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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)

2020 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 2020. This announcement, containing the full text of the 2020 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 2020 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.

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 6,000 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.

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ANNUAL RESULTS AT A GLANCE

Revenue

RMB
8,172 million
↓ 0.1%

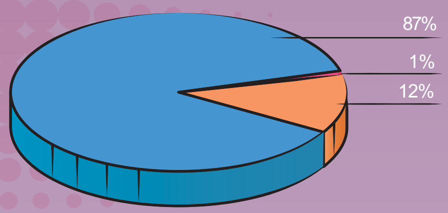
Operating profit

RMB
918 million
↓ 25.6%

Profit attributable to ordinary equity holders

RMB
513 million
↓ 29.5%

Revenue by brand nature[1]



- Mass market
- Professional sports
- Athleisure

Note 1: Signature brands under different brand nature are as follows:
- *Mass market — Xtep*
- *Professional sports — Saucony, Merrell*
- *Athleisure — K-Swiss, Palladium*

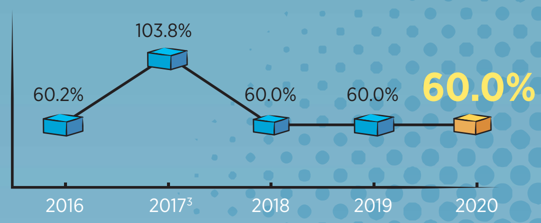
Final dividend per Share

2020
HK
7.5 cents[2]

2019
HK
7.5 cents

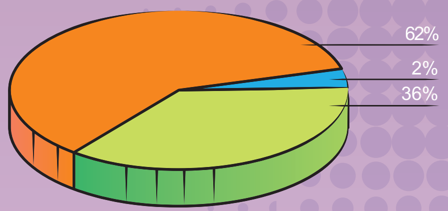
Note 2: Including an interim dividend of HK6.5 cents per Share and a proposed final dividend of HK7.5 cents per Share, the full year dividend amounted to HK14.0 cents per share

Full year dividend payout ratio



Note 3: Special dividend included in 2017

Revenue by product category



- Footwear
- Accessories
- Apparel

Net cash and cash equivalents

As at 31 December 2020
RMB
2,251 million

As at 31 December 2019
RMB
2,132 million

Net asset value per Share

As at 31 December 2020
RMB
2.87

As at 31 December 2019
RMB
2.77

A **Americas**
K-SWISS, PALLADIUM

B **Europe**
XTEP, K-SWISS, PALLADIUM

C **Africa**
K-SWISS, PALLADIUM

D **Middle East**
XTEP, K-SWISS, PALLADIUM

E **China**
XTEP, K-SWISS, PALLADIUM, saucony, MERRELL

F **Asia Pacific (ex-China)**
XTEP, K-SWISS, PALLADIUM

WORLDWIDE

RETAIL AND DISTRIBUTION NETWORK

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December	**2020**	2019	2018	2017	2016
Profitability data (RMB million)					
Revenue	**8,171.9**	8,182.7	6,383.2	5,113.4	5,396.6
Gross profit	**3,198.4**	3,550.4	2,828.3	2,244.5	2,331.3
Operating profit	**918.2**	1,234.0	1,044.3	724.5	917.0
Profit attributable to ordinary equity holders	**513.0**	727.7	656.5	408.1	527.9
Basic earnings per Share (RMB cents) (Note 1)	**20.83**	30.72	30.19	18.81	23.89
Profitability ratios (%)					
Gross profit margin	**39.1**	43.4	44.3	43.9	43.2
Operating profit margin	**11.2**	15.1	16.4	14.2	17.0
Net profit margin	**6.3**	8.9	10.3	8.0	9.8
Effective tax rate	**33.7**	34.8	31.4	33.5	33.8
Return on average total equity holders' equity (Note 2)	**7.3**	11.9	12.4	8.0	10.8
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**11.2**	14.4	15.2	12.9	11.8
Staff costs	**12.1**	11.0	11.6	12.1	10.5
R&D costs	**2.7**	2.4	2.6	2.8	2.6

As at 31 December	**2020**	2019	2018	2017	2016
Assets and liabilities data (RMB million)					
Non-current assets	**3,544.4**	3,056.7	1,139.0	1,051.9	956.9
Current assets	**9,027.3**	9,265.9	8,059.6	7,881.8	7,217.0
Current liabilities	**3,334.3**	3,671.1	3,277.8	2,488.8	3,029.4
Non-current liabilities	**1,938.7**	1,691.2	589.8	1,116.3	121.7
Non-controlling interests	**75.4**	69.8	4.7	107.7	69.3
Total equity holders' equity	**7,223.3**	6,890.5	5,326.3	5,220.9	4,953.5
Asset and working capital data					
Current asset ratio	**2.7**	2.5	2.5	3.2	2.4
Gearing ratio (%) (Note 3)	**17.2**	19.1	21.1	20.7	18.4
Net asset value per Share (RMB) (Note 4)	**2.87**	2.77	2.38	2.4	2.26
Average inventory turnover days (days) (Note 5) (Note 8)	**74**	77	80	75	51
Average trade receivables turnover days (days) (Note 6) (Note 8)	**120**	96	105	130	119
Average trade payables turnover days (days) (Note 7) (Note 8)	**107**	88	98	122	107
Overall working capital days (days)	**87**	85	87	83	63

NOTES:

1 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.

2 Return on average total equity holders' 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 total equity holders' equity.

3 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.

4 The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the year.

5 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 and 2020).

6 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 and 2020).

7 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 and 2020).

8 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

Sustainability Committee

Tan Wee Seng *(Chairman)*
Ding Shui Po
Ding Mei Qing

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

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100, 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

Ding Shui Po, *Chairman*

Dear Shareholders,

2020 was a challenging year as the COVID-19 pandemic coupled with escalating geopolitical tensions caused disruption to the economic and trade activities across the globe. Despite the headwinds, the Group's revenue remained stable at RMB8,171.9 million (2019: RMB8,182.7 million). Revenue from the core Xtep brand decreased by 7.9% to RMB7,101.1 million (2019: RMB7,706.7 million). The gross profit margin of the Group was 39.1% (2019: 43.4%). Operating profit of the Group amounted to RMB918.2 million (2019: RMB1,234.0 million). Profit attributable to ordinary equity holders of the Company decreased by 29.5% to RMB513.0 million (2019: RMB727.7 million). Basic earnings per Share amounted to RMB20.8 cents (2019: RMB30.7 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 HK6.5 cents per Share, the full year dividend payout ratio was approximately 60.0% (2019: 60.0%).

With Challenge Comes Opportunity

China was the first country in the world to recover from the COVID-19 pandemic. Mainland China's GDP and total retail sales of consumer goods resumed positive growth since the second half of 2020, respectively, and that momentum has continued to date. Given the continual increase in disposable income, rising health awareness of Chinese people in the aftermath of the pandemic, as well as the Chinese government's advocacy of internal circulation to expand domestic demand and proposal to promote sports and health in their latest 14th Five-Year Plan in 2020, our optimism over the medium-term to long-term prospects of the sportswear industry in Mainland China has remained unchanged.

Throughout the year, we focused on fostering product and technology innovation, which included the launch of our signature "Ultra Fast" collection and "Xtep x Shaolin" collection in June 2020, and provided an extraordinary experience to our customers with the opening of our first multi-brand collection store "X-STREET" in Xiamen in November 2020. These successful initiatives contributed to the solid business recovery of our core Xtep brand, particularly in the second half of 2020. Consumer behavior in Mainland China also changed, with a shift in spending towards online shopping amid the pandemic. To this end, we swiftly adjusted our strategies to capture the enormous sales opportunities from e-commerce and private traffic channels. We leveraged effective marketing channels such as WeChat Mini Programs and live streaming to boost online sales and sponsored online marathons to maintain our leading position within the running world. These offered the Group a fresh impetus to achieve record high online retail sales of over RMB520 million for all our brands during the Double 11 Global Shopping Festival in 2020, representing a year-on-year growth of approximately 50%.

In addition, we seized the opportunity to grow our market share by offering a comprehensive product portfolio. Since May 2020, we accelerated the store openings of Saucony and Merrell in the higher-tier cities in Mainland China, in order to cater to the evolving demand of sophisticated customers for internationally acclaimed professional sports products.

In stark contrast, the pandemic in overseas countries, particularly the Americas and Europe, remained uncontainable in 2020, which hampered the recovery of our overseas business of the newly acquired brands, K-Swiss and Palladium. The U.S. continued to see a record number of new COVID-19 cases, while several European countries returned to lockdown during the fourth quarter in 2020. The course of the pandemic and the progress of vaccine development will be critical to the overseas business recovery of K-Swiss and Palladium. To mitigate the impact of the overseas pandemic and lockdowns to the Group's operations, stringent cost control measures were put in place, coupled with our increasing efforts in e-commerce and various online marketing campaigns to drive sales. The online retail sales of K-Swiss and Palladium in the Americas and EMEA registered robust year-on-year growth of 45% and 52%, respectively, in 2020.

In the meantime, our pragmatic development plan for K-Swiss and Palladium was in full swing despite the pandemic. During the second half of 2020, we began stepping up our efforts to increase Palladium's high-street presence, with 21 self-operated stores opened in prime locations in higher-tier cities in Mainland China. More store openings are expected in 2021. As for K-Swiss, the brand revamp and business restructuring aimed at targeting customers in Asia-Pacific is still underway, with the grand opening of its first self-operated store expected to take place in Mainland China by early 2022.

Outlook

Looking ahead, the Group anticipates that resumption of business activities and gradual recovery of consumer sentiment in Mainland China will continue to lead to positive economic growth in 2021, which will in turn be beneficial to the consumer sector. The core Xtep brand has witnessed a solid recovery in its retail sales since the second half of 2020, with the growth momentum sustained at the beginning of 2021. The greater domestic demand, supported by national policies together with the rising health awareness of the Chinese public following the pandemic, will further fuel the growth of the sportswear sector and the market share of domestic sportswear brands. Meanwhile, expansion plans for the four new brands in Mainland China also fit perfectly with the latest national policies, and it is expected that they will become another major driver of growth in the future. We will expedite store openings in Mainland China for Saucony, Merrell and Palladium, and concentrate on K-Swiss's rebranding process in 2021. Although there are mounting uncertainties over the economic recovery of the Americas and Europe in 2021 due to the COVID-19 pandemic, the Group envisages that the resumption of business in these continents will progress gradually. The Group is well-prepared to grasp the enormous business opportunities through its comprehensive market segments in its portfolio, namely the mass market segment, professional sports segment and athleisure segment.

Lastly, on behalf of the Board, I would like to extend my deepest gratitude to our shareholders, investors and business partners for their unwavering trust and support, and to our Directors, management and staff for their invaluable contributions during the year. We will stay on the path of high-quality sustainable development to achieve steady growth, so as to bring satisfactory returns to all shareholders.

Mr. Ding Shui Po
Chairman
Hong Kong, 18 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Market Development

The COVID-19 pandemic adversely impacted the Chinese economy in 2020. Nonetheless, China became the first country to bring the pandemic under control. Following the adoption of timely and drastic containment measures, Mainland China was pulling ahead among major economies in post-pandemic recovery. The GDP of Mainland China grew by 2.3% year on year in 2020[1], the growth further accelerated in the second half from the first half of 2020. Meanwhile, the total retail sales of consumer goods in Mainland China gradually improved to a mid-single digit year-on-year growth in the fourth quarter versus a double-digit year-on-year decline in the first quarter of 2020[1], solidly demonstrated a strengthened consumer spending along with its economic recovery.

COVID-19 as a Catalyst for Demand Growth in Sportswear and Athleisure Wear

The COVID-19 pandemic has certainly served as a catalyst for an increased focus on health and fitness around the world. In a time when travelling plans were put on hold and social distancing measures were enforced, exercise became one of the few pleasures left. More people in Mainland China have turned into avid joggers and runners even after the pandemic was well under control. In addition, as millions of Chinese employees were working from home when the pandemic emerged, they adapted to dressing comfortable though casual athleisure basics at home, which led to a long-lasting change in their daily work styles and contributed to the growth in both sportswear and athleisure wear. These far-reaching changes coupled with the Chinese government's long-term agenda to promote public health, boost household incomes and expand domestic demand in the 14th Five-Year Plan will continue to bode well for the sportswear sector.

New Digital Shopping Ecosystem in Mainland China

Pressure on brick-and-mortar stores in Mainland China intensified when lockdown and social distancing measures were enacted during the pandemic to curb the spread of the virus. Domestic sportswear companies have expedited their digitalization efforts in order to alleviate the hardship since then. In particular, live streaming-driven online shopping became prevalent as it enables companies to make real-time customer engagement that improves user experience and maximizes conversion rate. More sales are now directed from live streams. According to Alibaba, the total GMV driven by live streaming during the Double 11 Global Shopping Festival in 2020 surged over 100% year on year, with approximately 300 million Taobao users watched live streams during the festive sales period. Furthermore, a report released by KPMG and Ali Research revealed that the total scale of China's live streaming e-commerce industry reached RMB433.8 billion in 2019. As live streaming e-commerce has emerged as a pivotal driver for Mainland China's online consumption, companies with efficient omni-channel retail strategies are better equipped to cope with the new digital shopping ecosystem.

[1] Source: National Bureau of Statistics of China

Business Review

Multi-Brand Business Model

As Chinese consumers aspire to enhance wellness and achieve health goals, sports-inspired athleisure wear and fashion-infused sportswear have gained immense popularity and seen incremental demand among Chinese consumers. Our multi-brand business model has boosted our flexibility to adjust to different market segments, namely mass market, professional sports and athleisure.

Each of our unique market segments is designed to cater to the needs of a diversified customer base. The core Xtep brand provides the mass market with trendy and stylish sportswear of excellent value, while Saucony and Merrell offer high-quality professional sportswear to enhance athletes' performance. Lastly, K-Swiss and Palladium which aim to tap into the prevailing athleisure trend will continue to introduce athleisure wear to the younger generation that speaks their personalities.

Mass Market

Our core Xtep brand secured its leading market position as the Chinese Runners' Favorite Brand. In 2020, we ranked first among the domestic brands in international class marathon in Mainland China[2]. Guided by our mission to provide consumers in the mass market with value-for-money professional and stylish sportswear products, we persisted in scaling up innovation and proactively collaborating with popular IPs.

Products

Performance collection

Signature running collection — "Ultra Fast"

Since the launch of our signature running shoes "160X" in December 2019, we have celebrated 26 championships in marathons and running events with eight sponsored athletes who wore the 160X shoes. These outstanding records are persuasive testimonials of our state-of-the-art technology and dedicated efforts to facilitate professional athletes to break through previous speed. In addition to the "160X" model, the collection also features the "Ultra FastX" and "Ultra Fast" model to satisfy the needs of elite and recreational runners at different levels.

[2] Source: Joyrun (January 2020) - footwear worn by participants who finished the 2020 Xiamen Marathon within five hours
[2] Source: Joyrun (December 2020) - footwear worn by participants who finished the 2020 Shanghai Marathon within five hours
[2] Source: Joyrun (December 2020) - footwear worn by participants who finished the 2020 Guangzhou Marathon

XTEP JLIN ONE
Jeremy Lin's first signature basketball shoes released in WZK Shop in Beijing Sanlitun

Jeremy Lin's first signature basketball shoes — "XTEP JLIN ONE"

To deepen our roots in the basketball market, we announced the launch of Jeremy Lin's first signature basketball shoes "XTEP JLIN ONE" in October 2020. The shoes which express the "Nothing Stops Me" and "Greater Belief, Greater Confidence" basketball spirit drew tremendous attention from basketball fans. Limited-edition "XTEP JLIN ONE" shoes were made available via the Poizon App and at the well-known sneaker store WZK Shop in Beijing Sanlitun. All of these limited-edition shoes were sold out promptly on the launch day. This successful partnership with Jeremy Lin demonstrated Xtep's capability to develop professional and fashionable basketball products. We will continue to implement the "Basketball Product Co-Creation Plan" to develop basketball products from multiple perspectives, so as to further consolidate Xtep's prominent image in professional sports among the younger generation in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

Crossover collection

"Xtep x Shaolin (少林)" collection

We took our existing partnership with Shaolin Temple to the next level with the debut of our "Xtep x Shaolin" collection at Shanghai Fashion Week in October 2020. The collection which displays the traditional and ancient elements of Shaolin martial arts in a modern way received widespread attention in the fashion show. Concurrently, the collection continued to resonate in our pop-up store in Shanghai's bustling shopping area, Xintiandi. Numerous fans and consumers gathered at the store during the presence of our young celebrity endorser, Fan Chengcheng, and famous rappers. The collection was also showcased at Sneaker Con, the premium sneaker event held in December 2020, and complemented with breathtaking martial arts performance by the Shaolin monks. Our promotional initiatives and social media marketing efforts successfully increased the exposure and popularity of the "Xtep x Shaolin" collection among younger consumers, especially Generation Z. As the first sportswear brand to cooperate with Shaolin Temple, we will continue to tap into the China chic trend with products representing the beautiful elements of Chinese culture and fashion.

Xtep x Shaolin collection debuted at Shanghai Fashion Week

Pop-up store at Shanghai Xintiandi

Showcase at Sneaker Con

"Xtep x Jiang Ziya: Legend of Deification (姜子牙：一戰封神)" collection

Riding on the huge success of "Jiang Ziya: Legend of Deification", one of the highest-grossing animated movies in Mainland China in 2020, we launched a series of crossover collections inspired by the main characters in the movie. As a staple of Chinese legend, Jiang Ziya is known by locals and popular among youngsters. Encapsulating Chinese traditional culture in modernistic athleisure wear, this collection continuously created trending topics on various social media platforms and marked another successful foray of Xtep into the China chic fashion.

FOOTWEAR TECHNOLOGIES

RUN FAST

For Expert/ Advanced Runners

who participate competitively in marathons and seek high performance

160X	Adopts Dynamic Foam PB elastic midsole, which has ultimate propulsion and excellent rebound capability. Its full-length carbon fiber plate futures a Y-shaped 3D structure design to help runners make breakthroughs in their top speed.
Ultra FastX	Adopts a unique double-layer midsole design which combines the X-Dynamic Foam and Dynamic Foam LITE to offer supreme cushioning and energy return during running and cross-training. Its full-length arc-shaped TPU plate allows greater support and propulsion for every step.
Ultra Fast	A lightweight running shoe that combines a full-length TPU plate and Dynamic Foam Lite midsole to offer excellent rebound and energy consumption of forefoot propulsion.

RUN DYNAMIC

For Intermediate Runners

who seek a balance between performance and comfort

X-DYNAMIC FOAM	Uses ETPU foam materials that offer more eco-friendly elements, better heat resistance and shock absorption, higher rebound capability and compression durability than traditional EVA foam.
DYNAMIC FOAM 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™	Uses a special hollow structuring design to effectively provides cushioning, flexible and comfortable sports 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

气能环® AIR MEGA 特步气能环科技	Utilizes an air-cushion system around part or the entire sole, resulting in soft yet supportive shock absorption.
COMFYCUBES™	Uses soft cube modules at the sole and arrange them according to the dynamic pressure distribution of the sole, providing a comfortable stepping experience.
聚能弹 ENERGETEX	Uses high-elastic TPU foam particles, which can absorb and release more energy during sports and make running easier.
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.

APPAREL TECHNOLOGIES

KEEP YOU DRY

XTEP – DRY

Quick-drying Cotton
Extraordinary, sweat-wicking and breathable cotton fabric to provide dry comfort during exercise

Moisture Absorption and Quick Drying
Rapid sweat absorption and drying technology to keep dry and comfortable, to enhance athletic performance

KEEP YOU COOL

XTEP – COOL

Ice Fiber Family
Innovative silky material with rapid heat conduction and dissipation technologies to provide cool comfort

KEEP YOU WARM

XTEP – WARM

Warmth Retention
Combines tight outer layer with fluffy inner layer and retains air in the interlayers to provide warmth and shape-distortion resistance of clothes

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

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

Seamless Down
Adopts tubular stuffing technique, which can effectively control down leakage and avoid heat loss through stitch, to provide better warmth

KEEP YOU PROTECTED

XTEP – SHIELD

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

Antistatic
The use of antistatic fabric technology to effectively avoid or reduce the adverse effects of static on clothes to the human body

KEEP YOU COMFORTABLE

XTEP – COMFORT

Smooth and skin-friendly fabric
Selectively adopts even and flat fiber, which is delicate and soft, smooth to touch, and reduces skin friction

Distortion Resistance
Unique spatial 3D structure to maintain the shape of clothes

X-SEAMLESS-TECH
Seamless and soft lightweight clothes to perfectly match body shape and bring comfortable experience

Sports Elasticity - Basic
A special fiber and composition structure of weaving for natural comfort to enhance comfort in sports

Sports Elasticity - Intermediate
A special material with enhanced woven elasticity to improve sports performance

Sports Elasticity - Advanced
Utilizes the principle of human mechanics to enhance the protection and sports performance in multi-dimensions

LYCRA
A Soft, smooth, delicate and comfortable material with excellent elasticity and can be stretched repeatedly without deformation

Sorona
Unique and environmental-friendly plant fiber with excellent elasticity, natural moisture absorption, sweat-wicking and delicate feeling

MANAGEMENT DISCUSSION AND ANALYSIS

Retail management and branding

There were 6,021 Xtep branded stores mainly operated by authorized distributors of the Group in Mainland China and overseas as at 31 December 2020. In light of the COVID-19 pandemic, optimizing retail management as well as enhancing store productivity and customer experience became our key focuses.

X-STREET at SM City in Xiamen

Customer experience

In November 2020, the first multi-brand collection store X-STREET was unveiled at SM City in Xiamen. Occupying an area of 1,500 square meters, the X-STREET store accommodates four major brands, including Xtep, Palladium, Saucony and Merrell. This signature store boasts a combination of industrial design style with the characteristics of southern Fujian culture that rhyme with the pursuit of young consumers for trendy shopping experience. With the appearance of our spokesperson, Nicholas Tse, at the grand opening, the event attracted thousands of people to join and celebrate together. The atmosphere of the scene was brought to its peak and impressive retail sales were recorded during the opening.

The retail store format is constantly upgraded to deliver superior in-store experience. In 2020, a portion of the existing retail stores were revamped and upgraded to the ninth-generation retail store format. The ninth-generation retail stores were designed to offer our customers immersive retail experiences which encourage them to experience the breadth and depth of the core Xtep brand. With a larger gross floor area on average, the newly revamped stores are expected to uplift the store productivity and efficiency.

Ninth-generation store in Shenzhen Dongmen

MANAGEMENT DISCUSSION AND ANALYSIS

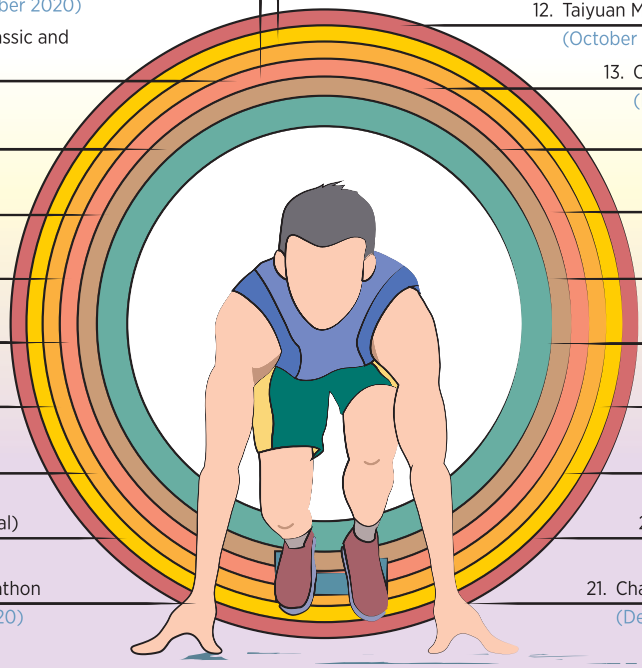
Marathon and running event sponsorship

Although restrictions on outdoor recreation were in place in the first half of 2020 due to the COVID-19 pandemic, physical marathons and road races gradually resumed in the second half. The disruption faced by marathon events did not hinder our determination to sponsor large-scale marathons and races and promote public health. During the year, the 12 physical marathons and nine virtual races we sponsored in Mainland China attracted over 1.5 million participants.

Electronic certificate of Chongqing Marathon (Virtual) (November 2020)

Changsha Red Half Marathon (December 2020)

List of marathons and running events organized or sponsored by Xtep:



1. Xiamen Marathon (January 2020)
2. Chongqing Marathon (Virtual) (March 2020)
3. Wuhan Marathon (Virtual) (April 2020)
4. Chengdu Marathon (Virtual) (June 2020)
5. Xiamen Marathon (Virtual) (June 2020)
6. Jiangsu Cloud Run (Virtual) (June 2020)
7. Hengshui Lake Marathon (September 2020)
8. Taiyuan Marathon (Virtual) (September 2020)
9. Xtep China Speed Elite Classic and First Duolun Marathon (September 2020)
10. Wuhan Marathon (Virtual) (October 2020)
11. Chongqing Marathon (Virtual) (October 2020)
12. Taiyuan Marathon (October 2020)
13. Chongqing Marathon (November 2020)
14. China Annual Ranking Marathon (November 2020)
15. Chengdu Marathon (November 2020)
16. Nanjing Marathon (November 2020)
17. Xiamen (Haicang) International Half Marathon (December 2020)
18. Xiamen East Rim Half Marathon (Virtual) (December 2020)
19. Xiamen East Rim Half Marathon (December 2020)
20. Fuzhou Marathon (December 2020)
21. Changsha Red Half Marathon (December 2020)

MANAGEMENT DISCUSSION AND ANALYSIS

Celebrity spokespersons

Following Nicholas Tse's first subscription for 5,000,000 shares of the Company in 2016, we delightedly announced that he had subscribed for 5,000,000 shares of the Company again during the year. As our first celebrity spokesperson since 2001, Nicholas's investment in Xtep revealed his confidence in our long-term business development. Moving forward, he will also become more involved in the product design, development and marketing of Xtep.

In addition, we appointed Chinese singer and actor, Fan Chengcheng, as our spokesperson in August 2020. With over 22 million followers on Weibo, he is one of the most popular millennial celebrities among the younger generations. We believe that his positive and energetic image will captivate youngsters who also identify with our brand's image. Lastly, Xtep teamed up with Jeremy Lin, our spokesperson and charity ambassador, to launch a charity project in the 2019–2020 season. For every three-pointer Lin shot in the CBA games, Xtep donated RMB3,000 worth of sportswear products to Dandelion School in Beijing, a non-profit school for children from low-income migrant families. The collaboration with Lin helped raise our brand affinity and demonstrated our efforts in social responsibility.

Jeremy Lin
A famous basketball player

Fan Chengcheng
A renowned Chinese singer and actor

Nicholas Tse
Our first celebrity spokesperson since 2001

Jing Tian
A popular Chinese actress

Jiro Wang
A well-known Taiwanese singer and actor

Sports celebrities

We continued to engage acclaimed sports celebrities in Mainland China to strengthen our influence in the sports industry. These celebrities in various sports were seen wearing professional Xtep sportswear when they won their championships, further solidifying the connection between our sportswear and professional athletes.

Dong Guojian

China's fastest active professional marathoner who set the best Chinese marathon record in the last 13 years in Berlin Marathon in September 2019

Peng Jianhua

China's second fastest active professional marathoner

Xie Wenjun

Gold medalist of men's 110 metres hurdles at 2018 Asian Games

Gong Lijiao

Gold medalist of women's shot put at 2019 IAAF Diamond League

Other entertainment marketing

We collaborated with street dancers to promote our "Street" series to the younger generation through the new marketing campaign "Tebufu 3.0". The campaign which symbolizes boldness and perseverance strategically increased our appeal to the younger consumers. Additionally, we continued to serve as the official designated apparel sponsor of "Boys and Girls Run Forward", a highly sought-after variety show in Mainland China.

"Boys and Girls Run Forward" TV show sponsorship

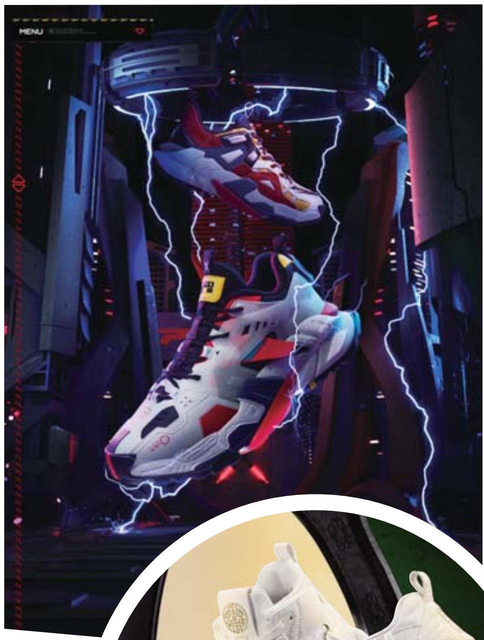
"Tebufu 3.0" marketing campaign

MANAGEMENT DISCUSSION AND ANALYSIS

E-commerce

As the COVID-19 pandemic has reshaped the retail landscape and consumer behaviors, e-commerce has become a vital retail channel for us to reach out to our customers. Although lockdown measures were lifted gradually in the second half of 2020, consumers continued to increase their engagement in online shopping. The growth of our e-commerce business accelerated and it accounted for about a quarter of the Group's revenue in 2020.

The one-year restructuring of our e-commerce business came to an end in the first half of 2020. After a smooth integration of our supply chain operations with our offline business, the design and quality of the online exclusive products were vastly improved to align with that of the offline products. Consequently, we witnessed a speedier growth in our e-commerce in the second half of 2020. During the year, we continued to leverage private traffic such as WeChat Mini Programs and live streaming to boost our exposure online. 151 live streams were produced together with 135 influencers on various online platforms. These initiatives significantly contributed to an eye-catching growth in our online sales. During the Double 11 Global Shopping Festival, the Group's online sales spiked by approximately 50% year on year to over RMB520 million, driven by a 40% year-on-year growth in Xtep's Tmall flagship store.



In the future, we will further integrate our online and offline business and increase the proportion of our O2O products to maximize the O2O synergies and achieve sustainable growth in our e-commerce business.

Xtep Kids

There were approximately 800 POS for Xtep Kids as at 31 December 2020. Despite the adverse impacts of the COVID-19 outbreaks in Mainland China, the retail sales of the Kids business remained stable in 2020. Online sales of our Kids business doubled during the Double 11 Global Shopping Festival. The strong performance was mainly attributable to higher brand awareness, enhanced product design and quality, and more refined retail management following the successful restructuring from 2015 to 2017. Considering the recurring coronavirus outbreaks and highly fragmented childrenswear market in Mainland China, we will continue to take a cautious approach when expanding our Kids business in the years ahead.

Xtep Kids store in Lijiang, Yunnan

MANAGEMENT DISCUSSION AND ANALYSIS

Professional Sports

As Saucony and Merrell are still in an early stage of development in Mainland China, revenue from the professional sports segment remained minimal in 2020 at RMB71.7 million, contributing 0.9% of the Group's revenue.

Retail management

The retail network of Saucony and Merrell was significantly expanded as we kick-started the store openings for both brands in Mainland China in May and April 2020, respectively. As at 31 December 2020, there were 32 and six self-operated stores for Saucony and Merrell in tier I and tier II cities in Mainland China, respectively.

As a premium global sportswear brand which offers top-notch products with cutting-edge technology, Saucony has proved to be very well accepted by Chinese runners. In 2020, Saucony ranked 4th and 7th among international brands in Shanghai Marathon[3] and Guangzhou Marathon[4], respectively. Witnessing our initial success in Saucony's self-operated retail stores, we will continue to unleash the potential of Saucony through more store openings in higher-tier cities in 2021.

To further amplify the competitive advantage of Merrell as one of the best outdoor sportswear brands in the world, we will continue to ride on the growing popularity of urban outdoor activities and open more new stores for Merrell in 2021 in Mainland China.

E-commerce

Dedicated online marketing efforts were invested for Saucony and Merrell to spur their online sales during the year. For instance, we engaged premium influencers to attract attention to our products and raise awareness of the two brands on a wide range of social media platforms. During the Double 11 Global Shopping Festival 2020, Saucony achieved a threefold year-on-year increase in online sales, while Merrell's online sales grew by 38% year on year.

Afew x Saucony Shadow 5000

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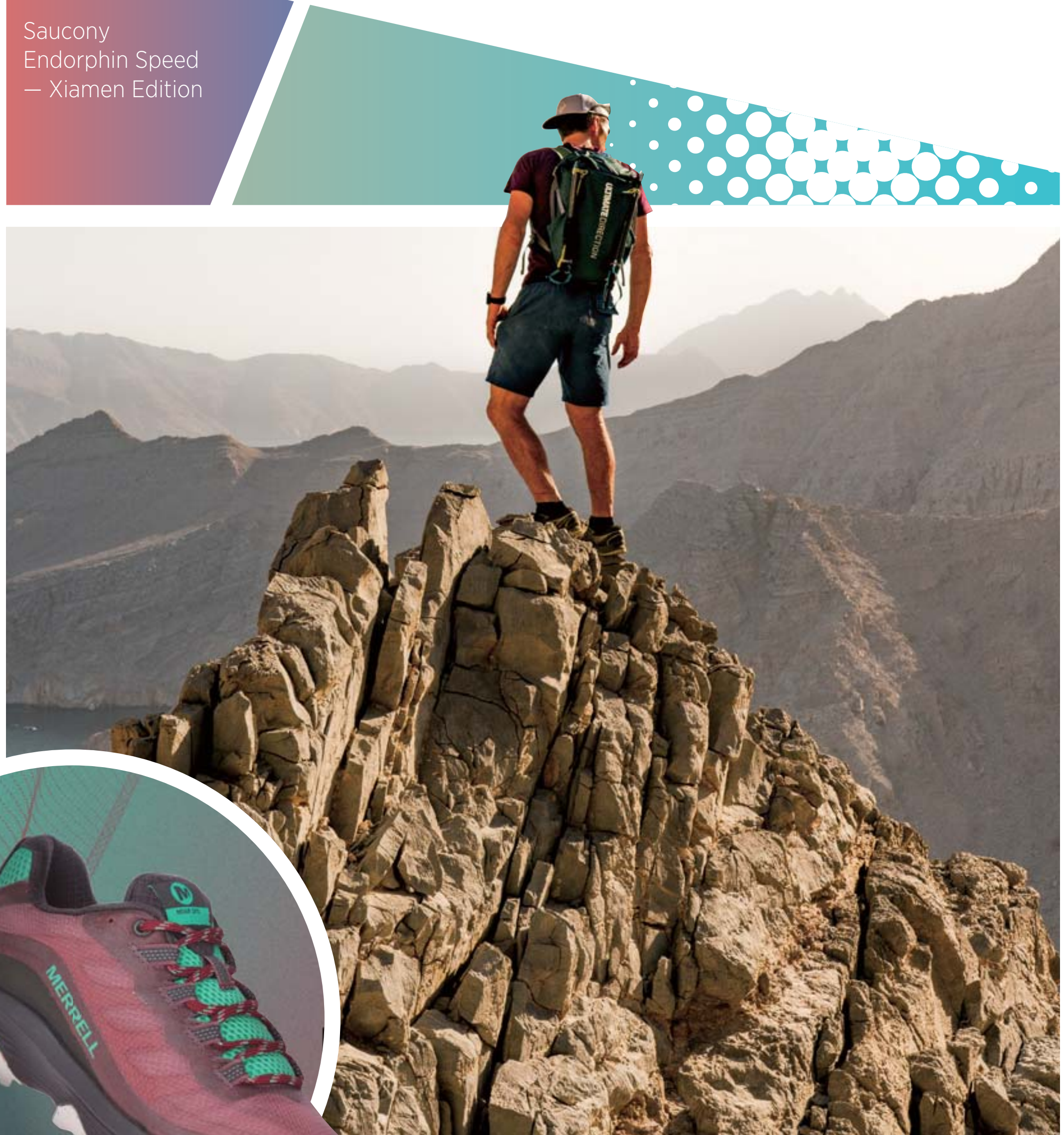
[3] Source: Joyrun (December 2020) — footwear worn by participants who finished the 2020 Shanghai Marathon within five hours
[4] Source: Joyrun (December 2020) — footwear worn by participants who finished the 2020 Guangzhou Marathon

Saucony
Endorphin Speed
— Xiamen Edition



Merrell
MOAB SPEED

MANAGEMENT DISCUSSION AND ANALYSIS

Athleisure

Revenue from the athleisure segment was RMB999.1 million, contributing 12.2% of the Group's revenue.

Retail management

The COVID-19 pandemic continued to impede the business operations of K-Swiss and Palladium in the Americas and Europe, it is expected that gradual recovery of the overseas business will require some time and patience. Meanwhile, we will shift the business focus of K-Swiss and Palladium to Asia-Pacific.

The strategic planning for K-Swiss's brand revamp was set out with precision and its progress did not stagnate amid the pandemic. Its first self-operated store in a higher-tier city in Mainland China is expected to debut by early 2022. As at 31 December 2020, there were 43 self-operated stores for K-Swiss in Asia-Pacific. On the other hand, we successfully solidified Palladium's brand awareness in Asia-Pacific by tapping into the burgeoning athleisure trend with new store openings. We will further accelerate Palladium's business expansion by launching more self-operated stores in higher-tier cities in Mainland China. As at 31 December 2020, there were 54 and 3 self-operated stores for Palladium in Asia-Pacific and Europe, respectively, of which 21 stores were in Mainland China.

Palladium Earth collection

K-Swiss X Harry Potter collection

E-commerce

To mitigate the impact from the suspension of most of our operations in overseas markets since the first quarter in 2020, we employed extensive online marketing campaigns which encompassed social media marketing, email marketing and digital advertising for K-Swiss and Palladium. Our outstanding digital marketing capabilities in global markets successfully led to magnificent results. Online retail sales in the Americas and EMEA registered robust year-on-year growth of 45% and 52%, respectively.

Palladium Limited edition of Year of the OX

K-Swiss X EleVen by Venus Williams collection

Palladium X FINISTERRE collection

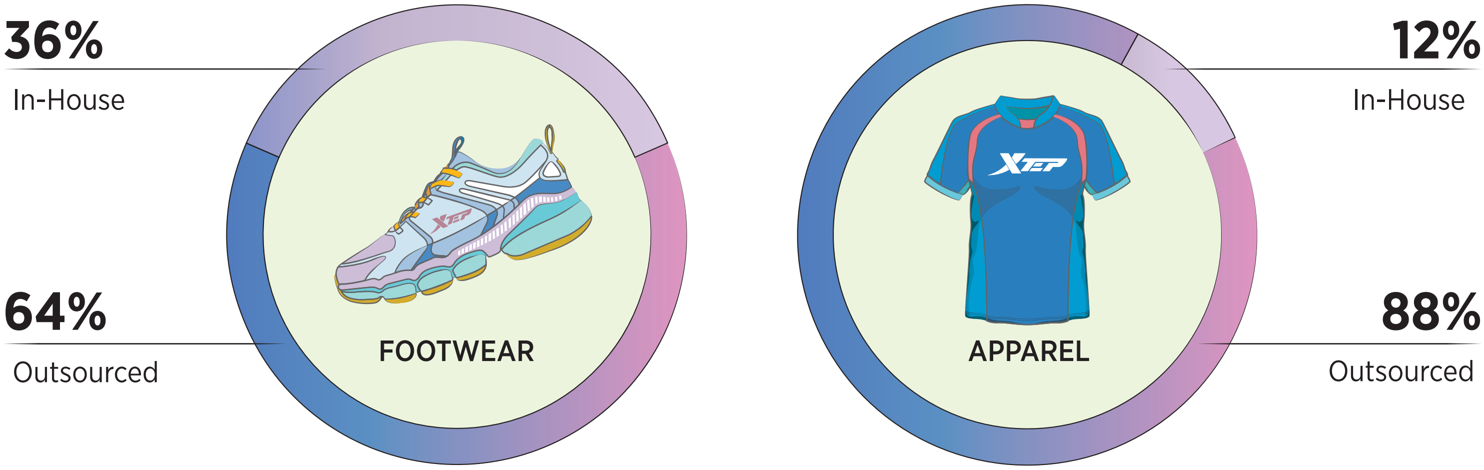
MANAGEMENT DISCUSSION AND ANALYSIS

Operations Management

Supply chain management

We remain fully committed to operating a seamless and vertically integrated business with the support of an efficiently managed supply chain. Apart from in-house production, we utilize outsourced suppliers to produce footwear and apparel products, and sourced materials for production collectively.

Group's production capacity allocation



Supplier management

All of the outsourced suppliers were constantly monitored by our quality control team to uphold high quality standards. We perform thorough assessments regarding the capabilities and performance of new and existing suppliers before we engage them and continue our partnership. To ensure the suppliers' Environment, Social and Governance performance is in alignment with our standards, all suppliers are required to comply with our Supplier Code of Conduct. The code covers aspects including product quality, environmental compliance, labor standards, employee welfare and human rights. Every six months, our supply chain management department would also perform assessments on the suppliers' compliance with the code. Any violation of the code will be handled in accordance with our internal policies and guidelines, which may lead to warnings or fines for minor violations and disqualification of suppliers for major violations.

Logistics park and in-house production facility

The construction of our logistics park with a gross floor area of approximately 200,000 square meters in Jinjiang, Fujian Province, was in full swing. Upon completion, the automated park will ship products manufactured in our in-house factories directly to our branded retail stores in the five neighboring provinces of Fujian, greatly shortening the lead time and accelerating replenishment cycle process.

To accommodate our growing business, we also kicked off the construction of our new in-house production facility with a gross floor area of approximately 85,000 square meters in Shishi, Fujian Province, in the second half of 2020. The facility will mainly be used to manufacture our footwear products.

Human resources management

Xtep regards its employees as the most valuable asset. During the year, we continued to assist our employees advance in their careers and achieve personal growth. Our Xtep University which was established in 2014 offers comprehensive trainings to our employees, including ongoing training and development programs ranging from corporate culture, leadership, professional skill, e-commerce, retail to manufacturing. As of 31 December 2020, Xtep University provided over 420,000 hours of online and offline training to employees. In addition, a two-year XMBA program created in collaboration with Xiamen University also allowed 70 staff to sharpen their management skills.

Preventive measures for COVID-19

A flexible work from home policy was first adopted when the COVID-19 pandemic struck in January 2020. When the pandemic restrictions were easing, we spared no effort in assisting every employee from our headquarters and factories to return to their workplace. Residence histories and return itinerary plans were collected from each of them and necessary communications were made with their residential communities to ensure a smooth return. We also implemented precautionary measures to protect employees' health and ensure a safe working environment. For instance, our headquarters in Xiamen and five in-house factories underwent thorough disinfections regularly and each employee was offered personal protective equipment, such as masks, disinfecting wipes and hand sanitizers.

Prospect

Despite the devastating impact of the COVID-19 pandemic, we believe that the consumer sector will benefit from both the economic growth in Mainland China and the national policies that aim at boosting household incomes and consumptions in 2021. It is also expected that the increase in health awareness and participation in sports of the Chinese people will result in higher sportswear consumption post pandemic.

Our core Xtep brand will remain to be the stable growth driver of the Group. Looking ahead, we will continue to improve our brand awareness among the mass market and appeal to the younger generation, such as leveraging the crossover collaboration with Shaolin Temple to ride on the widespread China chic trend and closely partner with famous IPs. Furthermore, we will expand our investment in R&D and production innovation to upgrade our functional and sustainable products, as well as to strengthen our store productivity through uplifting store image and offering exceptional customer experience.

Our four brands in the professional and athleisure segments will become the sustainable growth drivers of our Group. For Saucony and Merrell, we will continue to offer comprehensive lines of professional sports products by increasing the proportion of apparel items and localized products to target to more sophisticated consumers. The stronger demand for professional and premium sportswear products in Mainland China has presented an enticing prospect for Saucony and Merrell, more store openings for the two brands are expected in 2021.

We expect that the recovery of the overseas business of K-Swiss and Palladium will be a gradual process. We will closely monitor the development of the pandemic and geopolitical tensions and strive to get our business to return to normal. As part of our strategy, we will progressively shift the business focus of the two brands to Asia Pacific, especially Mainland China, to capture the enormous athleisure market. We will hasten the expansion of Palladium and expedite its store openings in Mainland China in 2021, while focusing on the brand makeover for K-Swiss and its store opening by early 2022.

Although the COVID-19 pandemic brought upon short-term impacts to the Group, we remain optimistic about the future of the sportswear sector in Mainland China in the long run. Our well-placed multi-brand portfolio has enhanced our capabilities to satisfy the demands of mass market consumers and more sophisticated consumers. Through strengthening our core competitiveness, accelerating growth and unlocking business efficiency, we are committed to bolstering our market share to take a favorable position in the intensified industry consolidation triggered by the pandemic.

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

	2020 Revenue (RMB Million)	2020 Revenue (% of Revenue)	2019 Revenue (RMB Million)	2019 Revenue (% of Revenue)	Change in revenue (%)
Footwear	5,046.7	61.7	4,653.1	56.8	8.5
Apparel	2,963.9	36.3	3,344.4	40.9	–11.4
Accessories	161.3	2.0	185.2	2.3	–12.9
Total	8,171.9	100.0	8,182.7	100.0	–0.1

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

	2020 Revenue (RMB Million)	2020 Revenue (% of Revenue)	2019 Revenue (RMB Million)	2019 Revenue (% of Revenue)	Change in revenue (%)
Mass market	7,101.1	86.9	7,706.7	94.2	–7.9
Athleisure	999.1	12.2	465.9	5.7	114.4
Professional sports	71.7	0.9	10.1	0.1	608.6
Total	8,171.9	100.0	8,182.7	100.0	–0.1

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 2020 remained stable at around RMB8.2 billion (2019: RMB8.2 billion). There is a slight decrease in the revenue of mass market due to the decrease in price and number of products sold, which was partially offset by the revenue contribution from athleisure and professional sports.

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

	2020		2019			
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	Change in gross profit (%)	Change in gross profit margin point (% point)
Footwear	1,998.5	39.6	2,011.9	43.2	–0.7	–3.6
Apparel	1,146.8	38.7	1,469.4	43.9	–22.0	–5.2
Accessories	53.1	32.9	69.1	37.3	–23.2	–4.4
Total	3,198.4	39.1	3,550.4	43.4	–9.9	–4.3

The Group's overall gross profit margin decreased by 4.3 percentage points to 39.1% (2019: 43.4%). The decrease in the overall gross profit margin was mainly contributed by the change in product mix, margin contributions from new brands and e-commerce channel; and inventory buy-back of fourth-quarter 2019 and first-quarter 2020 products which were subsequently donated or resold at a lower gross profit margin during the first half of 2020.

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

	2020		2019			
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	Change in gross profit (%)	Change in gross profit margin (% point)
Mass market	2,761.5	38.9	3,375.0	43.8	–18.2	–4.9
Athleisure	407.0	40.7	171.0	36.7	137.9	+4.0
Professional sports	29.9	41.6	4.4	43.2	583.3	–1.6
Total	3,198.4	39.1	3,550.4	43.4	–9.9	–4.3

Other Income and Gains

For the year ended 31 December 2020, other income and gains of the Group mainly represented the subsidy income from the PRC government, which amounted to approximately RMB170.5 million (2019: RMB126.3 million); the income derived from financial investments, term deposits and structured bank deposits was approximately RMB96.6 million (2019: RMB96.8 million), which was the interest income derived from treasury deposit products. There was an one-off gain on disposal of a subsidiary of RMB53.2 million in 2019. Overall, the Group's other income and gains remained stable.

Selling and Distribution Expenses

For the year ended 31 December 2020, the Group's selling and distribution expenses amounted to approximately RMB1,537.3 million (2019: RMB1,718.4 million), representing approximately 18.8% (2019: 21.0%) of the Group's total revenue. Excluding the impact arising from athleisure and professional sports of approximately RMB376.2 million, there was a decrease in selling and distribution expenses of approximately RMB410.2 million, which was mainly arising from the decrease in advertising and promotional costs. The Group's advertising and promotional costs for the year amounted to approximately RMB917.1 million (2019: RMB1,178.2 million), representing approximately 11.2% (2019: 14.4%) of the Group's total revenue. The decrease in the Group's advertising and promotional costs was mainly due to the decrease in running events promotion.

General and Administrative Expenses

For the year ended 31 December 2020, the Group's general and administrative expenses amounted to approximately RMB1,050.3 million (2019: RMB906.3 million), which represented approximately 12.9% (2019: 11.1%) of the Group's total revenue. The increase in general and administrative expenses was mainly attributed to:

1) an increase in R&D cost — the R&D cost for the year amounted to approximately RMB223.5 million (2019: RMB195.4 million), representing approximately 2.7% (2019: 2.4%) 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

2) an impairment for trade receivables amounted to RMB35.7 million (2019: write-back of impairment of trade receivables amounted to RMB79.4 million).

Net Finance Costs

The total net finance cost of the Group for the year ended 31 December 2020 amounted to approximately RMB139.5 million (2019: RMB110.9 million). The increase in net finance costs was mainly due to the increase in fair value loss on interest rate swaps amounted to RMB23.0 million (2019: Nil) and decrease in bank interest income to RMB4.3 million (2019: RMB29.4 million) which was primarily caused by the decrease in time deposits during the year, but partially offset by the decrease in interest expenses on discounted bills receivables (2020: RMB49.5 million; 2019: RMB63.8 million) and on bank loans (2020: RMB58.9 million; 2019: RMB66.0 million).

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

	2020		2019			
	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Change in operating profit/(loss) (%)	Change in operating profit/(loss) margin (% point)
Mass market	1,106.3	15.6	1,386.0	18.0	–20.2	–2.4
Athleisure	(103.8)	(10.4)	(46.5)	(10.0)	123.6	–0.4
Professional sports	(30.0)	(41.7)	(7.5)	(73.7)	301.4	+32.0
	972.5	11.9	1,332.0	16.3	–27.0	–4.4
Corporate	(54.3)	N/A	(98.0)	N/A	–44.6	N/A
Total	918.2	11.2	1,234.0	15.1	–25.6	–3.9

The operating profit margin decreased by 3.9 percentage points due to the decrease in operating profit from mass market and the increase in operating losses arising from athleisure and professional sports during the year.

Income Tax Expenses

Income tax provision of the Group for the year ended 31 December 2020 was approximately RMB256.6 million (2019: RMB389.7 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB254.6 million (2019: RMB336.9 million). Also, there were an over-provision of income tax of approximately RMB0.6 million (2019: an under-provision of income tax of approximately RMB5.9 million), and a deferred tax credit amounting to RMB15.0 million (2019: RMB1.1 million) due to the fair value adjustments arising from acquisition of subsidiaries. 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 Group had provided a provision of withholding tax amounted to RMB17.6 million (2019: RMB48.0 million) during the year.

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the year ended 31 December 2020, the profit attributable to ordinary equity holders was approximately RMB513.0 million (2019: RMB727.7 million), representing a decrease of 29.5% over last year. The decrease was mainly due to the decrease in operating profit, but partially offset by the decrease in income tax expenses during the year.

The Group's net profit margin amounted to 6.3% (2019: 8.9%).

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 (2019: a final dividend of HK7.5 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's 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 HK6.5 cents (2019: HK12.5 cents) per Share payable in cash with a scrip dividend alternative, the total dividend for 2020 is HK14.0 cents (2019: HK20.0 cents), equivalent to a dividend payout ratio of 60.0% (2019: 60.0%).

Working Capital Cycle

For the year ended 31 December 2020, the Group's overall working capital turnover days was 87 days (2019: 85 days).

For the year ended 31 December

WORKING CAPITAL TURNOVER DAYS	2020 Days	2019 Days	Changes Days
Inventories	74	77	–3
Trade receivables	120	96	+24
Trade payables	107	88	+19
Overall working capital turnover days	87	85	+2

The turnover days for inventories decreased by 3 days, while the turnover days for trade receivables and trade payables increased by 24 days and 19 days respectively resulting in an increase 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 2020, the bills receivables amounted to approximately RMB475.5 million (2019: RMB313.5 million). For the year ended 31 December 2020, the number of turnover days of bills receivables was 18 days (2019: 10 days).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

As of 31 December 2020, the Group's cash and cash equivalents amounted to RMB3,471.9 million (2019: RMB2,969.5 million), representing an increase of RMB502.4 million. This was mainly attributable to:

(a) net cash inflow from operating activities that amounted to RMB320.1 million, which was due to the cash generated from operations of RMB748.8 million, but offset by the payment of income and withholding tax amounting to RMB324.5 million and the payment of net interest expenses of RMB104.1 million;

(b) net cash inflow from investing activities that amounted to RMB573.4 million, which was mainly due to the net decrease in pledged deposits, structured bank deposits and term deposits amounting to RMB579.7 million, but partially offset by the increase in investment in associates and equity instrument amounting to RMB12.4 million and RMB20.0 million, respectively; and

(c) net cash outflow from financing activities that amounted to RMB380.4 million, which was mainly due to the dividends paid amounting to RMB279.1 million and the net repayment of bank borrowings amounting to RMB76.7 million.

The net cash and cash equivalents (including pledged deposits, structured bank deposits and term deposits minus bank borrowings) were approximately RMB2,251.4 million as at 31 December 2020 (2019: RMB2,131.6 million).

	2020 RMB million	2019 RMB million
Cash and cash equivalents	3,471.9	2,969.5
Bank deposits	937.3	1,517.0
Total bank deposits and bank balances	4,409.2	4,486.5
Less: Bank borrowings	(2,157.8)	(2,354.9)
Net cash and cash equivalents	2,251.4	2,131.6

As of 31 December 2020, the Group's gearing ratio was 17.2% (2019: 19.1%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 31 December 2020, the total assets of the Group amounted to RMB12,571.7 million (2019: RMB12,322.6 million), represented by non-current assets of RMB3,544.4 million (2019: RMB3,056.7 million) and current assets of RMB9,027.3 million (2019: RMB9,265.9 million). The total liabilities of the Group amounted to RMB5,273.0 million (2019: RMB5,362.3 million), represented by non-current liabilities of RMB1,938.7 million (2019: RMB1,691.2 million) and current liabilities of RMB3,334.3 million (2019: RMB3,671.1 million). The total non-controlling interests of the Group amounted to RMB75.4 million (2019: RMB69.8 million). Hence, the total net assets of the Group amounted to RMB7,298.7 million (2019: RMB6,960.3 million), representing an increase of 4.9%. Net assets per Share as at 31 December 2020 were approximately RMB2.87 (2019: RMB2.77), representing an increase of 3.6%.

Impairment for Trade Receivables

During the year ended 31 December 2020, the Group recorded an impairment for trade receivables amounted to RMB35.7 million (2019: write-back of impairment of trade receivables amounted to RMB79.4 million).

Impairment Provision for Inventories

During the year ended 31 December 2020, the Group recorded an impairment provision for inventories amounted to RMB23.0 million (2019: RMB5.6 million).

Commitments

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

Contingent Liabilities

As of 31 December 2020, 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 bank loans, none of the Group's assets were pledged as at 31 December 2020.

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.

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

During the year, the Group did not have any significant investments or acquisitions or sales of subsidiaries. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this annual report.

Human Resources

As of 31 December 2020, the Group had approximately 8,000 employees (31 December 2019: 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 effective and long-term relationships with our stakeholders and the investment community, the Group endeavors to promote effective two-way communication. We ensure the accuracy, transparency, and timeliness of any disclosures of the Group. At the same time, we cherish feedback from our investors and analysts and would relay them to our senior management and Board of Directors regularly.

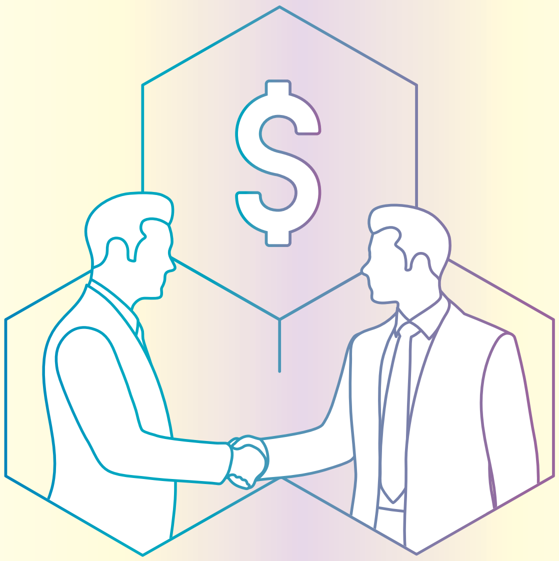
Unconventional Investor Relations Approach under COVID-19 Pandemic

Traditional ways of communications such as face-to-face events and meetings with the investors were impacted by the social distancing measures amid the COVID-19 pandemic in 2020. As such, proactive disclosure, transparency and responsiveness to the inquiries are exceptionally important for the investment community to make informed investment decisions.

During the year, we announced our financial results in March and August via conference call and live webcast as opposed to physical press conferences and analyst briefings to avoid the spread of COVID-19. When the epidemic situation became more contained in May 2020, we conducted a physical Annual General Meeting while adopting stringent preventive measures, such as setting limitation on the number of participants, to protect the health and safety of our shareholders and employees.

In addition, voluntary announcements of our business operations during the first outbreak in February 2020 and quarterly operational performance were published in a timely manner. Constitutional documents and financial reports were made available on the websites of the Hong Kong Stock Exchange and the Company. In early 2020, we also completed the upgrade of our corporate website with a more energetic design and interactive interface to better serve the investment community. Financial information, presentations, and webcasts were updated and uploaded to our corporate website promptly to enable instant and easy access from any device.

Our investor relations program is highly supported by the senior management and the Board of Directors. To ensure timely communications with both local and overseas investors and foster their confidence, our senior management and the investor relations team organized and attended meetings, investor conferences and non-deal roadshows frequently to maintain a regular dialogue with them.



Analyst coverage and investor activities in 2020:

- **27** analysts covered the Company
- **270** face-to-face and virtual meetings and conference calls
- **3** financial results briefings and annual general meeting
- **18** physical and virtual investor conferences
- **21** physical and virtual non-deal roadshows
- **2** physical reverse roadshows

Annual general meeting in May 2020

2020 interim results live webcast in August 2020

Non-deal roadshows and investor conferences:
During the year, we participated in physical and virtual non-deal roadshows and investor conferences which covered the cities where majority of the institutional investors are located.

21 **18**

non-deal roadshows and **investor conferences** covering major cities in North America, Europe and Asia-Pacific, including but not limited to Mainland China, Hong Kong, Taiwan and Singapore.

List of investor conferences attended during the year:

Date	Event	Format
Jan 2020	Goldman Sachs Consumer Corporate Day (HK)	Physical — Hong Kong
Jan 2020	Citi Hong Kong and China Consumer Corporate Day 2020	Physical — Hong Kong
Jan 2020	J.P. Morgan Consumer Corporate Day	Physical — Hong Kong
Jan 2020	UBS Greater China Conference 2020	Physical — Shanghai
May 2020	Daiwa Consumer & Gaming Conference	Virtual
May 2020	Jefferies Asia Sportswear & Supply Chain Corporate Days 2020	Virtual
May 2020	J.P. Morgan Asia Consumer Forum	Virtual
May 2020	CICC Investment Strategy Conference 2020	Virtual
Jun 2020	Credit Suisse 2020 Asia Consumer Virtual Conference	Virtual
Jun 2020	Citi Consumer Corporate Day	Virtual
Jun 2020	Goldman Sachs Greater China Corporate Day	Virtual
Jun 2020	BofA Securities 2020 Innovative China Virtual Conference	Virtual
Jun 2020	Huatai Mid-Year Investment Summit 2020	Virtual
Sep 2020	Jefferies Asia Forum 2020	Virtual
Sep 2020	ICBCI 2nd Consumer Corporate Day	Virtual
Sep 2020	RBC Luxury Asia trip	Virtual
Nov 2020	11th Credit Suisse China Investment Conference	Virtual
Nov 2020	Citi China Investor Conference 2020	Virtual

Reverse roadshows:

In January 2020, we organized reverse roadshows for our analysts and investors to deepen 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 retail stores.

Site visit to our headquarters' running laboratory in Xiamen in January 2020

Site visit to our Palladium store in Shanghai in January 2020

INVESTOR RELATIONS REPORT

Awards and recognitions in 2020:

Our strides in Investor Relations have been well acknowledged by various industry awards.

HKIRA 6th IR Awards 2020

Hong Kong Investor Relations Association

- Best IR by Chairman/CEO — Mid Cap
- Best IR by CFO — Mid Cap
- Best IRO — Mid Cap
- Best IR Team — Mid Cap
- Best IR Company — Mid Cap
- Best Annual Report — Mid Cap

2020 8th Top 100 Hong Kong Listed Companies Selection

Top 100 Hong Kong Listed Companies Research Centre, Finet Group and Atlantis Investment Management

- Outstanding Brand Value Award

2019 4th Hong Kong Golden Stocks Awards

Zhitong Finance and Hithink RoyalFlush Finance

- Best Value Award for Large Consumer and Service Companies

3rd China Excellent IR Awards

Roadshow China

- Best Leader Award

InnoESG Prize 2020

SocietyNext Foundation and co-organized enterprises

- ESG Prize

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 2020:
2,546,965,472
Market capitalization as at 31 December 2020:
HK$9,856,756,377
Index constituent:

- 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 2020:

- Interim: RMB10.1 cents
- Final: RMB20.8 cents

Dividend per Share for 2020:

- Interim: HK6.5 cents
- Final: HK7.5 cents
- Full year total: HK14.0 cents

Key dates for investors

18 March 2021	2020 annual results announcement
7 May 2021	Annual general meeting
12 May 2021	Dividend ex-entitlement for Shares
14 to 18 May 2021	Closure of the register of shareholders (both days inclusive)
25 June 2021	Proposed payment of 2020 final dividend

Registrar & Transfer Offices

Cayman Islands Principal
Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100, 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:

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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 50, is the founder, chairman and chief executive officer of the Group. 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 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, Harvard University's "Global CEO Program" in 2018 and Executive Education — SEM-Tsinghua University's "Seventh Class of Entrepreneur Scholar Program" in 2019. He is a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong.

Mr. Ding personally obtained the following awards in the past 10 years:

Year	Award
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

Mr. Ding held the following public offices in the past 10 years:

Year	Public Office
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
2020	Vice-Chairman of the China Next Generation Education Foundation
2020	Listed on the 2020 Forbes China Philanthropy List

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ding Mei Qing (丁美清), aged 48, 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.

Mr. Ding Ming Zhong (丁明忠), aged 44, 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 65, 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 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 the 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 Sinopharm Group Company Limited from September 2014 to September 2020 listed on Hong Kong Stock Exchange Main Board and 7 Days Group Holdings Limited listed on the NYSE from November 2009 to July 2013 until 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 the 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 58, 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).

DIRECTORS AND SENIOR MANAGEMENT

Dr. Bao Ming Xiao (鮑明曉), aged 59, has over 33 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.

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 (楊鷺彬), aged 43, 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 20 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 senior finance manager. Mr. Yeung also worked for an international audit firm from 2001 to 2003.

Mr. Yeung graduated from The 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 2020, 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 2020.

Board of Directors

Board Composition

As at 31 December 2020 and the date of this annual report, the Board is comprised of three executive Directors and three independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

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.

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 2020 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	8/8	1/1
Ms. Ding Mei Qing	8/8	1/1
Mr. Ding Ming Zhong	8/8	1/1
Independent Non-Executive Directors		
Mr. Tan Wee Seng	8/8	1/1
Dr. Gao Xian Feng	8/8	1/1
Dr. Bao Ming Xiao	8/8	1/1

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.

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.

CORPORATE GOVERNANCE REPORT

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.

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 2020:

	Corporate Governance/Updates on laws, rules and regulations		Accounting/Financial/Management or other professional skills	
Name of Director	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	✓	✓	✓	✓

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, (iii) Nomination Committee, and (iv) Sustainability 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.

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 2020, the Audit Committee mainly performed the following duties:

— reviewed the Group's audited annual results for the year ended 31 December 2019 and the unaudited interim results for the six months ended 30 June 2020, 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 2020, 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 2020.

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 2020, 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 2020.

During the year ended 31 December 2020, 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.

During the year ended 31 December 2020, 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 2020.

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 am 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.

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.

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 2020, 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

Sustainability Committee

The Sustainability Committee was established on 1 January 2021 and consists of three members, namely Mr. Tan Wee Seng, Mr. Ding Shui Po and Ms. Ding Mei Qing, the majority of whom are executive Directors. Mr. Tan Wee Seng is the chairman of the Sustainability Committee.

The primary duties of the Sustainability Committee are to assist the Board in overseeing the development and implementation of the sustainability initiatives of the Company.

Auditor's Remuneration

The Company has re-appointed Ernst & Young as its external auditor during the year ended 31 December 2020. 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	5,968,000
Other non-audit service	50,000
Total	6,888,000

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 2020, 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.

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 2020. 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 ended 31 December 2020, 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 2020.

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 2020.

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.

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 ended 31 December 2020, 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, 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 2020. 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 ended 31 December 2020, 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 2020. The Group therefore considers that the risk management and internal control systems are effective and adequate.

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 2020, 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 confidential.

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 2020.

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.

Investor Relations

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2020.

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 2020.

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 2020 are set out in note 1 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2020 and the Group's financial position as at that date are set out in the financial statements on pages 83 to 174 of this annual report.

Dividends

An interim dividend of HK6.5 cents (equivalent to approximately RMB5.9 cents) per Share was declared and paid 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 RMB6.2 cents) per Share for the year ended 31 December 2020, subject to approval by the Shareholders at the annual general meeting to be held on 7 May 2021. 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's 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 2020, which included the interim dividend and final dividend, amount to HK14.0 cents (equivalent to approximately RMB12.1 cents) per Share and they represented a dividend payout ratio of approximately 60.0%. Details of the dividends for the year ended 31 December 2020 are set out in note 11 to the financial statements.

Distributable Reserves of the Company

As at 31 December 2020, 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 RMB1,739.5 million (2019: RMB1,391.3 million). Details of the reserves of the Company as at 31 December 2020 are set out in note 46 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year ended 31 December 2020 amounted to approximately RMB36.5 million.

REPORT OF THE DIRECTORS

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2020 are set out in note 31 to the financial statements.

Directors

The Directors during the year ended 31 December 2020 were:

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

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 Ming Zhong, Dr. Bao Ming Xiao and Dr. Gao Xian Feng will retire from the Board by rotation at the forthcoming annual general meeting. Mr. Ding Ming Zhong and Dr. Bao Ming Xiao, being eligible, offer themselves for re-election. Dr. Gao Xian Feng, after serving as an independent non-executive director of the Company for 12 years since the Company's listing on 3 June 2008, will not offer himself 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 44 to 48 of this annual report.

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 2020.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2020, 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)]	1,370,734,500	53.82%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust[(2)]	1,310,059,500	51.44%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust[(2)]	1,310,059,500	51.44%
Mr. Tan Wee Seng	Beneficial interests	280,000[(4)]	0.01%

Notes:

(1) It was based on 2,546,965,472 issued Shares of the Company as at 31 December 2020.

(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 60,675,000 Shares of the Company.

(4) 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.

Save as disclosed above, as at 31 December 2020, 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 year ended 31 December 2020, 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 2020, the Group's rental payments to HD Century amounted to RMB10,276,000.

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.

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.

Details of the share options granted under the Share Option Scheme as at 31 December 2020 are as follows:

Name	Date of grant	Exercise price per Share[1]	Exercise period[2][3][4]	Outstanding as at 1 January 2020	Granted during the year ended 31 December 2020	Cancelled during the year ended 31 December 2020	Exercised during the year ended 31 December 2020	Lapsed during the year ended 31 December 2020	Outstanding as at 31 December 2020
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[5]	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	(1,000,000)	–
Employees									
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	12,955,000	–	–	(12,955,000)[6]	–	–
Total				23,055,000	–	–	(12,955,000)	(10,100,000)	–

No share is available for issue under the Share Option Scheme 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 2020.

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

(6) The weighted average closing price of Shares immediately before the dates on which the options were exercised is HK$3.35.

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 Scheme" 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.

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 2020, 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	51.44%
Wan Xing International Holdings Limited	Interests of controlled corporation(2)	1,310,059,500	51.44%
Ding Wang Fortune Limited	Interests of controlled corporation(3)	1,310,059,500	51.44%
Guan Hong Development Limited	Interests of controlled corporation(3)	1,310,059,500	51.44%
Ming Zhong Family Limited	Interests of controlled corporation(3)	1,310,059,500	51.44%
UBS Trustees (BVI) Limited	Trustee(3)	1,310,059,500	51.44%

Notes:

(1) It was based on 2,546,965,472 issued Shares of the Company as at 31 December 2020.

(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 67%, 21% and 12% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 31 December 2020, 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.

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 Company paid HK$160,000,000 to the trust established for the Share Award Scheme, 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 2020, there were a total of 24,950,000 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 2020	Granted during the year	Vested during the year	Forfeited during the year	As at 31 December 2020	Vesting period
Employees	10 January 2017	34,070,000	–	(9,120,000)	–	24,950,000	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 2020 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 2020.

Specific Performance Obligations on Certain Controlling Shareholders

On 2 September 2019, the Company as borrower entered into a facility agreement (the "Facility Agreement") with a consortium of nine banks which is arranged by Hang Seng Bank Limited ("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 (the "Facility") was made available to the Company on the terms and conditions stated therein.

The Facility is guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreement, 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 Facility whereupon the whole or relevant part of the Facility shall immediately be cancelled; (b) declare that all or part of the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement 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 Facility 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 2020 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 51.44% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 2.38% 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 2020 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 ended 31 December 2020.

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.

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 a share option scheme pursuant to the shareholders' written resolutions passed on 7 May 2008 to motivate and reward its Directors and eligible employees. Details of the scheme are set out in the paragraph headed "Share Option Scheme" 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 2020 is shown on pages 8 to 37.

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 3.4% (2019: 3.7%) and 14.3% (2019: 15.1%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 4.8% (2019: 5.3%) and 20.1% (2019: 18.6%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2020, 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.

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 2020.

Bank Loans

Details of bank loans of the Company and the Group as at 31 December 2020 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 2021

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 83 to 174, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional 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.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables As at 31 December 2020, the Group had gross trade receivables of RMB3,144 million, after netting off the impairment provision of RMB384 million, resulted in a net trade receivables of RMB2,760 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 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 customers based on the sales and repayment history. 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 2020, the Group had gross inventories of RMB1,055 million, after netting off the provision of RMB80 million, resulted in a net inventories of RMB975 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.

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets As at 31 December 2020, the goodwill and intangible assets amounted to RMB787 million and RMB700 million, respectively, which arose from the business combination in 2019. 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 finite 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. 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 flow projections. The assumptions used in the discounted cash flow projections requires significant judgement and estimates by management, particularly management's view of key internal inputs and external market conditions which impact the forecasted revenue growth rates, the discount rate and the long term growth rate. Disclosures of the related judgement and estimates and information about the impairment assessment are included in notes 3, 17 and 18 to the consolidated financial statements.	Our procedures included, among others, reviewing management's method in determination of the CGUs and the recoverable amounts. 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, 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 arithmetic accuracy. We reviewed the discounted cash flow projections used, by comparing them to historical performance of market players and current actual performance of the CGUs. We also assessed the adequacy of the disclosures made in the financial statements on the impairment assessment.

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.

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

As part of an audit in accordance with HKSAs, 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.

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, actions taken to eliminate threats or safeguards applied.

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 Chung Yuk Man.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

18 March 2021

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	8,171,923	8,182,721
Cost of sales		(4,973,498)	(4,632,296)
Gross profit		3,198,425	3,550,425
Other income and gains	5	307,346	308,283
Selling and distribution expenses		(1,537,304)	(1,718,446)
General and administrative expenses		(1,050,281)	(906,261)
Operating profit		918,186	1,234,001
Net finance costs	7	(139,540)	(110,871)
Share of losses of associates	19	(17,004)	(1,982)
PROFIT BEFORE TAX	6	761,642	1,121,148
Income tax expense	10	(256,620)	(389,701)
PROFIT FOR THE YEAR		505,022	731,447
Attributable to:			
Ordinary equity holders of the Company		513,030	727,652
Non-controlling interests		(8,008)	3,795
		505,022	731,447
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
— Basic		RMB20.83 cents	RMB30.72 cents
— Diluted		RMB20.64 cents	RMB30.19 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR		505,022	731,447
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements of operations outside Mainland China		29,972	56,239
Other comprehensive income/(expense) 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	6,500	8,900
Income tax effect	29	(975)	(1,335)
		5,525	7,565
Other comprehensive income for the year, net of tax		35,497	63,804
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		540,519	795,251
Attributable to:			
Ordinary equity holders of the Company		548,904	791,456
Non-controlling interests		(8,385)	3,795
		540,519	795,251

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	796,230	661,732
Investment properties	14	31,170	33,985
Right-of-use assets	15(a)	429,283	356,242
Deposits for acquisition of land use rights	16	–	60,105
Goodwill	17	787,112	833,938
Intangible assets	18	709,415	809,892
Investments in associates	19	33,691	39,161
Equity investments designated at fair value through other comprehensive income	20	184,565	158,100
Deposits and other assets	23	72,931	103,557
Term deposits	25	500,000	–
Total non-current assets		3,544,397	3,056,712
CURRENT ASSETS			
Inventories	21	974,803	1,046,286
Trade receivables	22	2,760,306	2,596,449
Bills receivable	22	475,500	313,500
Prepayments, other receivables and other assets	23	898,937	817,739
Tax recoverable		8,498	5,359
Structured bank deposits	24	–	800,000
Pledged bank deposits	25	437,297	717,034
Cash and cash equivalents	25	3,471,951	2,969,504
Total current assets		9,027,292	9,265,871
CURRENT LIABILITIES			
Trade payables	26	1,478,866	1,419,700
Other payables and accruals	27	1,051,972	980,586
Interest-bearing bank borrowings	28	642,335	1,086,338
Lease liabilities	15(b)	74,845	68,850
Deferred subsidies	30	577	577
Tax payable		85,719	115,093
Total current liabilities		3,334,314	3,671,144
NET CURRENT ASSETS		5,692,978	5,594,727
TOTAL ASSETS LESS CURRENT LIABILITIES		9,237,375	8,651,439

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	1,515,507	1,268,527
Derivative financial instruments	27	21,912	–
Lease liabilities	15(b)	130,858	107,308
Deferred tax liabilities	29	237,027	280,393
Deferred subsidies	30	20,495	21,074
Other liabilities		12,851	13,899
Total non-current liabilities		1,938,650	1,691,201
NET ASSETS		7,298,725	6,960,238
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	31	22,395	22,093
Reserves	32	7,200,938	6,868,381
		7,223,333	6,890,474
Non-controlling interests		75,392	69,764
Total equity		7,298,725	6,960,238

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Notes	Share capital RMB'000 (note 31)	Share premium account RMB'000 (note 46)	Capital reserve RMB'000 (note 32(i))	Statutory surplus fund RMB'000 (note 32(ii))	Treasury shares RMB'000 (note 32(v))	Share award reserve RMB'000 (note 32(vi))	Share option reserve RMB'000 (note 46)	Exchange fluctuation reserve RMB'000 (note 32(iii))	Fair value reserve RMB'000 (note 32(iv))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to ordinary equity holders of the Company													
			Reserves												
At 1 January 2019		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(ii)	2,115	1,158,123	–	–	–	–	–	–	–	–	1,158,123	1,160,238	–	1,160,238
Shares issued in lieu of cash dividend	31(iii)	113	48,231	–	–	(7,030)	–	–	–	–	–	41,201	41,314	–	41,314
Repurchase of shares	32(v)	–	–	–	–	(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 difference 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
At 1 January 2020		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
Profit for the year		–	–	–	–	–	–	–	–	–	513,030	513,030	513,030	(8,008)	505,022
Other comprehensive income/(expense) for the year		–	–	–	–	–	–	–	30,349	5,525	–	35,874	35,874	(377)	35,497
Total comprehensive income for the year		–	–	–	–	–	–	–	30,349	5,525	513,030	548,904	548,904	(8,385)	540,519
Equity-settled share award arrangement	34	–	–	–	–	15,922	–	–	–	–	–	15,922	15,922	–	15,922
Awarded shares vested	34	–	–	–	–	–	(1,286)	–	–	–	1,286	–	–	–	–
2019 final dividend declared and paid	11	–	–	–	–	–	–	–	–	–	(169,312)	(169,312)	(169,312)	–	(169,312)
2020 interim dividend declared and paid	11	–	–	–	–	–	–	–	–	–	(139,917)	(139,917)	(139,917)	–	(139,917)
Placing of shares	31(iv)	44	10,804	–	–	–	–	–	–	–	–	10,804	10,848	–	10,848
Exercise of share options	31(i)	110	33,576	–	–	–	–	(7,798)	–	–	–	25,778	25,888	–	25,888
Shares issued in lieu of cash dividend	31(iii)	148	37,394	–	–	(7,398)	–	–	–	–	–	29,996	30,144	–	30,144
Lapse of share options		–	–	–	–	–	–	(60,233)	–	–	60,233	–	–	–	–
Repurchase of shares	32(v)	–	–	–	–	(5,985)	–	–	–	–	–	(5,985)	(5,985)	–	(5,985)
Capital contribution from non-controlling interest	1	–	–	–	–	–	–	–	–	–	–	–	–	24,902	24,902
Deemed acquisition of a non-controlling interest		–	–	–	–	–	–	–	–	–	10,889	10,889	10,889	(10,889)	–
Transfer to statutory surplus fund		–	–	–	18,623	–	–	–	–	–	(18,623)	–	–	–	–
Dividends for treasury shares		–	–	–	–	–	–	–	–	–	5,478	5,478	5,478	–	5,478
At 31 December 2020		22,395	1,652,502	118,615	892,031	(116,321)	3,174	–	(51,494)	31,590	4,670,841	7,200,938	7,223,333	75,392	7,298,725

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		761,642	1,121,148
Adjustments for:			
Depreciation property, plant and equipment and investment properties	6	66,613	83,883
Depreciation of right-of-use assets	15(a)	84,849	45,788
Share of losses of associates	19	17,004	1,982
Amortisation of intangible assets	18	14,158	6,800
Covid-19-related rent concessions	15(b)	(2,869)	–
Gain on termination of lease	6	(117)	–
Impairment of right-of-use assets	15(a)	11,769	–
Loss on write-off of items of property, plant and equipment	6	715	8,950
Gain on disposal of intangible assets	5	(3,051)	–
Gain on disposal of a subsidiary	36	–	(53,175)
Bank interest income	7	(4,292)	(29,448)
Interest expense on bank loans	7	58,912	65,964
Interest expense on discounted bills receivable	7	49,497	63,756
Interest on lease liabilities	7	8,183	6,546
Amortisation of bank charges on syndicated loans	7	4,246	4,053
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	22,994	–
Equity-settled share award scheme expense	34	15,922	24,327
Impairment/(write-back of impairment) of trade receivables, net	6	35,709	(79,406)
Provision for inventories	6	23,044	5,632
Income derived from financial assets at fair value through profit or loss, term deposits and structured bank deposits	5	(96,604)	(96,786)
		1,068,324	1,176,414
Decrease in inventories		35,807	61,409
Increase in trade and bills receivables		(368,676)	(522,425)
Increase in prepayments, other receivables and other assets		(134,363)	(15,269)
Increase in trade payables		63,461	433,817
Increase in other payables and accruals		84,219	78,521
Cash generated from operations		748,772	1,212,467
Interest received		4,292	29,448
Interest paid		(108,409)	(129,720)
Overseas taxes paid		(324,548)	(334,119)
Net cash flows from operating activities		320,107	778,076

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(206,632)	(96,981)
Additions of intangible assets	18	(4,409)	(2,834)
Decrease in deposits for purchase of items of property, plant and equipment		30,626	6,575
Additions of investments in associates		(12,442)	(39,200)
Acquisition of subsidiaries	35	–	(1,690,983)
Proceeds from disposal of a subsidiary	36	–	45,000
Proceeds from disposal of intangible assets		49,850	–
Decrease/(increase) in pledged deposits		279,737	(511,554)
Decrease in structured bank deposits		800,000	180,000
Increase in term deposits		(500,000)	–
Capital injection in an equity investment designated at fair value through other comprehensive income	20	(19,965)	(35,000)
Income derived from financial assets at fair value through profit or loss, term deposits and structured bank deposits	5	96,604	96,786
Settlement of loan to a then investee company	23	60,000	–
Dividend income from an equity investment designated at fair value through other comprehensive income	5	–	3,600
Net cash flows from/(used in) investing activities		573,369	(2,044,591)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of bank charges on syndicated loans		433,469	1,764,270
Repayment of bank loans		(510,182)	(1,377,851)
Net proceeds from issue of ordinary shares	31	25,888	29,887
Net proceeds from placing of shares	31	10,848	1,160,238
Principal elements of lease payments		(83,616)	(44,255)
Capital contribution from a non-controlling interest		24,902	58,800
Repurchase of shares under share award scheme	32(v)	(5,985)	(3,029)
Acquisition of non-controlling interests		–	(131,860)
Dividends paid	11	(279,085)	(436,432)
Exchange realignment		3,401	19,302
Net cash flows from/(used in) financing activities		(380,360)	1,039,070
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		513,116	(227,445)
Cash and cash equivalents at beginning of year		2,969,504	3,195,809
Effect of foreign exchange rate changes, net		(10,669)	1,140
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,471,951	2,969,504
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		3,471,951	2,969,504

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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")	BVI	US$50,000	100	–	Investment holding
Xtep (Hong Kong) Enterprise Limited	Hong Kong	HK$1,000	–	100	Investment holding
Xtep Global Limited (note (d))	Hong Kong	HK$10,000	–	100	Investment holding
特步集團有限公司 (notes (b) and (c))	People's Republic of China ("PRC")/Mainland China	HK$1,324 million	–	100	Investment holding
特步中國有限公司 ("Xtep China") (notes (b) and (c))	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

1. Corporate and Group Information (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
廈門市特步兒童用品有限公司 ("特步兒童") (notes (b), (c) and (i))	PRC/Mainland China	HK$30 million	–	96 (2019: 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) and (c))	PRC/Mainland China	RMB10 million	–	100	Trading of sportswear
K-Swiss Holdings, Inc ("K-Swiss Holdings") (notes (c), (d) and (e))	U.S.	US$212	–	100	Investment holding
K-Swiss Inc. (notes (c) and (e))	U.S.	US$60	–	100	Trading of sportswear
KSGB Europe SAS (notes (c) and (g))	France	Euro2.6 million	–	100	Trading of sportswear
K-Swiss (Hong Kong) Ltd. (notes (c) and (f))	Bermuda/Hong Kong	US$10,000	–	100	Trading of sportswear
Merrell Distribution Operations Limited (notes (c) and (h))	BVI	US$100	–	51	Investment holding
Saucony Distribution Operations Limited (notes (c) and (h))	BVI	US$100	–	51	Investment holding

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 2020.

(d) 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.

(e) These entities are registered under the laws of the State of Delaware, the United States.

(f) This entity is incorporated in Bermuda with limited liability under the Companies Act 1981 of Bermuda.

(g) The entity is incorporated in France with limited liability under the Commercial Code of France.

(h) 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 RMB24.9 million (2019: RMB58.8 million) were contributed from a non-controlling interest during the year.

(i) During the year ended 31 December 2020, the Group contributed RMB91.0 million into 特步兒童 while no further contribution was made by the non-controlling shareholder. Accordingly, the equity interest of the non-controlling shareholder was diluted from 18% to 4%, which constituted a deemed acquisition of non-controlling interest. The difference of RMB10,889,000 between the net asset value of 特步兒童 owned by the non-controlling shareholder before and after the deemed acquisition, was transferred from non-controlling interest to retained profits.

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.

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 derivative financial instruments 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 2020. 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).

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

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.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

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

2.2 Changes in Accounting Policies and Disclosures (Continued)

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's stores have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB2,869,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

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	*Reference to the Conceptual Framework* [2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2* [1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4]
HKFRS 17	*Insurance Contracts* [3]
Amendments to HKFRS 17	*Insurance Contracts* [3, 6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* [3,5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use* [2]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract* [2]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 [2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("HIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

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.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

Annual Improvements to *HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

The Group is 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*.

2.4 Summary of Significant Accounting Policies (Continued)

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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 and derivative financial instruments 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill) (Continued)

Brand names

Brand names acquired through business combination with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of brand names with indefinite lives 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

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.

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

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

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.

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, to hedge its interest rate 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.

2.4 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments (Continued)

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.

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. 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

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.

2.4 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Group as a lessee (Continued)

(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	24 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.

(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 lease. 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 is 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.

2.4 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

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 asset to the lessee are accounted for as finance leases.

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.

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 and associates, 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, and 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 and associates, 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.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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.

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 with 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.

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

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.

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).

2.4 Summary of Significant Accounting Policies (Continued)

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, for 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 a share option scheme 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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.

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 dollar 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 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 and associates 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.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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.

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.

3. Significant Accounting Judgement and Estimates (Continued)

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.

Provision for 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 2020, the provision for inventories was RMB80,133,000 (2019: RMB57,949,000). 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 product 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.

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 2020, the impairment of trade receivables was RMB383,542,000 (2019: RMB407,637,000). 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 2020 was RMB185,892,000 (2019: RMB310,255,000). The related disclosures are included in note 29 to the financial statements.

3. Significant Accounting Judgement and Estimates (Continued)

Estimation uncertainty (Continued)

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 2020 was RMB184,565,000 (2019: RMB158,100,000). 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 2020 was RMB787,112,000 (2019: RMB833,938,000). 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 notes 15 and 18 to the financial statements.

4. Operating Segment Information

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. For management purposes, the Group is organised into business units based on market segmentation and has three reportable operating segments as follows:

(a) mass market segment, including signature brand, Xtep;

(b) athleisure segment, including signature brands, mainly K-Swiss and Palladium; and

(c) professional sports segment, including signature brands, Saucony and Merrell.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, share of losses of associates as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude tax recoverable, pledged bank deposits, term deposits, structured bank deposits, equity investments designated at fair value through other comprehensive income and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

The segment information for the year ended 31 December 2020 is disclosed as follows and the comparative amounts in respect of this information are re-presented to conform with current year's presentation.

4. Operating Segment Information (Continued)

For the year ended 31 December 2020

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	7,101,106	999,073	71,744	8,171,923
Segment results	1,106,345	(103,882)	(29,950)	972,513
Share of losses of associates	–	–	(17,004)	(17,004)
Bank interest income				4,292
Finance costs				(143,832)
Corporate and other unallocated expenses				(54,327)
Profit before tax				761,642

For the year ended 31 December 2019

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	7,706,707	465,889	10,125	8,182,721
Segment results	1,385,971	(46,461)	(7,461)	1,332,049
Share of losses of associates	–	–	(1,982)	(1,982)
Bank interest income				29,448
Finance costs				(140,319)
Corporate and other unallocated expenses				(98,048)
Profit before tax				1,121,148

4. Operating Segment Information (Continued)

For the year ended 31 December 2020

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment assets	**8,854,838**	**2,225,994**	**207,589**	**11,288,421**
Corporate and other unallocated assets				**1,283,268**
				12,571,689
Segment liabilities	**2,318,883**	**358,540**	**36,380**	**2,713,803**
Corporate and other unallocated liabilities				**2,559,161**
				5,272,964

For the year ended 31 December 2019

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment assets	8,006,845	2,355,396	131,384	10,493,625
Corporate and other unallocated assets				1,828,958
				12,322,583
Segment liabilities	2,190,563	342,145	10,930	2,543,638
Corporate and other unallocated liabilities				2,818,707
				5,362,345

4. Operating Segment Information (Continued)

For the year ended 31 December 2020

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Other segment information:				
Depreciation of property, plant and equipment and investment properties	54,128	10,175	2,310	66,613
Depreciation of right-of-use assets	34,930	43,937	5,982	84,849
Impairment of right-of-use assets	–	11,769	–	11,769
Impairment of trade receivables, net	27,053	8,656	–	35,709
Provision for inventories	11,637	11,407	–	23,044
Capital expenditure	178,840	16,809	10,983	206,632

For the year ended 31 December 2019

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Other segment information:				
Depreciation of property, plant and equipment and investment properties	76,914	6,686	283	83,883
Depreciation of right-of-use assets	32,490	13,038	260	45,788
Impairment/(write-back of impairment) of trade receivables, net	(80,242)	836	–	(79,406)
Provision for inventories	943	4,689	–	5,632
Gain on disposal of a subsidiary	(53,175)	–	–	(53,175)
Capital expenditure	89,240	6,002	1,739	96,981

Information about major customers

For the years ended 31 December 2020 and 2019, 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 is as follows:

	2020 RMB'000	2019 RMB'000
Product categories		
Footwear	5,046,754	4,653,130
Apparel	2,963,854	3,344,420
Accessories	161,315	185,171
	8,171,923	8,182,721

(ii) Other income and gains

	2020 RMB'000	2019 RMB'000
Subsidy income from the PRC government *	170,519	126,308
Rental income	13,149	9,187
Royalty income	19,870	19,227
Income derived from financial assets at fair value through profit or loss ("FVPL"), term deposits and structured bank deposits	96,604	96,786
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
Gain on disposal of intangible assets (note 18)	3,051	–
Others	4,153	–
	307,346	308,283

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

6. Profit before Tax

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold [1]		4,973,498	4,632,296
Depreciation of property, plant and equipment and investment properties	13, 14	66,613	83,883
Depreciation of right-of-use assets	15(a)	84,849	45,788
Amortisation of intangible assets [2]	18	14,158	6,800
Advertising and promotional costs		917,093	1,178,152
Employee benefit expenses (including directors' remuneration — note 8):			
Wages and salaries		892,049	792,849
Other allowances and benefits		60,108	64,973
Pension scheme contributions [3]		21,917	18,992
Equity-settled share award scheme expense [2]	34	15,922	24,327
		989,996	901,141
Auditor's remuneration		5,325	6,059
Loss on write-off of items of property, plant and equipment	13	715	8,950
Lease payments not included in the measurement of lease liabilities	15(c)	10,712	10,598
Gain on termination of lease	15(c)	(117)	–
Covid-19-related rent concessions	15(b)	(2,869)	–
Impairment/(write-back of impairment) of trade receivables, net [2]	22	35,709	(79,406)
Provision for inventories [2]		23,044	5,632
Impairment of right-of-use assets	15(a)	11,769	–
Research and development costs [4]		223,491	195,427
Foreign exchange differences, net [2]		6,669	10,638
Fair value loss, net:			
Derivative financial instruments – transactions not qualified as hedges	7, 27	22,994	–
Dividend income derived from an equity investment at FVOCI	20	–	(3,600)

1 The cost of inventories sold for the year includes RMB323,785,000 (2019: RMB344,168,000) relating to staff costs, depreciation of manufacturing facilities, 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, amortisation of intangible assets, equity-settled share award scheme expense, impairment of trade receivables (2019: 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 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: Nil).

4 The research and development costs for the year include RMB121,564,000 (2019: RMB112,716,000) 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.

7. Net Finance Costs

An analysis of net finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest expense on bank loans	(58,912)	(65,964)
Interest expense on discounted bills receivable	(49,497)	(63,756)
Interest on lease liabilities	(8,183)	(6,546)
Amortisation of bank charges on syndicated loans	(4,246)	(4,053)
Bank interest income	4,292	29,448
Fair value loss, net:		
Derivative instruments — transactions not qualified as hedges	(22,994)	–
	(139,540)	(110,871)

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:

	2020 RMB'000	2019 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	1,009	999
	1,009	999
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	3,331	3,479
Performance-related bonuses	1,080	1,080
Pension scheme contributions	76	46
	4,487	4,605
Other emoluments of a non-executive director:		
Salaries, other allowances and benefits in kind	–	201
	5,496	5,805

8. Directors' Remuneration (Continued)

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

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
2020						
a) *Executive directors*						
Ding Shui Po[1]	–	1,245	360	–	23	1,628
Ding Mei Qing	–	1,043	360	–	25	1,428
Ding Ming Zhong	–	1,043	360	–	28	1,431
	–	3,331	1,080	–	76	4,487
b) *Independent non-executive directors*						
Tan Wee Seng	589	–	–	–	–	589
Gao Xian Feng	240	–	–	–	–	240
Bao Ming Xiao	180	–	–	–	–	180
	1,009	–	–	–	–	1,009
	1,009	3,331	1,080	–	76	5,496

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
2019						
a) *Executive directors*						
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) *Non-executive director*						
Ho Yui Pok, Eleutherius[2]	–	201	–	–	–	201
c) *Independent non-executive directors*						
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

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.

9. Five Highest Paid Employees

During the years ended 31 December 2020 and 31 December 2019, there was no director included in the five highest paid employees.

Details of the remuneration for the year of the five (2019: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, other allowances and benefits in kind	10,280	10,280
Performance-related bonuses	4,589	4,589
Pension scheme contributions	80	80
Equity-settled share award scheme expense	4,539	6,935
	19,488	21,884

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	
	2020	2019
HK$3,000,001 — HK$3,500,000	2	–
HK$3,500,001 — HK$4,000,000	1	3
HK$4,000,001 — HK$4,500,000	1	–
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 (2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2020 RMB'000	2019 RMB'000
Current tax — Overseas		
Charge for the year	254,585	336,864
Under-provision/(over-provision) in prior years	(599)	5,908
	253,986	342,772
Deferred tax (note 29)	2,634	46,929
	256,620	389,701

Xtep China, a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2020 and 2019 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.

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:

	2020 RMB'000	2019 RMB'000
Profit before tax	761,642	1,121,148
Tax at the applicable tax rates	193,558	305,049
Effect of tax concessions	(15,772)	(36,115)
Adjustments in respect of current tax of previous years	(599)	5,908
Income not subject to tax	(22,100)	(21,852)
Expenses not deductible for tax	51,648	58,721
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	17,651	48,000
Tax losses utilised from previous periods	–	(261)
Tax losses not recognised	32,234	30,251
Tax charge at the Group's effective rate	256,620	389,701

11. Dividends

	2020 RMB'000	2019 RMB'000
Dividends paid during the year:		
Final — HK7.5 cents (2019: HK9.5 cents) per ordinary share	169,312[(ii)]	203,018[(i)]
Interim — HK6.5 cents (2019: HK12.5 cents) per ordinary share	139,917[(iii)]	274,728[(ii)]
	309,229	477,746
Proposed final dividend:		
HK7.5 cents (2019: HK7.5 cents) per ordinary share	159,185[(iii)]	161,863[(ii)]

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

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

(iii) In respect of the financial year ended 31 December 2020

Scrip dividend election was offered to shareholders for final dividend for the year ended 31 December 2019 and interim dividend for the year ended 31 December 2019 and 2020 (note 31(iii)).

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 dividend payable.

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 RMB513,030,000 (2019: RMB727,652,000) and the weighted average number of 2,462,616,569 (2019: 2,368,354,054) ordinary shares in issue during the year as adjusted to reflect the number of shares of 36,332,022 (2019: 30,113,318) held under the share award scheme of the Company.

(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 RMB513,030,000 (2019: RMB727,652,000) 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 dilution effect of share awards (note 34) and share options (note 33) as follows:

	2020	2019
Weighted average number of ordinary shares as used in the basic earnings per share calculation	2,462,616,569	2,368,354,054
Effect of dilution — weighted average number of ordinary shares		
— Share award	21,551,115	34,849,068
— Share option	1,893,035	7,298,115
Weighted average number of ordinary shares	2,486,060,719	2,410,501,237

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 2020							
Cost:							
At beginning of year	621,445	50,553	149,331	69,951	231,523	37,937	1,160,740
Additions	33,315	14,042	17,231	268	26,716	115,060	206,632
Transfer	558	–	574	–	–	(1,132)	–
Write-off	–	(547)	(1,815)	(194)	(4,444)	–	(7,000)
Exchange realignment	(4,984)	(2,598)	(70)	(82)	(1,216)	–	(8,950)
At 31 December 2020	650,334	61,450	165,251	69,943	252,579	151,865	1,351,422
Accumulated depreciation:							
At beginning of year	146,778	31,064	99,850	63,246	158,070	–	499,008
Provided during the year	28,900	4,770	10,208	166	19,627	127	63,798
Write-off	–	(515)	(1,703)	(4)	(4,063)	–	(6,285)
Exchange realignment	(633)	(291)	(4)	(2)	(399)	–	(1,329)
At 31 December 2020	175,045	35,028	108,351	63,406	173,235	127	555,192
Net carrying amount:							
At 31 December 2020	475,289	26,422	56,900	6,537	79,344	151,738	796,230
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

13. Property, Plant and Equipment (Continued)

Included in "Buildings" are certain self-used properties with a net carrying amount of approximately RMB5,391,000 at 31 December 2020 (2019: RMB5,977,000), for which the Group has not obtained the building ownership certificates.

14. Investment Properties

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	33,985	36,800
Depreciation provided during the year	(2,815)	(2,815)
Carrying amount at 31 December	31,170	33,985

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 2020, the fair value of the Group's investment properties was RMB104,000,000 (2019: RMB107,900,000), 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 pre-supposes 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 24 and 120 months, while plant generally have lease terms between 2 and 10 years.

(a) 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 1 January 2019	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 and 1 January 2020	15,722	138,800	201,720	356,242
Additions	7,106	104,319	60,106	171,531
Termination of lease	–	(2,920)	–	(2,920)
Impairment charge	–	(11,769)	–	(11,769)
Release of subsidy (note 30)	–	–	(579)	(579)
Depreciation charge	(6,393)	(72,092)	(6,364)	(84,849)
Exchange realignment	–	1,627	–	1,627
As at 31 December 2020	16,435	157,965	254,883	429,283

As at 31 December 2020, the Group's management identified certain loss making stores which indicated that impairment of their right-of-use assets may exist and estimated the corresponding recoverable amounts of their right-of-use assets. Each of these stores is a separate cash-generating unit. Based on the assessment performed by the Group's management, an impairment loss of RMB11,769,000 (2019: Nil) was recognised to write down the carrying amounts of these right-of-use assets to their recoverable amounts as at 31 December 2020. The estimates of the recoverable amounts of these right-of-use assets were determined based on a value in use calculation by using a pre-tax discount rate of 16.3%.

15. Leases (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	Notes	2020 RMB'000	2019 RMB'000
As at 1 January		176,158	54,522
New leases		111,425	49,930
Covid-19-related rent concessions		(2,869)	–
Addition as a result of acquisition of subsidiaries	35	–	112,205
Termination of lease		(3,037)	–
Accretion of interest recognised during the year	7	8,183	6,546
Payments		(83,616)	(44,255)
Exchange realignment		(541)	(2,790)
As at 31 December		205,703	176,158
Analysed into:			
Current portion		74,845	68,850
Non-current portion		130,858	107,308

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

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain stores during the year.

(c) The amounts charged/(credited) in income statement in relation to leases are as follow:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	8,183	6,546
Depreciation charge of right-of-use assets	84,849	45,788
Expenses relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	10,712	10,245
Expenses relating to leases of low-value assets (included in administrative expenses)	–	353
Gain on termination of lease	(117)	–
Covid-19-related rent concessions	(2,869)	–
Impairment of right-of-use assets	11,769	–
	112,527	62,932

15. Leases (Continued)

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 RMB13,149,000 (2019: RMB9,187,000), 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:

	2020 RMB'000	2019 RMB'000
Within one year	**2,872**	9,269
After one year but within two years	**2,432**	1,245
After two years but within three years	**1,839**	769
Over three years	**2,724**	127
	9,867	11,410

16. Deposits for Acquisition of Land Use Rights

In 2018, the Group had 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 and the prepayment was classified as deposits for acquisition of land use rights as at 31 December 2019. During the year ended 31 December 2020, the respective land use right certificate was obtained.

17. Goodwill

	2020 RMB'000	2019 RMB'000
Cost at 1 January	833,938	–
Acquisition of subsidiaries (note 35)	–	814,714
Exchange realignment	(46,826)	19,224
Cost at 31 December	787,112	833,938
As at 31 December		
Cost	787,112	833,938
Accumulated impairment	–	–
Net carrying amount	787,112	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") for impairment testing.

	2020 RMB'000	2019 RMB'000
Carrying amount of goodwill	787,112	833,938
Carrying amount of brand names with indefinite useful lives (note 18)	620,153	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 32.8% (2019: 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 16.3% (2019: 15.3%). The growth rate used to extrapolate the cash flow of K-Swiss CGU beyond the five-year period is 3% (2019: 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 18.1% (2019: 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 2020.

18. Intangible Assets

	Brand names RMB'000	Business relationship RMB'000	Patents and trademarks RMB'000	Total RMB'000
31 December 2020				
Cost at 1 January 2020, net of accumulated amortisation	703,814	97,023	9,055	809,892
Additions	–	–	4,409	4,409
Disposal (note)	(46,799)	–	–	(46,799)
Amortisation provided during the year	–	(12,442)	(1,716)	(14,158)
Exchange realignment	(36,862)	(4,863)	(2,204)	(43,929)
As at 31 December 2020	620,153	79,718	9,544	709,415
As at 31 December 2020:				
Cost	620,153	96,514	19,009	735,676
Accumulated amortisation	–	(16,796)	(9,465)	(26,261)
Net carrying amount	620,153	79,718	9,544	709,415
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

Note: During the year ended 31 December 2020, the Group and an independent third party entered into an asset sale agreement relating to the disposal of a brand name at a cash consideration of USD7,200,000 (equivalent to RMB49,850,000). A gain of RMB3,051,000 represented the difference between the consideration and the carrying amount of the brand name of RMB46,799,000 was credited to the income statement.

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.

19. Investments in Associates

	2020 RMB'000	2019 RMB'000
Share of net assets	33,691	39,161

Particulars of associates are as follows:

Name	Place of incorporation or 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
廈門邁侖品牌運營有限公司	PRC/Mainland China	49%	Trading of sportswear

The Group's other receivables and trade and other payables balances with the associates are disclosed in notes 23, 26 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:

	2020 RMB'000	2019 RMB'000
Share of the associates' losses and total comprehensive expense for the year	(17,004)	(1,982)
Net carrying amount of the Group's investments in associates	33,691	39,161

20. Equity Investments Designated at Fair Value through Other Comprehensive Income

	Notes	2020 RMB'000	2019 RMB'000
At 1 January		158,100	114,200
Addition	(a)	19,965	35,000
Changes in fair values	(b)	6,500	8,900
At 31 December		184,565	158,100

As at 31 December 2020, the Group held three (2019: two) unlisted investments with fair values of RMB142,500,000 (2019: RMB130,400,000), RMB22,100,000 (2019: RMB27,700,000) and RMB19,965,000 (2019: Nil), representing 5%, 11% and 0.3% (2019: 5%, 11% and Nil) equity interests in three corporate entities, which were established in the PRC on 22 December 2014, 22 October 2012 and 28 August 1998 with paid-up capital of RMB1,900,000,000, RMB300,000,000 and RMB1,047,000,000, respectively. During the year ended 31 December 2020, the Group did not receive dividend from the unlisted investments (2019: RMB3,600,000).

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 2020, the Group invested RMB19,965,000 (2019: RMB35,000,000) as capital into an investee company.

(b) During the year ended 31 December 2020, fair value gains of RMB6,500,000 (2019: RMB8,900,000) in respect of the Group's equity investments designated at FVOCI were recognised in the consolidated statement of comprehensive income.

21. Inventories

	2020 RMB'000	2019 RMB'000
Raw materials	72,509	140,053
Work in progress	106,658	104,532
Finished goods	875,769	859,650
	1,054,936	1,104,235
Less: Provision for inventories	(80,133)	(57,949)
	974,803	1,046,286

22. Trade and Bills Receivables

	Notes	2020 RMB'000	2019 RMB'000
Trade receivables		3,143,848	3,004,086
Less: Impairment of trade receivables	(a)	(383,542)	(407,637)
	(b)	2,760,306	2,596,449
Bills receivables	(c)	475,500	313,500

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:

	2020 RMB'000	2019 RMB'000
At 1 January	407,637	497,520
Impairment/(write-back of impairment) of trade receivables, net	35,709	(79,406)
Amounts written-off	(59,494)	(10,500)
Exchange realignment	(310)	23
At 31 December	383,542	407,637

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.

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 2020

	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	4.3%	1,688,652	(72,418)	–	–	(72,418)
Less than 3 months past due	8.7%	664,655	(57,928)	–	–	(57,928)
Past due over 3 to 6 months	16.4%	249,597	(41,035)	–	–	(41,035)
Past due over 6 to 9 months	24.9%	111,544	(27,813)	–	–	(27,813)
Past due over 9 months	32.5%	363,215	(118,163)	66,185	(66,185)	(184,348)
		3,077,663	(317,357)	66,185	(66,185)	(383,542)

22. Trade and Bills Receivables (Continued)

Notes: (Continued)

(a) (Continued)

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 to 6 months	18.6%	184,716	(34,349)	–	–	(34,349)
Past due over 6 to 9 months	26.7%	89,792	(23,942)	–	–	(23,942)
Past due over 9 months	33.4%	324,459	(108,352)	111,925	(111,925)	(220,277)
		2,892,161	(295,712)	111,925	(111,925)	(407,637)

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:

	2020 RMB'000	2019 RMB'000
Within 3 months	1,666,910	1,672,874
3 to 6 months	556,122	480,177
6 to 9 months	292,274	227,343
Over 9 months	245,000	216,055
	2,760,306	2,596,449

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

	2020 RMB'000	2019 RMB'000
Within 3 months	105,500	222,000
3 to 6 months	320,000	44,000
6 to 9 months	–	32,500
Over 9 months	50,000	15,000
	475,500	313,500

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

23. Prepayments, Other Receivables and Other Assets

	Notes	2020 RMB'000	2019 RMB'000
Prepayments to contracted manufacturers		76,203	71,244
Deposits and advance payments to suppliers		383,531	373,848
Deposits and advance payments to subcontractors		112,971	110,131
Right-of-return assets		4,545	10,159
Loan to a then investee company	(a)	–	60,000
Other Asset	(b)	65,010	65,010
Other deposits		16,632	43,023
Value added tax ("VAT") recoverable		260,690	143,033
Other receivables	(c)	52,286	44,848
		971,868	921,296
Less: Non-current portion deposits and other assets		(72,931)	(103,557)
		898,937	817,739

Notes:

(a) As at 31 December 2019, 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 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. The balance was fully settled during the year ended 31 December 2020.

(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. 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 was recognised by the Group was 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.

As at 31 December 2020, the recoverable amount of the Other Asset has been determined based on fair value according to the valuation performed by Knight Frank Petty Limited, a firm of independent and professionally qualified valuers. The valuation was dependent on certain significant inputs including gross unit rate per square meter and a discount rate.

(c) Included in the Group's other receivables are amounts due from the Group's associates of RMB8,719,000 (2019: RMB869,000), which are repayable on demand.

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 2020 and 2019, the loss allowance was assessed to be minimal.

24. Structured Bank Deposits

As at 31 December 2019, the structured bank deposits were wealth management products issued by a bank in Mainland China with fixed maturity periods of six to ten 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 as their contractual cash flows are not solely payments of principal and interest. The structured bank deposits matured during the year.

25. Term Deposits, Cash and Bank Equivalents and Pledged Bank Deposits

	Note	2020 RMB'000	2019 RMB'000
Term deposits		500,000	–
Cash and bank balances		3,909,248	3,686,538
		4,409,248	3,686,538
Less: Pledged deposits for:			
— short-term bank loans	28	(437,297)	(717,034)
Non-current term deposits		(500,000)	–
Cash and cash equivalents		3,471,951	2,969,504

At the end of the reporting period, the cash and bank balances and term deposits of the Group denominated in RMB amounted to RMB3,677,036,000 (2019: cash and bank balances of RMB3,525,650,000). 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. Except for the term deposits of RMB500,000,000 (2019: Nil) which are made for 1,080 days and earn interest at a rate of 3.84% per annum, the time deposits are made for one day (2019: one day) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances, term deposits 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:

	2020 RMB'000	2019 RMB'000
Within 3 months	1,268,177	1,308,799
3 to 6 months	132,659	45,634
Over 6 months	78,030	65,267
	1,478,866	1,419,700

Notes:

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

(b) Included in trade payables are amounts due to associates of RMB4,497,000 (2019: Nil) which are repayable on demand.

27. Other Payables and Accruals and Derivative Financial Instruments

Other payables and accruals

	Notes	2020 RMB'000	2019 RMB'000
Contract liabilities	(a)	134,154	99,426
Refund liabilities		7,529	16,932
Other payables	(b)	219,489	257,741
VAT payables		6,738	5,942
Accruals		684,062	600,545
		1,051,972	980,586

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

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 RMB99,426,000 (2019: RMB86,280,000) was recognised during the year ended 31 December 2020. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short-term advances received from customers in relation to the sales orders of sportswear goods at the end of the reporting period.

(b) Included in the other payables are amounts due to associates of RMB1,807,000 (2019: RMB6,565,000) which are repayable on demand.

Derivative financial instruments

	2020 RMB'000	2019 RMB'000
Derivative financial instruments	21,912	–

During the year ended 31 December 2020, the Group entered into various interest rate swap ("IRS") contracts with one creditworthy financial institution with an aggregate notional amount of HK$1,440,000,000 (equivalent to RMB1,324,800,000) for certain of its floating-interest rate loans denominated in Hong Kong dollars to manage its exposure to interest rate fluctuations for the period from 2020 to 2023.

The IRS contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Changes in the fair value of the IRS contracts amounting to RMB22,994,000 (2019: Nil) were debited to the consolidated income statement during the year (note 7).

28. Interest-Bearing Bank Borrowings

		2020			2019		
	Notes	Effective interest rate per annum (%)	Maturity	RMB'000	Effective interest rate per annum (%)	Maturity	RMB'000
Current:							
Revolving loans	(a)	HIBOR+1.10% to HIBOR+1.35%	2021	539,090	HIBOR+1.10% to HIBOR+1.35%	2020	1,081,072
Other bank loans	(a)	1.00% to 2.55%	2021	103,245	1.10% to 1.30%	2020	5,266
				642,335			1,086,338
Non-current:							
Syndicated loan	(b)	HIBOR+1.52%	2023	1,514,422	HIBOR+1.52%	2023	1,266,924
Other bank loans	(a)	1.10% to 1.30%	2022 to 2023	1,085	1.10% to 1.30%	2021 to 2023	1,603
				1,515,507			1,268,527
				2,157,842			2,354,865

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	642,335	1,086,338
In the second year	293,740	546
In the third to fifth years, inclusive	1,221,767	1,267,981
	2,157,842	2,354,865

Notes:

(a) The revolving loans and other bank loans are supported by:

(i) the pledge of certain of the Group's deposits amounting to RMB437,297,000 (2019: RMB717,034,000) in aggregate; and

(ii) corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK$1,449,965,000 and Euro ("EUR") 450,000 (equivalent to approximately RMB1,232,905,000 and RMB3,543,000 respectively) (2019: HK$1,444,350,000 and EUR450,000 (equivalent to approximately RMB1,301,215,000 and RMB3,498,000 respectively)) at the end of the reporting period.

(b) The syndicated loan is supported by a corporate guarantees provided by certain wholly-owned subsidiaries of the Company, to the extent of HK$1,800,000,000 (equivalent to approximately RMB1,530,540,000) (2019: HK$1,800,000,000 (equivalent to approximately RMB1,621,620,000)) as at the end of the reporting period.

As at 31 December 2020, except for the bank loans amounted to RMB104,330,000 which were denominated in RMB, EUR and US$ (2019: RMB6,869,000 which was denominated in EUR), all bank borrowings were 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 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 and 1 January 2020	4,035	97,484	178,874	280,393
Withholding tax paid on repatriation of earnings from PRC subsidiaries	–	(37,651)	–	(37,651)
Deferred tax charged to the consolidated income statement during the year	–	17,651	(15,017)	2,634
Deferred tax charged to the fair value reserve during the year	975	–	–	975
Exchange realignment	–	–	(9,324)	(9,324)
Deferred tax liabilities at 31 December 2020	5,010	77,484	154,533	237,027

The Group has tax losses arising in Hong Kong of RMB102,771,000 (2019: RMB86,941,000) 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 RMB83,121,000 (2019: RMB223,314,000) 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.

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 withholding tax amount arising from the temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB164,683,000 as at 31 December 2020 (31 December 2019: RMB125,606,000).

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

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	21,651	22,228
Released to/resumed as prepaid land lease payments (note 15)	(579)	(577)
Carrying amount at 31 December	21,072	21,651
Current portion	(577)	(577)
Non-current portion	20,495	21,074

A subsidy of RMB22,805,000 was received by the Group in 2018 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.

31. Share Capital

At 31 December 2020

	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: 2,546,965,472 ordinary shares of HK$0.01 each	25,470	22,395

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

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 2019		2,243,380,000	22,434	19,782
Exercise of share options	(i)	9,510,000	95	83
Share placing	(ii)	247,078,000	2,471	2,115
Shares issued in lieu of cash dividend	(iii)	12,476,722	125	113
At 31 December 2019 and 1 January 2020		2,512,444,722	25,125	22,093
Exercise of share options	(i)	12,955,000	129	110
Share placing	(iv)	5,000,000	50	44
Shares issued in lieu of cash dividend	(iii)	16,565,750	166	148
At 31 December 2020		2,546,965,472	25,470	22,395

31. Share Capital (Continued)

Notes:

(i) During the year ended 31 December 2020, 12,955,000 share options granted under the Share Option Scheme (as defined in note 33) were exercised at the subscription prices of HK$2.35 per share. 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) were exercised at the subscription prices of HK$2.35 and HK$4.11 per share.

The exercise of these share options resulted in the issue of a total of 12,955,000 shares (2019: 9,510,000 shares) of HK$0.01 (2019: HK$0.01) each for a total cash consideration before expenses of approximately HK$30,444,000 (equivalent to approximately RMB25,888,000) (2019: approximately HK$34,334,000 (equivalent to approximately RMB29,887,000)) representing the nominal value of ordinary shares of RMB110,000 (2019: RMB83,000) and share premium of RMB25,778,000 (2019: RMB29,804,000).

An amount of HK$8,476,000 (equivalent to approximately RMB7,798,000) (2019: HK$9,137,000 (equivalent to approximately RMB8,023,000)) 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 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).

(iii) On 18 March 2020, the board of directors proposed a final dividend of HK7.5 cents (equivalent to approximately RMB6.4 cents) (year ended 31 December 2018: HK9.5 cents (equivalent to approximately RMB8.4 cents)) per ordinary share for the year ended 31 December 2019. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. The proposed final dividend was approved by shareholders during the annual general meeting held on 8 May 2020. On 26 June 2020, 6,995,779 (year ended 31 December 2018: Nil) shares were issued at HK$2.763 (year ended 31 December 2018: Nil) per share in respect of the final dividend for the year ended 31 December 2019.

On 28 August 2020, the board of directors declared an interim dividend of HK6.5 cents (equivalent to approximately RMB5.5 cents) (year ended 31 December 2019: HK12.5 cents (equivalent to approximately RMB11.0 cents)) per ordinary share for the year ended 31 December 2020. The shareholders were provided with an option to receive the interim dividend in form of scrip dividend. On 30 October 2020, 9,569,971 (year ended 31 December 2019: 12,476,722) shares were issued at HK$2.360 (year ended 31 December 2019: HK$4.297) per share in respect of the interim dividend for the year ended 31 December 2020.

An amount of HK$32,000 (equivalent to approximately RMB29,000) (2019: RMB16,000) and an amount of HK$8,199,000 (equivalent to approximately RMB7,369,000) (2019: RMB7,014,000) were transferred from the share capital and share premium reserve to treasury share reserve upon the issuance (2019: RMB16,000) of scrip shares.

(iv) During the year ended 31 December 2020, the Company completed the placing of shares of 5,000,000 ordinary shares of HK$0.01 each at a subscription price of HK$2.48 per share. The placing resulted in the net proceeds of HK$12,400,000 (equivalent to approximately RMB10,848,000), representing the addition of nominal value of ordinary shares of HK$50,000 (equivalent to approximately RMB44,000) and share premium of HK$12,350,000 (equivalent to approximately RMB10,804,000).

Share option scheme

Details of the Company's share option scheme and the share options issued under the scheme 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 2020, 3,000,000 (2019: 660,000) ordinary shares of HK$0.10 each were purchased by the trustee at an average price of HK$2.23 (2019: HK$5.38) per share at a total consideration of HK$6,685,000 (equivalent to approximately RMB5,985,000) (2019: HK$3,550,000 (equivalent to approximately RMB3,029,000)). The shares have been recognised as treasury shares. During the year ended 31 December 2020, 3,218,704 (2019: 1,814,318) treasury shares amounting to RMB7,398,000 (2019: RMB7,030,000) in form of scrip dividend were received by the Company. As at 31 December 2020, the Group had treasury shares of 61,282,022 (2019: 64,183,318) out of which 24,950,000 (2019: 34,070,000) were granted to certain participants of the Share Award Scheme as Awarded Shares but remained unvested. Movements in the number of Awarded Shares are disclosed in note 34 to the financial statements.

(vi) Share award reserve

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

33. Share Option Scheme

The Company has 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.

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.

33. Share Option Scheme (Continued)

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:

	2020		2019	
	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	3.93	23,055	3.84	32,565
Exercised during the year	2.35	(12,955)	3.61	(9,510)
Lapsed during the year	5.96	(10,100)	–	–
At 31 December	–	–	3.93	23,055

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.42 (2019: HK$4.89) per share.

The subscription rights attaching to 12,955,000 (2019: 2,700,000 and 6,810,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 (2019: HK$2.35 and HK$4.11, respectively) per share during the year, resulting in the issue of 12,955,000 shares (2019: 9,510,000 shares) and additional share capital of approximately HK$130,000 (equivalent to approximately RMB110,000) (2019: HK$95,000 (equivalent to approximately RMB83,000)) and share premium of approximately HK$30,314,000 (equivalent to approximately RMB25,778,000) (2019: HK$34,239,000 (equivalent to approximately RMB29,804,000)), before related issuance expenses.

No share options were outstanding as at 31 December 2020. The exercise prices and exercise periods of the share options outstanding at 31 December 2019 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		

34. Share Award Scheme

On 1 August 2014, the board of directors of the Company (the "Board") has 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 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 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.

34. Share Award Scheme (Continued)

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 difference between the cost of purchase of these 50,000,000 shares in 2015 and the fair value at grant date, was created.

Movements in the number of Awarded Shares were as follows:

	Number of Awarded Shares	
	2020	2019
Outstanding at 1 January	34,070,000	41,210,000
Awarded Shares forfeited	–	(200,000)
Awarded Shares vested	(9,120,000)	(6,940,000)
Outstanding at 31 December	24,950,000	34,070,000

During the year ended 31 December 2020, share award scheme expense of RMB15,922,000 (2019: RMB24,327,000) was charged to the consolidated income statement and an amount of HK$1,441,000 (equivalent to approximately RMB1,286,000) (2019: HK$1,098,000 (equivalent to approximately RMB990,000)) was transferred from share award reserve to retained profits in respect of vesting of 9,120,000 (2019: 6,940,000) Awarded Shares.

During the year ended 31 December 2019, an amount of HK$32,000 (equivalent to approximately RMB29,000) was transferred from the treasury share account to the share award reserve, and an amount of HK$516,000 (equivalent to approximately RMB466,000) was credited to retained profits upon the forfeiture of the 200,000 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(a)	90,587
Intangible assets	18	787,844
Inventories		271,437
Trade 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(b)	(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

The Group incurred transaction costs of RMB28,937,000 for this acquisition. These transaction costs had been expensed and are included in other expenses in the consolidated income statement during the year ended 31 December 2019.

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.

35. Business Combination (Continued)

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 ended 31 December 2019 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(a)	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 received		59,665
Other Asset	23	65,010
		124,675

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	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 transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB111,425,000 (2019: RMB49,930,000) and RMB111,425,000 (2019: RMB49,930,000), respectively, in respect of lease arrangements for plant and buildings.

During the year, the Group obtained the land use right certificate in connection with the acquisition of a parcel of land in Fujian Province, the PRC (note 16). The related deposit of RMB60,105,000 was transferred to right-of-use assets.

(b) Changes in liabilities arising from financing activities

2020

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2020	2,354,865	176,158
Changes from financing cash flows	(76,713)	(83,616)
Amortisation of bank charges on syndicated loans	4,246	–
Covid-19-related rent concession	–	(2,869)
Termination of lease	–	(3,037)
New leases	–	111,425
Interest expenses	–	8,183
Foreign exchange movement	(124,556)	(541)
At 31 December 2020	2,157,842	205,703

37. Notes to the Consolidated Statement of Cash Flows (Continued)

(b) Changes in liabilities arising from financing activities (Continued)

2019

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2019	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

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	18,895	17,144
Within financing activities	83,616	44,255
	102,511	61,399

38. Contingent Liabilities

At the end of the reporting period, the Group had no significant contingent liabilities (2019: Nil).

39. Commitments

The Group had the following commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted for commitments in respect of:		
— construction of new buildings	233,932	159,199
— construction of new manufacturing facilities	20,708	16,689
— advertising and promotional expenses	211,069	263,753
	465,709	439,641

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) The Group entered into several lease arrangements for the period from 2021 to 2023 with 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. The lease arrangements were accounted for under HKFRS 16 *Leases*.

The associated transactions and balances are disclosed below:

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Rental payment	**10,276**	8,885
Depreciation of right-of-use assets	**9,795**	8,009
Interest expenses on lease liabilities	**891**	945

	As of 31 December 2020	As of 31 December 2019
Right-of-use assets	**13,565**	17,210
Lease liabilities	**14,761**	17,872

These lease arrangements also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(ii) During the year ended 31 December 2020, purchases amounting to RMB61,900,000 (2019: RMB5,995,000) were made by the Group from associates 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 trade and other payables balances with the associates are disclosed in notes 23, 26 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:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	**5,420**	5,759
Post-employment benefits	**76**	46
Total compensation paid to key management personnel	**5,496**	5,805

41. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments at the end of the reporting period were as follows:

Financial assets

	2020 RMB'000	2019 RMB'000
Financial assets at FVOCI:		
Equity investments designated at FVOCI	184,565	158,100
Bills receivable	475,500	313,500
	660,065	471,600
Financial assets at FVPL:		
Structured bank deposits	–	800,000
Financial assets at amortised cost:		
Trade receivables	2,760,306	2,596,449
Other receivables	52,286	44,848
Loan to a then investee company	–	60,000
Pledged bank deposits	437,297	717,034
Term deposits	500,000	–
Cash and cash equivalents	3,471,951	2,969,504
	7,221,840	6,387,835
Total	7,881,905	7,659,435

Financial liabilities

	2020 RMB'000	2019 RMB'000
Financial liabilities at amortised cost:		
Trade payables	1,478,866	1,419,700
Financial liabilities included in other payables and accruals	421,765	460,384
Interest-bearing bank borrowings	2,157,842	2,354,865
	4,058,473	4,234,949
Financial liabilities at FVPL:		
Derivative financial instruments	21,912	–
	4,080,385	4,234,949

42. Financial Assets That are Derecognised in Their Entirety

At 31 December 2020, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,313,500,000 (2019: RMB1,624,736,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from 26 days to 257 days (2019: 31 days to 294 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 2020, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2019: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The amount of bills receivable of RMB2,254,000,000 (2019: RMB2,873,036,000) has been discounted during the year ended 31 December 2020.

43. Transferred Financial Assets That are not Derecognised in Their Entirety

At as 31 December 2019, 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).

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 fair values of non-current term deposits and non-current portion of 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 2020 were assessed to be insignificant. The fair values of non-current term deposits and non-current portion of interest-bearing bank borrowings approximate to their carrying amounts at the end of the reporting period.

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:

The fair value of bills receivable 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 key observable inputs in the valuation are time to expiration and risk-free rate. The fair values of bills receivable approximate to their carrying amounts as at the end of the reporting period. In respect of the derivative financial instruments, the Group relies on bank valuations to determine the fair value of the instruments, these valuations maximise the use of observable market data. Key observable inputs in the valuations are floating rates, fixed rates, time to expiration and discount rate. The fair value of the unlisted equity investments designated at fair value through other comprehensive income have been estimated using the quoted price of the latest transactions or 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 to calculate 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.

44. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

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 2020 and 2019:

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	0.21x to 1.36x (2019: 0.17x to 8.28x)	5% (2019: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB8.2 million (2019: RMB7.9 million)
		Discount for lack of marketability ("DLOM")	20% (2019: 20%)	2.5% (2019: 2.5%) increase/decrease in DLOM would result in decrease/increase in fair value by RMB5.1 million (2019: RMB4.9 million)

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 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at FVOCI	–	–	184,565	184,565
Bills receivable	–	475,500	–	475,500
	–	475,500	184,565	660,065

44. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at FVOCI	–	–	158,100	158,100
Bills receivable	–	313,500	–	313,500
Structured bank deposits	–	800,000	–	800,000
	–	1,113,500	158,100	1,271,600

Liabilities measured at fair value:

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	21,912	–	21,912

During the year ended 31 December 2020, 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 (2019: 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:

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.

45. Financial Risk Management Objectives and Policies (Continued)

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.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
31 December 2020					
Trade receivables*	–	–	–	3,143,848	3,143,848
Other receivables**	52,286	–	–	–	52,286
Term deposits**	500,000	–	–	–	500,000
Pledged bank deposits**	437,297	–	–	–	437,297
Cash and cash equivalents**	3,471,951	–	–	–	3,471,951
Total	4,461,534	–	–	3,143,848	7,605,382
31 December 2019					
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

* 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.

45. Financial Risk Management Objectives and Policies (Continued)

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
2020		
Hong Kong dollar and US$	100	(17,572)
Hong Kong dollar and US$	(100)	17,572
2019		
Hong Kong dollar and US$	100	(23,762)
Hong Kong dollar and US$	(100)	23,762

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 at the end of the reporting period, based on the contractual undiscounted payments:

	2020		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	1,478,866	–	1,478,866
Lease liabilities	88,896	142,559	231,455
Financial liabilities included in other payables and accruals	421,765	–	421,765
Interest-bearing bank borrowings	577,918	1,565,870	2,143,788
	2,567,445	1,708,429	4,275,874

	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

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.

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 2020 and 31 December 2019.

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:

	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	3,471,951	2,969,504
Less: Interest-bearing bank borrowings	(2,157,842)	(2,354,865)
Net cash	1,314,109	614,639
Total equity	7,298,725	6,960,238

	2020	2019
Net cash-to-capital ratio	0.180	0.088

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:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,649,924	1,477,762
CURRENT ASSETS		
Due from subsidiaries	2,240,739	2,321,170
Prepayments	11,886	4,649
Cash and cash equivalents	61,976	14,925
Total current assets	2,314,601	2,340,744
CURRENT LIABILITIES		
Due to subsidiaries	93,951	3,284
Other payables and accruals	51,949	49,396
Interest-bearing bank borrowings	539,090	1,081,072
Total current liabilities	684,990	1,133,752
NET CURRENT ASSETS	1,629,611	1,206,992
TOTAL ASSETS LESS CURRENT LIABILITIES	3,279,535	2,684,754
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,514,422	1,266,924
NET ASSETS	1,765,113	1,417,830
EQUITY		
Share capital	22,395	22,093
Reserves (note)	1,742,718	1,395,737
Total equity	1,765,113	1,417,830

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 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 and 1 January 2020	1,570,728	15	(118,860)	4,460	68,031	(22,369)	(106,268)	1,395,737
Profit for the year	–	–	–	–	–	–	647,938*	647,938
Other comprehensive income:								
Exchange realignment	–	–	–	–	–	(73,721)	–	(73,721)
Total comprehensive income for the year	–	–	–	–	–	(73,721)	647,938	574,217
Equity-settled share award arrangement	–	–	15,922	–	–	–	–	15,922
Awarded shares vested	–	–	–	(1,286)	–	–	1,286	–
2019 final dividends declared and paid	–	–	–	–	–	–	(169,312)	(169,312)
2020 interim dividend declared and paid	–	–	–	–	–	–	(139,917)	(139,917)
Placing of shares	10,804	–	–	–	–	–	–	10,804
Exercise of share options	33,576	–	–	–	(7,798)	–	–	25,778
Shares issued in lieu of cash dividend	37,394	–	(7,398)	–	–	–	–	29,996
Lapse of share options	–	–	–	–	(60,233)	–	60,233	–
Repurchase of shares	–	–	(5,985)	–	–	–	–	(5,985)
Dividends for treasury shares	–	–	–	–	–	–	5,478	5,478
At 31 December 2020	1,652,502	15	(116,321)	3,174	–	(96,090)	299,438	1,742,718

* The balance as at 31 December 2020 included a dividend from a subsidiary of RMB741,740,000 (2019: RMB308,243,000).

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.

46. Statement of Financial Position of the Company (Continued)

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.

47. Event after the Reporting Period

On 5 February 2021, a wholly-owned subsidiary of the Company, Shanghai Xtep Sports Products Co., Ltd. ("Shanghai Xtep") entered into a letter of intent with 上海文匯新民實業限公司 ("上海文匯"), pursuant to which Shanghai Xtep has agreed to acquire the property and carpark being constructed by 上海文匯 situated in Tower E, Land Lot 19–02, Qibao Eco-commercial Park, Alley 1699, Xinzhen Road, Minxing District, Shanghai, The PRC for the aggregate consideration of RMB463,600,000, subject to adjustment (if any).

48. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 18 March 2021.

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
"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
"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 67% by Mr. Ding Shui Po's family trust, 21% by Ms. Ding Mei Qing's family trust and 12% 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
"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
"O2O"	Online to Offline

GLOSSARY

"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
"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 2020.

DIVIDENDS

An interim dividend of HK6.5 cents (equivalent to approximately RMB5.9 cents) per Share was declared and paid to our Shareholders during the year, with an option to receive new fully paid shares of the Company.

The Board recommended a final dividend of HK7.5 cents (equivalent to approximately RMB6.2 cents) per Share for the year ended 31 December 2020, subject to approval by the Shareholders at the annual general meeting ("**AGM**") to be held on Friday, 7 May 2021. 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 2020, which include the interim and final dividends, amounted to HK14.0 cents (equivalent to approximately RMB12.1 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, 3 May 2021 to Friday, 7 May 2021, 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 Friday, 7 May 2021. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on Friday, 7 May 2021, 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 Friday, 30 April 2021.

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, 14 May 2021 to Tuesday, 18 May 2021, 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 Tuesday, 18 May 2021. 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, 13 May 2021. The payment date of the proposed final dividend is expected to be on Friday, 25 June 2021.

AGM

The AGM of the Company will be held in Hong Kong on Friday, 7 May 2021. 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 2021

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.