land parcel.

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17. GOODWILL

	RMB'000
Cost at 1 January 2019	-
Acquisition of subsidiaries (note 35)	814,714
Exchange realignment	19,224
Cost at 31 December 2019	833,938
As at 31 December 2019:	
Cost	833,938
Accumulated impairment	-
Net carrying amount	833,938

Impairment testing of goodwill and intangible assets with indefinite useful lives

Goodwill and brand names have been allocated to the cash-generating unit of K-Swiss Group (the "K-Swiss CGU") as defined in note 35 to the financial statements for impairment testing.

	2019 RMB'000
Carrying amount of goodwill	833,938
Carrying amount of brand names with indefinite useful lives (note 18)	703,814

The recoverable amount of the K-Swiss CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The financial budget was based on expectations of future outcomes taking into account past experiences, market conditions, adjusted for anticipated revenue growth of compound annual growth rate of 28.1% for the next five years with reference to management's expectation for the sportswear market development. The pre-tax discount rate applied to the cash flow projections is 15.3%. The growth rate used to extrapolate the cash flow of K-Swiss CGU beyond the five-year period is 3% which did not exceed the long-term growth rate for the footwear business in which it operates.

No impairment loss is recognised at the end of reporting period based on the impairment assessment performed.

If the discount rate rose to 16.3%, the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value in use calculation would not affect management's view on impairment test result as at 31 December 2019.

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18. INTANGIBLE ASSETS

	Brand names RMB'000	Business relationship RMB'000	Patents and trademarks RMB'000	Total RMB'000
31 December 2019				
Cost at 1 January 2019, net of accumulated amortisation	-	-	7,919	7,919
Additions	-	-	2,834	2,834
Acquisition of subsidiaries (note 35)	687,925	99,919	-	787,844
Amortisation provided during the year	-	(5,102)	(1,698)	(6,800)
Exchange realignment	15,889	2,206	-	18,095
As at 31 December 2019	703,814	97,023	9,055	809,892
As at 31 December 2019:				
Cost	703,814	102,257	16,954	823,025
Accumulated amortisation	-	(5,234)	(7,899)	(13,133)
Net carrying amount	703,814	97,023	9,055	809,892
31 December 2018				
As at 1 January 2018:				
Cost	-	-	11,967	11,967
Accumulated amortisation	-	-	(4,446)	(4,446)
Net carrying amount	-	-	7,521	7,521
Cost at 1 January 2018, net of accumulated amortisation	-	-	7,521	7,521
Additions	-	-	2,171	2,171
Disposal	-	-	(18)	(18)
Amortisation provided during the year	-	-	(1,755)	(1,755)
As at 31 December 2018	-	-	7,919	7,919
As at 31 December 2018:				
Cost	-	-	14,120	14,120
Accumulated amortisation	-	-	(6,201)	(6,201)
Net carrying amount	-	-	7,919	7,919

Brand names acquired in the business combinations are identified and recognised as intangible assets with indefinite useful lives and carried at historical cost without amortisation for the following reasons:

- they are capable of being renewed indefinitely at insignificant cost; and
- there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows based on the brand names widely used by the K-Swiss CGU.

Brand names and goodwill have been allocated to the K-Swiss CGU for impairment testing as disclosed in note 17 to the financial statements.

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19. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	39,161	-

Particulars of associates are as follows:

Name	Place of incorporation of establishment/ business	Percentage of ownership interest attributable to the Group	Principal activities
Saucony Brand Operations Limited	BVI	49%	Investment holding
Merrell Brand Operations Limited	BVI	49%	Investment holding
Saucony Brand Operations (HK) Limited	Hong Kong	49%	Trading of sportswear
Merrell Brand Operations (HK) Limited	Hong Kong	49%	Trading of sportswear
廈門聖康尼品牌運營有限公司	PRC/Mainland China	49%	Trading of sportswear
廈門邁倫品牌運營有限公司	PRC/Mainland China	49%	Trading of sportswear

The above entities were newly invested during the year ended 31 December 2019.

The Group's other receivable and other payable balances with the associates are disclosed in notes 23 and 27 to the financial statements, respectively.

The Group's shareholdings in the associates are held through subsidiaries of the Company.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the associates' losses and total comprehensive expense for the year	(1,982)	-
Net carrying amount of the Group's investments in associates	39,161	-

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20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	RMB'000
At 1 January 2019		114,200
Addition	(a)	35,000
Changes in fair values	(b)	8,900
At 31 December 2019		158,100

As at 31 December 2019, the Group held two unlisted investments with fair values of RMB130,400,000 (31 December 2018: RMB82,400,000) and RMB27,700,000 (31 December 2018: RMB31,800,000), representing 5% and 11% (31 December 2018: 5% and 11%) equity interests in two corporate entities, which were established in the PRC on 22 December 2014 and 22 October 2012 with paid-up capital of RMB1,900,000,000 and RMB300,000,000, respectively. During the year ended 31 December 2019, the Group received dividend of RMB3,600,000 (2018: Nil) from the unlisted investment with a fair value of RMB130,400,000 as at 31 December 2019.

The above unlisted equity investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

Notes:

- (a) During the year ended 31 December 2019, the Group paid further RMB35,000,000 as capital into an investee company with an enlarged paid-up capital of RMB1,900,000,000.
- (b) During the year ended 31 December 2019, fair value gains of RMB8,900,000 (2018: RMB18,000,000) in respect of the Group's equity investments designated at FVOCI were recognised in the consolidated statement of comprehensive income.

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21. INVENTORIES

	2019	2018
	RMB'000	RMB'000
Raw materials	140,053	126,738
Work in progress	104,532	93,967
Finished goods	859,650	667,253
	1,104,235	887,958
Less: Provision for inventories	(57,949)	(52,200)
	1,046,286	835,758

22. TRADE AND BILLS RECEIVABLES

	Notes	2019	2018
		RMB'000	RMB'000
Trade receivables		3,004,086	2,450,823
Less: Impairment of trade receivables	(a)	(407,637)	(497,520)
	(b)	2,596,449	1,953,303
Bills receivables	(c)	313,500	161,800

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three to four months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Notes:

- (a) The movements in impairment of trade receivables are as follows:

	2019	2018
	RMB'000	RMB'000
At 1 January	497,520	576,701
Write-back of impairment of trade receivables, net	(79,406)	(79,181)
Amounts written-off	(10,500)	-
Exchange realignment	23	-
At 31 December	407,637	497,520

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type and customer type), adjusted for factors that are specific to debtors. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO FINANCIAL STATEMENTS

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22. TRADE AND BILLS RECEIVABLES (CONTINUED)

Notes: (Continued)

(a) (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

	Expected credit loss rate	Gross carrying amount excluding specific trade receivables RMB'000	Loss allowance excluding specific trade receivables RMB'000	Gross carrying amount of specific trade receivables RMB'000	Loss allowance of specific trade receivables RMB'000	Total loss allowance RMB'000
Current	4.2%	1,704,529	(72,402)	-	-	(72,402)
Less than 3 months past due	9.6%	588,665	(56,667)	-	-	(56,667)
Past due over 3 months	27.8%	598,967	(166,643)	111,925	(111,925)	(278,568)
		2,892,161	(295,712)	111,925	(111,925)	(407,637)

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount excluding specific trade receivables RMB'000	Loss allowance excluding specific trade receivables RMB'000	Gross carrying amount of specific trade receivables RMB'000	Loss allowance of specific trade receivables RMB'000	Total loss allowance RMB'000
Current	5.0%	1,370,991	(68,204)	13,419	(13,419)	(81,623)
Less than 3 months past due	11.9%	418,329	(49,640)	10,406	(10,406)	(60,046)
Past due over 3 months	40.3%	471,880	(190,053)	165,798	(165,798)	(355,851)
		2,261,200	(307,897)	189,623	(189,623)	(497,520)

The impairment included the amount of specific trade receivables which were considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amount in full.

(b) An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	1,760,051	1,028,713
4 to 6 months	537,640	703,013
Over 6 months	298,758	221,577
	2,596,449	1,953,303

NOTES TO FINANCIAL STATEMENTS

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22. TRADE AND BILLS RECEIVABLES (CONTINUED)

Notes: (Continued)

- (c) The maturity of the Group's bills receivables as at the end of the reporting period is as follows:

	2019	2018
	RMB'000	RMB'000
Within 3 months	222,000	30,000
3 to 6 months	44,000	111,800
Over 6 months	47,500	20,000
	313,500	161,800

Management considers that there were minimal expected credit loss associated with bills receivables in view of the fact that these balances are not yet past due.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2019	2018
		RMB'000	RMB'000
Prepayments to contracted manufacturers		71,244	90,899
Deposits and advance payments to suppliers		373,848	297,225
Deposits and advance payments to subcontractors		110,131	97,953
Right-of-return assets		10,159	-
Loan to a then investee company	(a)	60,000	60,000
Other Asset	(b)	65,010	-
Other deposits		43,023	38,670
Value added tax ("VAT") recoverable		143,033	130,107
Other receivables	(c)	44,848	57,676
		921,296	772,530
Less: Non-current portion		(103,557)	(45,122)
		817,739	727,408

Notes:

- (a) Balance represented a loan granted to a then investee company in prior year. The loan bore interest at 4.5675% per annum and was repayable in October 2018. The loan was secured by land and building of a related party of the then investee company located at Putian, Fujian Province, the PRC.

As at 31 December 2018 and 31 December 2019, the balance was overdue and the Group was in the progress of recovering the balance through the secured land and building. The fair value of the secured land and building at 31 December 2019 estimated by the directors with reference to the valuation report performed by an independent valuer was higher than the loan's carrying amount as at 31 December 2019 and no impairment in value was considered necessary accordingly.

- (b) On 6 June 2019, the Group entered into an agreement (the "Disposal Agreement") with an independent third party (the "Buyer") to dispose of its entire interests in a wholly-owned subsidiary, which mainly held a parcel of land in Fujian, the PRC (note 36). According to the Disposal Agreement, the total consideration would be settled by: (i) a cash consideration of RMB59,665,000, and (ii) certain areas of the building and car parks to be constructed on the land of this disposed subsidiary (the "New Properties"). To the best of the knowledge, information and belief of the Company's directors, having made all reasonable enquiry, the Group does not expect any obstacles to receive the New Properties from the Buyer upon the completion of the construction. The fair value of the New Properties on the disposal date was estimated by management at RMB65,010,000 and is recognised by the Group as the right to receive the New Properties ("Other Asset"). To the best estimation of the directors, the construction of the New Properties is expected to be completed in 2023.

- (c) Included in the Group's other receivables are amounts due from the Group's associates of RMB869,000 (2018: Nil), which are repayable on demand.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

Except for the loan to a then investee company, these financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

24. STRUCTURED BANK DEPOSITS

The structured bank deposits are wealth management products issued by a bank in Mainland China with fixed maturity periods of six to ten months (2018: one to twelve months) and bear interest at floating rates based on the fluctuation in the London Interbank Offered Rate ("LIBOR"). They were classified as financial assets at fair value through profit or loss at the end of the reporting period as their contractual cash flows are not solely payments of principal and interest.

25. CASH AND BANK EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Note	2019 RMB'000	2018 RMB'000
Time deposits		-	442,105
Cash and bank balances		3,686,538	2,959,184
		3,686,538	3,401,289
Less: Pledged deposits for:			
— short-term bank loans	28	(717,034)	(205,480)
Cash and cash equivalents		2,969,504	3,195,809

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB3,525,650,000 (2018: cash and bank balances of RMB2,942,342,000 and time deposits of RMB442,105,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for one day (2018: varying periods for one day to seven days) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE PAYABLES

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

	2019 RMB'000	2018 RMB'000
Within 3 months	1,308,799	747,501
3 to 6 months	45,634	53,872
Over 6 months	65,267	77,313
	1,419,700	878,686

The trade payables are non-interest-bearing and are normally settled within 60 to 120 days.

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27. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Contract liabilities	(a)	99,426	86,280
Refund liabilities		16,932	-
Other payables	(b)	257,741	310,109
VAT payables		5,942	12,172
Accruals		600,545	452,832
		980,586	861,393

Notes:

- (a) Contract liabilities represented short-term advances received before delivery of sportswear goods to customers. Revenue that was included in the contract liabilities at the beginning of the reporting period amounting to RMB86,280,000 was recognised during the year ended 31 December 2019.
- (b) Included in the other payables are amounts due to associates of RMB6,565,000 (2018: Nil) which is repayable on demand.

All these balances are non-interest-bearing and other payables have an average term of three months.

28. INTEREST-BEARING BANK BORROWINGS

	Notes	2019			2018		
		Effective interest rate per annum (%)	Maturity	RMB'000	Effective interest rate per annum (%)	Maturity	RMB'000
Current:							
Syndicated loans	(a)	-	-	-	HIBOR/LIBOR +1.65%	2019	613,939
Revolving loans	(b)	HIBOR+1.10% to HIBOR+1.35%	2020	1,081,072	HIBOR+1.0% to 1.35%	2019	868,836
Other bank loans	(b)	1.10% to 1.30%	2020	5,266	-	-	-
				1,086,338			1,482,775
Non-current:							
Syndicated loans	(a)	HIBOR+1.52%	2023	1,266,924	HIBOR/LIBOR +1.65%	2020	460,875
Other bank loans	(b)	1.10% to 1.30%	2021 to 2023	1,603	-	-	-
				1,268,527			460,875
				2,354,865			1,943,650

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	1,086,338	1,482,775
In the second year	546	460,875
In the third to fifth years, inclusive	1,267,981	-
	2,354,865	1,943,650

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28. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

Notes:

- (a) The syndicated loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK\$1,800,000,000 (equivalent to approximately RMB1,621,620,000) (2018: HK\$651,000,000 (equivalent to approximately RMB577,632,000) and US\$116,000,000 (equivalent to approximately RMB805,556,000)) as at the end of the reporting period.
- (b) The revolving loans and other bank loans are supported by:
- the pledge of certain of the Group's deposits amounting to RMB717,034,000 (2018: RMB205,480,000) in aggregate; and
 - corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK\$1,444,350,000 and Euro ("EUR") 450,000 (equivalent to approximately RMB1,301,215,000 and RMB3,498,000 respectively) (2018: HK\$1,345,796,000 (equivalent to approximately RMB1,194,125,000)) as at the end of the reporting period.

As at 31 December 2019, except for the bank loan of RMB6,869,000 which was denominated in EUR (2018: RMB625,516,000 which was denominated in US\$), all bank borrowings are denominated in Hong Kong dollars.

29. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year were as follows:

	Fair value changes on equity investments designated at fair value through other comprehensive income RMB'000	Withholding tax levied on dividend RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
Deferred tax liabilities at 1 January 2018	-	97,113	-	97,113
Withholding tax paid on repatriation of earnings from PRC subsidiaries	-	(16,518)	-	(16,518)
Deferred tax charged to the consolidated income statement during the year	-	24,000	-	24,000
Deferred tax charged to the fair value reserve during the year	2,700	-	-	2,700
Deferred tax liabilities at 31 December 2018 and 1 January 2019	2,700	104,595	-	107,295
Withholding tax paid on repatriation of earnings from PRC subsidiaries	-	(55,111)	-	(55,111)
Acquisition of subsidiaries during the year (note 35)	-	-	175,858	175,858
Deferred tax charged to the consolidated income statement during the year	-	48,000	(1,071)	46,929
Deferred tax charged to the fair value reserve during the year	1,335	-	-	1,335
Exchange realignment	-	-	4,087	4,087
Deferred tax liabilities at 31 December 2019	4,035	97,484	178,874	280,393

The Group has tax losses arising in Hong Kong of RMB86,941,000 (2018: RMB36,448,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB223,314,000 (2018: RMB134,490,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets are recognised for the tax losses carried forward to the extent that realisation of the related tax benefits through taxable profit is probable. The Group did not recognise deferred tax assets in respect of these losses.

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29. DEFERRED TAX LIABILITIES (CONTINUED)

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings accrued after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on factors which included the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

In the opinion of the directors, it is not probable that those subsidiaries will distribute all earnings after 31 December 2007 in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB125,606,000 as at 31 December 2019 (31 December 2018: RMB90,478,000).

The Company has no significant unprovided deferred tax in respect of the reporting period and at the end of the reporting period. There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. DEFERRED SUBSIDIES

	2019	2018
	RMB'000	RMB'000
Carrying amount at 1 January	22,228	-
Received during the year	-	22,805
Released to/resumed as prepaid land lease payments (note 15)	(577)	(577)
Carrying amount at 31 December	21,651	22,228
Current portion	(577)	(577)
Non-current portion	21,074	21,651

During the year ended 31 December 2018, a subsidy of RMB22,805,000 was received by the Group from the local government for the acquisition of a parcel of land in Jinjiang, Fujian, the PRC. The deferred subsidy is offset with prepaid land lease payments over the life of the land use rights of this parcel of land.

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31. SHARE CAPITAL

At 31 December 2019

	HK\$'000	RMB'000
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid: 2,512,444,722 ordinary shares of HK\$0.01 each	25,125	22,093

At 31 December 2018

	HK\$'000	RMB'000
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid: 2,243,380,000 ordinary shares of HK\$0.01 each	22,434	19,782

The following changes in the Company's share capital took place during the current and last years:

	Notes	Number of ordinary shares of HK\$0.01 each	Share capital HK\$'000	Share capital RMB'000
At 1 January 2018		2,223,185,000	22,232	19,603
Exercise of share options	(i)	21,995,000	220	194
Cancellation of repurchased shares	(ii)	(1,800,000)	(18)	(15)
At 31 December 2018 and 1 January 2019		2,243,380,000	22,434	19,782
Exercise of share options	(i)	9,510,000	95	83
Share placing	(iii)	247,078,000	2,471	2,115
Shares issued in lieu of cash dividend	(iv)	12,476,722	125	113
At 31 December 2019		2,512,444,722	25,125	22,093

Notes:

- (i) During the year ended 31 December 2019, 2,700,000 and 6,810,000 share options granted under the Share Option Scheme (as defined in note 33(b)) were exercised at the subscription prices of HK\$2.35 and HK\$4.11 per share. During the year ended 31 December 2018, the subscription rights attaching to 11,475,000 share options granted under the Pre-IPO Share Option Scheme (as defined in note 33(a)) and 8,040,000 and 2,480,000 share options granted under the Share Option Scheme were exercised at the subscription prices of HK\$3.24, HK\$2.35 and HK\$4.11 per share, respectively.

The exercise of these share options resulted in the issue of a total of 9,510,000 shares (2018: 21,995,000 shares) of HK\$0.01 (2018: HK\$0.01) each for a total cash consideration before expenses of approximately HK\$34,334,000 (equivalent to approximately RMB29,887,000) (2018: approximately HK\$66,266,000 (equivalent to approximately RMB58,798,000)) representing the nominal value of ordinary shares of RMB83,000 (2018: RMB194,000) and share premium of RMB29,804,000 (2018: RMB58,604,000).

An amount of HK\$9,137,000 (equivalent to approximately RMB8,023,000) (2018: HK\$15,356,000 (equivalent to approximately RMB13,625,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

- (ii) During the year ended 31 December 2018, the Company repurchased 1,800,000 ordinary shares at prices ranging from HK\$3.37 to HK\$3.65 per share at a total consideration of approximately HK\$6,279,000 (equivalent to approximately RMB5,571,000). The premium of approximately HK\$6,261,000 (equivalent to approximately RMB5,556,000) paid for the repurchase of these shares was debited to the share premium account and an amount of HK\$18,000 (equivalent to approximately RMB15,000) was transferred from retained profits to the capital reserve of the Company.

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31. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

- (iii) During the year ended 31 December 2019, the Company completed the placing of shares of 247,078,000 ordinary shares of HK\$0.01 each at a subscription price of HK\$5.56 per share. The placing resulted in net proceeds of HK\$1,355,102,000 (equivalent to approximately RMB1,160,238,000), representing the addition of nominal value of ordinary shares of HK\$2,471,000 (equivalent to approximately RMB2,115,000) and share premium of HK\$1,352,631,000 (equivalent to approximately RMB1,158,123,000).
- (iv) On 21 August 2019, the board of directors declared and approved an interim dividend of HK12.5 cents (equivalent to approximately RMB11.0 cents) per ordinary share payable in cash with a scrip dividend alternative. During the year ended 31 December 2019, 12,476,722 new shares were issued by the Company at HK\$4.297 per share to shareholders of the Company who had elected to receive scrip shares in lieu of cash. The total value of scrip dividend issued amounted to HK\$53,612,000 (equivalent to approximately RMB48,344,000), representing the addition of nominal value of ordinary shares of HK\$125,000 (equivalent to approximately RMB113,000) and share premium of HK\$53,488,000 (equivalent to approximately RMB48,231,000). An amount of HK\$18,000 (equivalent to approximately RMB16,000) and an amount of HK\$7,778,000 (equivalent to approximately RMB7,014,000) were transfer from the share capital and share premium reserve to treasury share reserve upon the issuance of scrip shares.

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 33 to the financial statements.

32. RESERVES

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Capital reserve

The capital reserve represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares over the consideration paid for acquiring these subsidiaries.

(ii) Statutory surplus fund

In accordance with the relevant regulations applicable in the PRC, subsidiaries established in the PRC are required to transfer a certain percentage of their statutory annual profits after tax (after offsetting any prior year's losses), if any, to the statutory surplus fund until the balance of the fund reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus fund may be used to offset against accumulated losses of the respective PRC subsidiaries. The amount of the transfer is subject to the approval of the board of directors of the respective PRC subsidiaries.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC, which is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

(iv) Fair value reserve

The fair value reserve represents the subsequent changes in fair value of the equity investments designated at fair value through other comprehensive income since their initial measurement. With the exception of dividends received, the associated gains and losses are recognised in the fair value reserve. Amounts presented in the fair value reserve are transferred to retained profits upon derecognition of the financial assets.

(v) Treasury shares

Treasury shares reacquired and held by the Company are recognised directly in equity at cost. During the year ended 31 December 2019, 660,000 (2018: 23,239,000) treasury shares were purchased at cash consideration of RMB3,029,000 (2018: RMB83,921,000), 200,000 (2018: 300,000) Awarded Shares were forfeited with an amount of RMB437,000 (2018: RMB261,000) credited to the treasury shares and 1,814,318 (2018: Nil) treasury shares amounting to RMB7,030,000 (2018: Nil) in form of scrip dividend were received by the Company. As at 31 December 2019, the Group had treasury shares of 30,113,318 (31 December 2018: 27,439,000).

(vi) Share award reserve

The share award reserve represents the differences between the cost of repurchase of shares and fair value of Awarded Shares at grant date.

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33. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company has adopted a pre-IPO share option scheme on 7 May 2008 (the “Pre-IPO Scheme”) for the purpose of giving the Group’s employees an opportunity to have a personal stake in the Company and help motivate the Group’s employees to optimise their performance and efficiency, and also to retain the Group’s employees whose contributions are important to the long term growth and profitability of the Group. On 7 May 2008, an aggregate of 19,000,000 share options were issued to certain directors and employees of the Group.

As at 31 December 2019 and 31 December 2018, no share options under the Pre-IPO Scheme remained outstanding. During the year ended 31 December 2018, 11,475,000 share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK\$3.24 per share, resulting in the issue of 11,475,000 additional ordinary shares of the Company and additional share capital of approximately HK\$115,000 (equivalent to approximately RMB101,000) and share premium account of approximately HK\$37,064,000 (equivalent to approximately RMB32,887,000), before related issuance expenses.

(b) Share option scheme

The Company has also adopted a share option scheme (the “Share Option Scheme”) pursuant to the shareholders’ written resolution passed on 7 May 2008. The purposes of the Share Option Scheme are to motivate the eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions; to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to the Group and/or whose contributions are or will be beneficial to the performance, growth or success of the Group; and to attract and retain individuals with experience and ability.

Eligible persons include the Group’s directors, proposed directors, employees, direct or indirect shareholders, suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, any person or entity that provides design, research, development or other supporting services to the Group; and any associate of the aforementioned eligible persons.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the Company in issue.

An option under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the board of directors of the Company, which must not be more than 10 years from the date of the grant.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

33. SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (Continued)

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors in their absolute discretion, but in any event shall not be less than the highest of (1) the nominal value of an ordinary share of the Company; (2) the closing price of the Company's shares as stated in the Hong Kong Stock Exchange daily quotation sheet issued on the date of grant of the share options; and (3) the average of the closing prices of the Company's shares stated in the Hong Kong Stock Exchange daily quotation sheets for the five business days immediately preceding the date of grant of share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The movements of share options under the Share Option Scheme during the years were as follows:

	2019		2018	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	3.84	32,565	3.58	43,085
Exercised during the year	3.61	(9,510)	2.76	(10,520)
At 31 December	3.93	23,055	3.84	32,565

The weighted average share price at the date of exercise for share options exercised during the year was HK\$4.89 (2018: HK\$5.05) per share.

The subscription rights attaching to 2,700,000 (2018: 8,040,000) and 6,810,000 (2018: 2,480,000) share options granted under the Share Option Scheme were exercised at the subscription prices of HK\$2.35 and HK\$4.11 per share during the year, resulting in the issue of 9,510,000 shares (2018: 10,520,000 shares) and additional share capital of approximately HK\$95,000 (equivalent to approximately RMB83,000) (2018: HK\$105,000 (equivalent to approximately RMB93,000)) and share premium of approximately HK\$34,239,000 (equivalent to approximately RMB29,804,000) (2018: HK\$28,982,000 (equivalent to approximately RMB25,717,000)), before related issuance expenses.

NOTES TO FINANCIAL STATEMENTS

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33. SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (Continued)

The exercise prices and exercise periods of the share options outstanding at 31 December 2019 and 2018 were as follows:

2019

Number of options	Exercise price per share	Exercise period
150,000	HK\$5.01	28 January 2011 to 27 January 2020
150,000	HK\$5.01	28 January 2012 to 27 January 2020
200,000	HK\$5.01	28 January 2013 to 27 January 2020
180,000	HK\$6.13	30 March 2011 to 29 March 2020
180,000	HK\$6.13	30 March 2012 to 29 March 2020
240,000	HK\$6.13	30 March 2013 to 29 March 2020
2,700,000	HK\$6.00	28 May 2012 to 27 May 2020
6,300,000	HK\$6.00	28 May 2013 to 27 May 2020
4,198,000	HK\$2.35	14 January 2013 to 13 January 2021
8,757,000	HK\$2.35	14 January 2014 to 13 January 2021
23,055,000		

2018

Number of options	Exercise price per share	Exercise period
55,000	HK\$4.11	29 July 2010 to 28 July 2019
2,895,000	HK\$4.11	29 July 2011 to 28 July 2019
3,860,000	HK\$4.11	29 July 2012 to 28 July 2019
150,000	HK\$5.01	28 January 2011 to 27 January 2020
150,000	HK\$5.01	28 January 2012 to 27 January 2020
200,000	HK\$5.01	28 January 2013 to 27 January 2020
180,000	HK\$6.13	30 March 2011 to 29 March 2020
180,000	HK\$6.13	30 March 2012 to 29 March 2020
240,000	HK\$6.13	30 March 2013 to 29 March 2020
2,700,000	HK\$6.00	28 May 2012 to 27 May 2020
6,300,000	HK\$6.00	28 May 2013 to 27 May 2020
6,898,000	HK\$2.35	14 January 2013 to 13 January 2021
8,757,000	HK\$2.35	14 January 2014 to 13 January 2021
32,565,000		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 23,055,000 shares under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 23,055,000 additional ordinary shares of the Company and additional share capital of approximately HK\$231,000 (equivalent to approximately RMB208,000) (2018: HK\$326,000 (equivalent to approximately RMB289,000)) and share premium of HK\$90,397,000 (equivalent to approximately RMB80,209,000) (2018: HK\$124,635,000 (equivalent to approximately RMB110,589,000)), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 23,055,000 shares under the Share Option Scheme, which represented approximately 0.9% of the issued share capital of the Company as at that date.

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34. SHARE AWARD SCHEME

On 1 August 2014, the board of directors of the Company (the "Board") adopted a share award scheme as a mean to recognise the contributions by the key management personnel and to give incentives in order to retain them for their continual operation and development and to attract suitable personnel for further development of the Group (the "Share Award Scheme").

The Share Award Scheme is valid and effective for a period of 10 years from 1 August 2014 (the "Adoption Date"). The shares to be awarded under the Share Award Scheme (the "Awarded Shares") will either be acquired by the trustee of the Share Award Scheme (the "Trustee") from the open market or be new shares allotted and issued to the Trustee under general mandates granted by shareholders of the Company to the directors at general meetings of the Company from time to time, both of which will be settled by cash contributed by the Group. The Trustee will hold the Awarded Shares in trust for the awardees until such shares are vested with the awardees in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

The Board shall not make any further award of Awarded Shares which will result in the nominal value of the Shares awarded by the Board under the Share Award Scheme exceeding 5% of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a selected participant under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The vesting of shares awarded to the awardees is subject to conditions and vesting schedules as determined by the Board in its sole discretion.

The shares awarded will be vested in the respective proportions in accordance with the vesting schedule. The trustee shall cause the Awarded Shares to be transferred to such selected participant on the vesting date. Vested shares will be transferred to the selected participants at no cost save that transaction fees and expenses will be payable by the selected participants as transferees.

In 2015, the Company repurchased 50,000,000 ordinary shares of the Company at HK\$3.052 per share at an aggregate consideration of HK\$152,600,000 (equivalent to approximately RMB120,447,000) through the Trustee for the Share Award Scheme.

Prior to 10 January 2017, no Awarded Shares were granted. On 10 January 2017, the Board resolved to grant 50,000,000 Awarded Shares to certain selected participants, who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them, at nil consideration.

Details of each category of Awarded Shares granted on 10 January 2017 under the Share Award Scheme are as follows:

Grant date	Number of Awarded Shares to vest	Vesting period	Fair value at grant date HK\$ per share
10 January 2017	5,000,000	10 January 2017 to 10 January 2018	3.21
10 January 2017	7,500,000	10 January 2017 to 10 January 2019	3.21
10 January 2017	10,000,000	10 January 2017 to 10 January 2020	3.21
10 January 2017	10,000,000	10 January 2017 to 10 January 2021	3.21
10 January 2017	17,500,000	10 January 2017 to 10 January 2022	3.21

Fair values of the Awarded Shares at dates of awards are measured by the quoted market price of the shares at the award date. A share award reserve of RMB6,684,000, representing the cost of purchase of these 50,000,000 shares in 2015 and the fair value at grant date, was created.

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34. SHARE AWARD SCHEME (CONTINUED)

Movement in the number of Awarded Shares were as follows:

	Number of Awarded Shares	
	2019	2018
Outstanding at 1 January	41,210,000	46,100,000
Awarded Shares forfeited	(200,000)	(300,000)
Awarded Shares vested	(6,940,000)	(4,590,000)
Outstanding at 31 December	34,070,000	41,210,000

During the year ended 31 December 2019, share award scheme expense of RMB24,327,000 (2018: RMB32,680,000) was charged to the consolidated income statement and an amount of HK\$1,098,000 (equivalent to approximately RMB990,000) (2018: HK\$725,000 (equivalent to approximately RMB644,000)) was transferred from share award reserve to retained profits in respect of vesting of 6,940,000 Awarded Shares (2018: 4,590,000).

During the year ended 31 December 2019, an amount of HK\$32,000 (equivalent to approximately RMB29,000) (2018: HK\$46,000 (equivalent to approximately RMB40,000)) was transferred from the treasury share account to the share award reserve (note 46), and an amount of HK\$516,000 (equivalent to approximately RMB466,000 (2018: HK\$340,000 (equivalent to approximately RMB301,000))) was credited to retained profits upon the forfeiture of the 200,000 (2018: 300,000) Awarded Shares.

35. BUSINESS COMBINATION

On 2 May 2019, a wholly-owned subsidiary of the Company, the Company, E-Land USA Holdings Inc., and E-Land World Limited ("E-Land World"), entered into an agreement pursuant to which the Group agreed to acquire the entire interests in K-Swiss Holdings (the "Acquisition"), at a cash consideration of US\$260,000,000 (equivalent to approximately RMB1,792,047,000) from E-Land World. K-Swiss Holdings and its subsidiaries ("K-Swiss Group") is principally engaged in the design, development and marketing of footwear, apparel and accessories for athletic, high performance sports, adventures for all terrains and fitness activities and casual wear under several brands. The acquisition was made as part of the Group's strategy to transform the Group from a single-brand group to a multi-brand portfolio group. The acquisition was completed on 1 August 2019 ("Date of Acquisition") upon the fulfilment and waiver of all conditions.

The fair values of the identifiable assets and liabilities of K-Swiss Group as at the Date of Acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	35,470
Right-of-use assets	15(b)	90,587
Intangible assets	18	787,844
Inventories		271,437
Trade and bills receivables		189,401
Prepayments, other receivables and other assets		81,052
Cash and cash equivalents		101,064
Trade payables		(105,086)
Deposits received, other payables and accruals		(145,501)
Other liabilities		(38,353)
Interest-bearing bank borrowings		(2,519)
Lease liabilities	15(c)	(112,205)
Deferred tax liabilities	29	(175,858)
Total identifiable net assets at fair value		977,333
Goodwill on acquisition	17	814,714
Satisfied by cash		1,792,047

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35. BUSINESS COMBINATION (CONTINUED)

The Group incurred transaction costs of RMB28,937,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated income statement during the year.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the leases relative to market terms.

An analysis of the cash flows in respect of the Acquisition is as follows:

	RMB'000
Cash consideration paid	(1,792,047)
Cash and banks acquired	101,064
Net outflow of cash and cash equivalents	
included in cash flows from investing activities	(1,690,983)
Transaction costs of the acquisition included in cash flows from operating activities	(28,937)
	(1,719,920)

Since the acquisition, K-Swiss Group contributed RMB465,889,000 to the Group's revenue and incurred a loss for the year of RMB51,720,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB8,960,123,000 and RMB706,636,000, respectively.

36. DISPOSAL OF A SUBSIDIARY

	Notes	2019 RMB'000
Net assets disposed of:		
Plant and equipment	13	230
Construction in progress	13	22,928
Right-of-use assets	15(b)	32,248
Cash and bank balances		14,665
Prepayments		23
Tax prepaid		1,436
Accruals		(30)
		71,500
Gain on disposal of a subsidiary	5	53,175
		124,675
Satisfied by:		
Cash consideration		59,665
Other Asset (note 23)		65,010
		124,675

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36. DISPOSAL OF A SUBSIDIARY (CONTINUED)

An analysis of the net inflow of cash and cash equivalents in respects of the disposal of a subsidiary is as follows:

	2019 RMB'000
Cash consideration received	59,665
Cash and bank balances disposed of	(14,665)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	45,000

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction:

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB49,930,000 and RMB49,930,000, respectively, in respect of lease arrangements for plant and buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities**2019**

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 31 December 2018	1,943,650	-
Effect of adoption of HKFRS 16	-	54,522
At 1 January 2019 (restated)	1,943,650	54,522
Changes from financing cash flows	386,419	(44,255)
Increase arising from acquisition of subsidiaries	2,519	112,205
Amortisation of bank charges on syndicated loans	4,053	-
New leases	-	49,930
Interest expenses	-	6,546
Foreign exchange movement	18,224	(2,790)
At 31 December 2019	2,354,865	176,158

2018

	Bank borrowings RMB'000
At 1 January 2018	1,850,024
Changes from financing cash flows	(10,026)
Amortisation of bank charges on syndicated loans	12,589
Foreign exchange movement	91,063
At 31 December 2018	1,943,650

NOTES TO FINANCIAL STATEMENTS

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37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	17,144
Within financing activities	44,255
	61,399

38. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2018: Nil).

39. COMMITMENTS

(a) The Group had the following commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	159,199	21,103
– construction of new manufacturing facilities	16,689	16,689
– advertising and promotional expenses	263,753	129,280
– software	-	100
– investment in an equity investment designated at fair value through other comprehensive income	-	35,000
	439,641	202,172

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties were negotiated for terms ranging from fourteen months to ten years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	15,619
In the second to fifth years, inclusive	42,172
After five years	4,955
	62,746

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40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(i) During the year ended 31 December 2019, rental expenses amounting to RMB8,885,000 (2018: Nil) were charged by Hu Du Century (Xiamen) Investment Management Co., Ltd., a company established in the PRC and a wholly-owned subsidiary of Wan Xing, the ultimate holding company of the Company.

This transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(ii) During the year ended 31 December 2019, purchase amounting to RMB5,995,000 (2018: Nil) was made by 廈門索康尼體育用品有限公司, a subsidiary of the Company, from 廈門邁倫品牌運營有限公司, an associate of the Group.

These transactions were entered into by the Group and its related companies in accordance with the terms of the respective agreements.

(b) Outstanding balances with related parties:

Details of the Group's other receivable and other payable balances with the associates are disclosed in notes 23 and 27 to the financial statements, respectively.

(c) Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 8 to the financial statements, is as follows:

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	5,759	3,351
Post-employment benefits	46	46
Total compensation paid to key management personnel	5,805	3,397

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41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2019	2018
	RMB'000	RMB'000
Financial assets at FVOCI:		
Equity investments designated at FVOCI	158,100	114,200
Bills receivables	313,500	161,800
	471,600	276,000
Financial assets at FVPL:		
Structured bank deposits	800,000	980,000
Financial assets at amortised cost:		
Trade receivables	2,596,449	1,953,303
Other receivables	44,848	57,676
Loan to a then investee company	60,000	60,000
Pledged bank deposits	717,034	205,480
Cash and cash equivalents	2,969,504	3,195,809
	6,387,835	5,472,268
Total	7,659,435	6,728,268

Financial liabilities

	2019	2018
	RMB'000	RMB'000
Financial liabilities at amortised cost:		
Trade payables	1,419,700	878,686
Financial liabilities included in other payables and accruals	460,384	413,311
Interest-bearing bank borrowings	2,354,865	1,943,650
	4,234,949	3,235,647

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42. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2019, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,624,736,000 (2018: RMB1,603,200,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from 31 days to 294 days (2018: 27 days to 322 days) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). According to the bank discounting agreements, the bank has waived the right of recourse against the Group and such that Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the year ended 31 December 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2018: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The amount of bills receivable of RMB2,873,036,000 (31 December 2018: RMB2,382,700,000) has been discounted during the year ended 31 December 2019.

43. TRANSFERRED FINANCIAL ASSETS THAT ARE NOT DERECOGNISED IN THEIR ENTIRETY

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Factoring Arrangement") and transferred certain trade receivables to a bank. Under the Factoring Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 180 days. The Group has retained the substantial risk and rewards, which include default risk relating to the factored trade receivables, and accordingly the Group continued to recognise the full carrying amount of the factored trade receivables and the associated borrowings from a bank. The original carrying value of the trade receivables transferred under the Factoring Arrangement that have not been settled as at 31 December 2019 with recourse was EUR608,000 (equivalent to approximately RMB4,722,000) (2018: Nil).

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, trade payables, financial assets included in other receivables, financial liabilities included in other payables and accruals and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumptions were used to estimate the fair values:

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44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of structured bank deposits and the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2019 were assessed to be insignificant. The fair values of structured bank deposits and the interest-bearing bank borrowings approximate to their carrying amounts as at the end of the reporting period. The fair value of the unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry and geography, and calculates an appropriate price multiple, such as price to net book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the net book value per share of the comparable company by the market price per share. The trading multiple is then discounted for considerations such as marketability between the comparable companies based on company-specific facts and circumstances.

The discounted multiple is applied to the corresponding P/B multiple of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of unlisted equity investments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted equity investments	Market multiples	P/B multiple of peers	0.17x to 8.28x (2018: 0.08x to 6.73x)	5% (2018: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB7.9 million (2018: RMB5.7 million)
		Discount for lack of marketability ("DLOM")	20% (2018: 20%)	2.5% (2018: 2.5%) increase/decrease in multiple would result in decrease/increase in fair value by RMB4.9 million (2018: RMB3.6 million)

NOTES TO FINANCIAL STATEMENTS

31 December 2019

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at FVOCI	-	-	158,100	158,100
Structured bank deposits	-	800,000	-	800,000
Bills receivables	-	313,500	-	313,500
	-	1,113,500	158,100	1,271,600

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at FVOCI	-	-	114,200	114,200
Structured bank deposits	-	980,000	-	980,000
Bills receivables	-	161,800	-	161,800
	-	1,141,800	114,200	1,256,000

During the year ended 31 December 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise equity investments designated at fair value through other comprehensive income, interest-bearing bank borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

NOTES TO FINANCIAL STATEMENTS

31 December 2019

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Most of the Group's financial instruments such as trade and bills receivables and cash and bank balances are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which the transactions relate. In addition, the Group has currency exposures from its interest-bearing bank borrowings.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and at the end of each reporting period, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk.

31 December 2019

	12-month ECLs	Lifetime ECLs			RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	3,004,086	3,004,086
Other receivables**	44,848	-	-	-	44,848
Loan to a then investee company***	-	-	60,000	-	60,000
Pledged bank deposits**	717,034	-	-	-	717,034
Cash and cash equivalents**	2,969,504	-	-	-	2,969,504
Total	3,731,386	-	60,000	3,004,086	6,795,472

NOTES TO FINANCIAL STATEMENTS

31 December 2019

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (CONTINUED)

31 December 2018

	12-month	Lifetime ECLs			Simplified approach	RMB'000
	ECLs	Stage 1	Stage 2	Stage 3		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	-	-	-	2,450,823	2,450,823	
Other receivables**	57,676	-	-	-	57,676	
Loan to a then investee company***	-	-	60,000	-	60,000	
Pledged bank deposits**	205,480	-	-	-	205,480	
Cash and cash equivalents**	3,195,809	-	-	-	3,195,809	
Total	3,458,965	-	60,000	2,450,823	5,969,788	

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The expected credit losses of the financial assets included in other receivables, pledged bank deposits and cash and cash equivalents are considered to be minimal because the balances are not yet past due.

*** The loan was considered as credit-impaired because it was overdue in the year ended 31 December 2019 and 31 December 2018 (note 23(a)).

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		RMB'000
2019		
Hong Kong dollar and US\$	100	(23,762)
Hong Kong dollar and US\$	(100)	23,762
2018		
Hong Kong dollar and US\$	100	(19,445)
Hong Kong dollar and US\$	(100)	19,445

NOTES TO FINANCIAL STATEMENTS

31 December 2019

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The tables below summarise the maturity profile of the financial liabilities of the Group as at the end of the reporting period, based on the contractual undiscounted payments:

	2019		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	1,419,700	-	1,419,700
Lease liabilities	75,680	124,585	200,265
Financial liabilities included in other payables and accruals	460,384	-	460,384
Interest-bearing bank borrowings	1,143,771	1,413,516	2,557,287
	3,099,535	1,538,101	4,637,636
	2018		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	878,686	-	878,686
Financial liabilities included in other payables and accruals	413,311	-	413,311
Interest-bearing bank borrowings	1,507,250	464,634	1,971,884
	2,799,247	464,634	3,263,881

Commodity price risk

The major raw materials used in the production of the Group's products include cotton, rubber and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital on the basis of the net cash-to-capital ratio, which is calculated as the net cash divided by total equity. The net cash-to-capital ratios as at the end of the reporting periods were as follows:

	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents	2,969,504	3,195,809
Less: Interest-bearing bank borrowings	(2,354,865)	(1,943,650)
Net cash	614,639	1,252,159
Total equity	6,960,238	5,330,966
Net cash-to-capital ratio	0.088	0.235

NOTES TO FINANCIAL STATEMENTS

31 December 2019

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,477,762	1,390,490
CURRENT ASSETS		
Due from subsidiaries	2,321,170	1,110,849
Prepayments	4,649	9,559
Cash and cash equivalents	14,925	11,873
Total current assets	2,340,744	1,132,281
CURRENT LIABILITIES		
Due to subsidiaries	3,284	3,715
Other payables and accruals	49,396	183,953
Interest-bearing bank borrowings	1,081,072	1,482,775
Total current liabilities	1,133,752	1,670,443
NET CURRENT ASSETS/(LIABILITIES)	1,206,992	(538,162)
TOTAL ASSETS LESS CURRENT LIABILITIES	2,684,754	852,328
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,266,924	460,875
NET ASSETS	1,417,830	391,453
EQUITY		
Share capital	22,093	19,782
Reserves (note)	1,395,737	371,671
Total equity	1,417,830	391,453

NOTES TO FINANCIAL STATEMENTS

31 December 2019

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY
(CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Capital reserve RMB'000	Treasury shares RMB'000	Share award reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2018	259,874	-	(81,189)	6,163	89,679	(107,693)	(67,354)	99,480
Profit for the year	-	-	-	-	-	-	712,321*	712,321
Other comprehensive income:								
Exchange realignment	-	-	-	-	-	17,392	-	17,392
Total comprehensive income for the year	-	-	-	-	-	17,392	712,321	729,713
Awarded shares forfeited	-	-	(261)	(40)	-	-	301	-
Equity-settled share award arrangement	-	-	32,680	-	-	-	-	32,680
Awarded shares vested	-	-	-	(644)	-	-	644	-
2017 final and special dividends declared and paid	-	-	-	-	-	-	(258,081)	(258,081)
2018 interim dividend declared and paid	-	-	-	-	-	-	(201,248)	(201,248)
Cancellation of repurchased shares	(5,556)	15	-	-	-	-	(15)	(5,556)
Exercise of share options	72,229	-	-	-	(13,625)	-	-	58,604
Repurchase of shares	-	-	(83,921)	-	-	-	-	(83,921)
At 31 December 2018 and 1 January 2019	326,547	15	(132,691)	5,479	76,054	(90,301)	186,568	371,671
Profit for the year	-	-	-	-	-	-	183,454*	183,454
Other comprehensive income:								
Exchange realignment	-	-	-	-	-	67,932	-	67,932
Total comprehensive income for the year	-	-	-	-	-	67,932	183,454	251,386
Awarded shares forfeited	-	-	(437)	(29)	-	-	466	-
Equity-settled share award arrangement	-	-	24,327	-	-	-	-	24,327
Awarded shares vested	-	-	-	(990)	-	-	990	-
2018 final dividends declared and paid	-	-	-	-	-	-	(203,018)	(203,018)
2019 interim dividend declared and paid	48,231	-	(7,030)	-	-	-	(274,728)	(233,527)
Exercise of share options	37,827	-	-	-	(8,023)	-	-	29,804
Placing of shares	1,158,123	-	-	-	-	-	-	1,158,123
Repurchase of shares	-	-	(3,029)	-	-	-	-	(3,029)
At 31 December 2019	1,570,728	15	(118,860)	4,460	68,031	(22,369)	(106,268)	1,395,737

* The balance as at 31 December 2019 included a dividend from a subsidiary of RMB308,243,000 (2018: RMB746,563,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Any excess of the appropriation over the retained profits of the Company will be replenished by dividends declared by its subsidiaries to the Company when they are approved subsequent to the end of the reporting period. The directors of the Company anticipate that the approval of such dividends from subsidiaries will be obtained in the near future.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for the payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

The share award reserve represents the difference between the fair value at the grant date and cost of repurchased shares for the Share Award Scheme. The amount will be transferred to treasury shares account upon forfeiture of the corresponding Awarded Shares.

47. EVENT AFTER THE REPORTING PERIOD

The outbreak of novel coronavirus (Covid-19) in Mainland China in early 2020 has certain impact to the operations to the Group. In the opinion of the directors, it is not practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group's financial statements at the date of these financial statements.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2020.

GLOSSARY

In this annual report, unless the context otherwise requires, the following terms shall have the following meanings:

“App”	A software program for download onto mobile devices
“Board”	The Board of Directors of the Company
“Business Day”	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
“CBA”	Chinese Basketball Association
“Company”	Xtep International Holdings Limited
“Corporate Governance Code”	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“Director(s)”	The director(s) of the Company
“Euromonitor”	Euromonitor International Limited
“Exclusive distributors”	Distributors which only sells XTEP products, and the Group sells products exclusively to them within their designated region
“GDP”	Gross domestic product
“Group”	The Company and its subsidiaries
“Group Success”	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn ultimately owned as to 55% by Mr. Ding Shui Po’s family trust, 35% by Ms. Ding Mei Qing’s family trust and 10% by Mr. Ding Ming Zhong’s family trust
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” and “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IP”	Intellectual Property
“Joyrun”	A leading Chinese App for runners
“Listing Date”	3 June 2008, on which dealing in the Shares first commenced on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NBA”	National Basketball Association

"O2O"	Online to Offline
"POS"	Points of sale
"PRC" or "China" or "Mainland China"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"U.S."	United States of America
"US\$"	U.S. dollars, the lawful currency of the U.S.
"Xtep"	Xtep brand
"Xtep Kids"	The children's sportswear business of the Group

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2019.

DIVIDENDS

An interim dividend of HK12.5 cents (equivalent to approximately RMB11.0 cents) per Share was paid to our Shareholders during the year.

The Board recommended a final dividend of HK7.5 cents (equivalent to approximately RMB6.4 cents) per Share for the year ended 31 December 2019, subject to approval by the Shareholders at the annual general meeting (“AGM”) to be held on Friday, 8 May 2020. The proposed final dividend will be offered with a scrip dividend option to the Shareholders, which will allow them to receive new shares of the Company in lieu of cash. Participation in the scrip dividend scheme will be optional.

The total dividends for the year ended 31 December 2019, which include the interim and final dividends, amounted to HK20.0 cents (equivalent to approximately RMB17.4 cents) per Share, and represented an annual payout ratio of approximately 60.0%.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Monday, 4 May 2020 to Friday, 8 May 2020, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Wednesday, 29 April 2020. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on Friday, 8 May 2020, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 29 April 2020.

The proposed final dividend is subject to the passing of ordinary resolutions by the shareholders at the AGM. In order to determine the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Friday, 15 May 2020 to Tuesday, 19 May 2020, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to the proposed final dividend is Thursday, 14 May 2020. In order to be eligible to receive the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 14 May 2020. The payment date of the proposed final dividend is expected to be on Friday, 26 June 2020.

AGM

The AGM of the Company will be held in Hong Kong on Friday, 8 May 2020. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.xtep.com.hk.

By Order of the Board of
Xtep International Holdings Limited
Ding Shui Po
Chairman

Hong Kong, 18 March 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong; and the independent non-executive Directors are Mr. Tan Wee Seng, Dr. Gao Xian Feng and Dr. Bao Ming Xiao.