裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited

Incorporated in Bermuda with limited liability
於百慕達註冊成立之有限公司

Stock Code 股份代號：551

2019
ANNUAL REPORT 年報

VISION

To provide end-to-end solutions that delivers the sports industry the highest possible value while supporting healthy lifestyle around the world.

MISSION

We are creating a smart technology-based footwear manufacturing operation that provides best-in-class innovative solutions to international brand customers. We are also committed to becoming a fully integrated sporting goods retailer in the Greater China region, in order to provide an end-to-end platform to our brand customers while enhancing our strategic relationships with them. We will continually strive to create value for all of our stakeholders while acting as a responsible global corporate citizen.

Contents

Corporate Overview

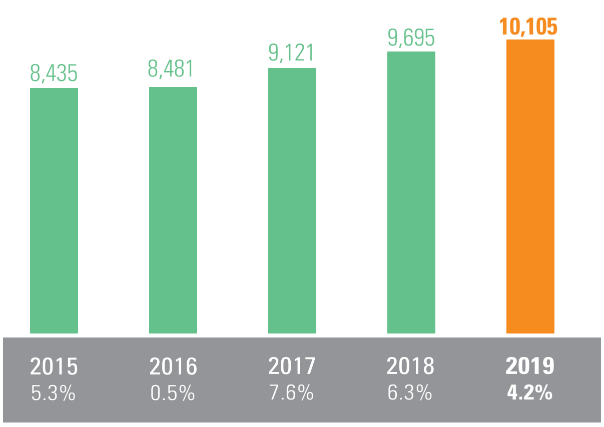
Financial and Operating Highlights for the year ended December 31, 2019 with the comparative figures for the year ended December 31, 2018

(US$ million, except where otherwise stated)	2019	2018	% Change
Total Shoe Volume (million pairs)	**322.4**	326.0	(1.1)
Revenue	**10,105.4**	9,695.3	4.2
Profit attributable to Owners of the Company	**300.5**	307.1	(2.1)
Recurring Profit attributable to Owners of the Company	**282.3**	325.7	(13.3)
Total Assets	**8,789.4**	8,316.0	5.7
Capital Expenditure	**398.1**	494.4	(19.5)
EBITDA	**957.0**	825.9	15.9
Basic Earnings Per Share (US cents)	**18.64**	18.84	(1.1)
Dividend Per Share			
Interim	**HK$0.40**	HK$0.40	–
Final	**(proposed) HK$0.70**	HK$1.10	(36.4)
Full Year	**(proposed) HK$1.10**	HK$1.50	(26.7)
Total Equity	**4,533.1**	4,546.0	(0.3)
Return on Equity (% per annum)	**7.3**	7.4	(1.4)
Gearing Ratio (%)	**46.1**	46.7	(1.3)
Net Debt to Equity Ratio (%)	**24.4**	28.0	(12.9)
Number of Outstanding Issued Shares	**1,612,183,986**	1,616,642,986	(0.3)

Key Shareholder Value Indices

Revenue

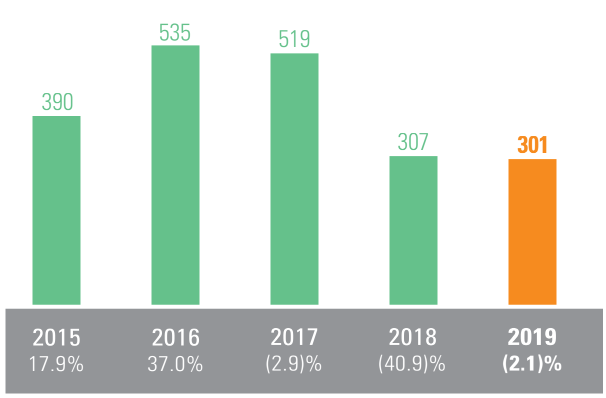
US$ million



% change

Profit Attributable to Owners of the Company

US$ million

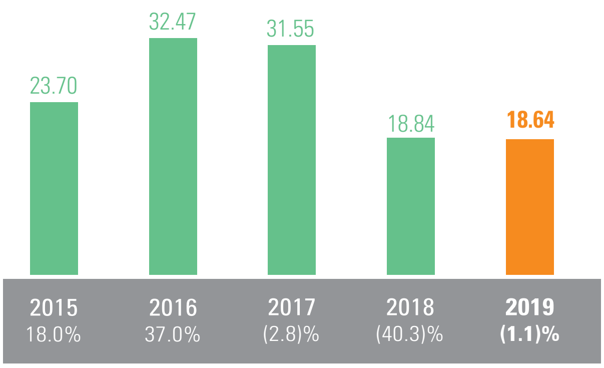


% change

Corporate Overview

Earnings Per Share

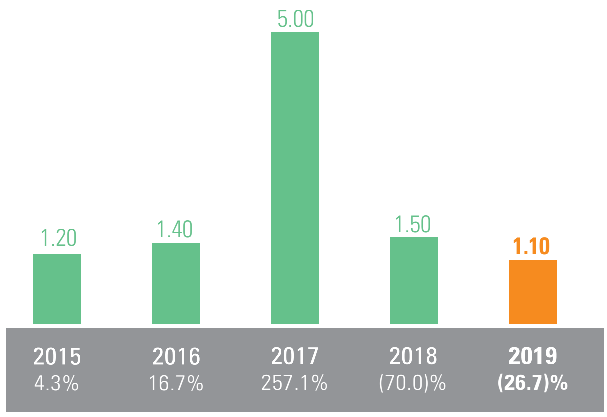
US cents



% change

Dividend Per Share

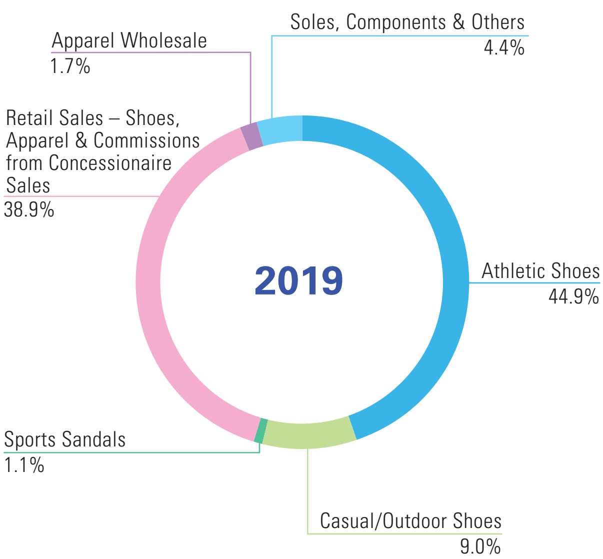
HK$



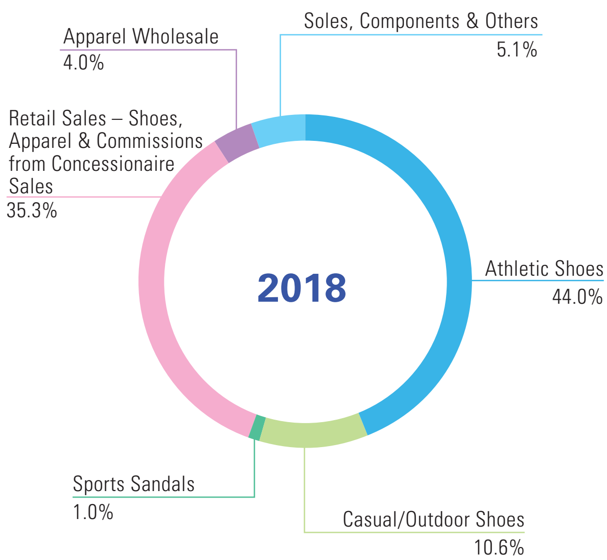
% change

Product Category for the year ended December 31, 2019 with the comparative figures for the year ended December 31, 2018

2019 Revenue by Product Category



2018 Revenue by Product Category



Corporate Information

Executive Directors
Lu Chin Chu *(Chairman)*
Tsai Pei Chun, Patty [5] *(Managing Director)*
Chan Lu Min
Lin Cheng-Tien
Tsai Ming-Lun, Ming *(resigned on April 1, 2020)*
Hu Chia-Ho
Liu George Hong-Chih
Hu Dien Chien

Independent Non-Executive Directors
Wong Hak Kun[1, 2, 3, 4]
Ho Lai Hong *(appointed on May 24, 2019)*[1, 3, 5, 6]
Huang Ming Fu *(retired on May 31, 2019)*
Yen Mun-Gie (also known as Teresa Yen) [1, 3, 5]
Chen Chia-Shen *(appointed on January 10, 2020)* [1, 3]
Hsieh Yung Hsiang (also known as Alfred Hsieh) *(retired on March 25, 2020)*

Notes:

1. *Member of audit committee*
2. *Chairman of audit committee*
3. *Member of remuneration committee*
4. *Chairman of remuneration committee*
5. *Member of nomination committee*
6. *Chairman of nomination committee*

Company Secretary
Chau Chi Ming, Dickens *(appointed on July 31, 2019)*
Ng Yuk Yee, Feona *(resigned on July 31, 2019)*

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

Auditor
Deloitte Touche Tohmatsu

Principal Share Registrar and Transfer Office
MUFG Fund Services (Bermuda) Limited
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

Hong Kong Branch Share Registrar and Transfer Office
Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers
- Bank of America Merrill Lynch
- Bank of Communications
- Bank of Singapore
- Bank SinoPac
- BNP Paribas
- Cathay Bank
- CTBC Bank
- Citibank, N.A.
- Credit Agricole Corporate & Investment Bank
- DBS Bank Ltd.
- J.P. Morgan
- Mizuho Bank Ltd.
- MUFG Bank Ltd.
- OCBC Bank
- Scotiabank (Hong Kong) Limited
- Standard Chartered Bank (Hong Kong) Limited
- Sumitomo Mitsui Banking Corporation
- Taipei Fubon Commercial Bank Co., Ltd.
- Taishin International Bank
- The Hongkong and Shanghai Banking Corporation Limited
- UBS AG
- United Overseas Bank Ltd.

Solicitors
Reed Smith Richards Butler

Website
www.yueyuen.com

STOCK CODE: 00551


China
Taiwan
Bangladesh
Myanmar
Vietnam
Cambodia
Indonesia
2019

Chairman's Statement

LOOKING FOR SUSTAINABLE GROWTH

Dear Shareholders,

I am pleased to present the annual results of Yue Yuen Industrial (Holdings) Limited (the "Company" and together with its subsidiaries, the "Group") for the financial year ended December 31, 2019, to the shareholders of the Company (the "Shareholders").

Chairman's Statement

The global economy in 2019 remained resilient, albeit with some signs of softness. Most importantly, consumer sentiment in the United States and China held up, despite US's imposition of a tariff on footwear manufactured in China in the second half of the year.

Other headwinds were nevertheless not blunted. Fast-changing consumer tastes, driven in particular by the 'ath-leisure' trend, has continued to cause brand customers to change their sourcing strategies, leading to tough requirements such as a more flexible turnaround time, while demanding more complex products. It has also continued to greatly increase the procurement seasonality. Global trade frictions are also causing brand customers to adjust their country of origin and dual-sourcing requirements. All of these inevitably impacted our operating efficiency and margins during the year under review.

Meanwhile, as we position ourselves as an indispensable strategic supplier and partner to global brands, we continued to demonstrate and provide maximum flexibility to meet the changing needs of our customers, demonstrating in particular our ability to cater to small-batch sizes with superior quality and on-time delivery. This capability ensured that we remain our irreplaceable market position, while deepening our valued relationships with major sporting brands around the world.

In the financial year ended December 31, 2019, our consolidated revenue crossed the US$10 billion mark, increased by 4.2% to US$10.10 billion, compared with US$9.70 billion in 2018. Our athletic footwear category continued to outperform as a result of the athleisure trend and accounted for 81.7% of our footwear manufacturing revenue (44.9% of our consolidated revenue), while casual/outdoor shoes accounted for 16.3% of our footwear manufacturing revenue (9.0% of consolidated revenue).

Through the combination of our stabilizing manufacturing business alongside the strong performance of the retail side of our business – Pou Sheng International (Holdings) Limited ("Pou Sheng"), our sportswear retail subsidiary in China – the profit attributable to owners of the Company declined by 2.1% to US$300.5 million, as compared to US$307.1 million in 2018.

In order to position our manufacturing operations for the future and to maintain our global leadership, we have continued to invest in innovation, digitization, process re-engineering and automation in order to improve our competitiveness and long-term ability to cope with ever-changing market demand. It will still take a period of time to see the main benefits and fruitful returns, despite the good progress we made in 2019.

We also continued to focus on sustainability, reinforcing our commitments to the environment and labor relationships, and building on our parent company Pou Chen Group's accreditation by the Fair Labor Association (FLA), making us the first and only FLA-accredited footwear supplier globally. Making further advances in this area is another way in which we reinforce our importance as a strategic partner for our brand customers.

Looking forward to 2020, the outbreak of the 2019 Novel Coronavirus ("COVID-19") adds an additional element to the challenges we are seeing in the business environment. On the manufacturing-side, restrictions on the movement of people, the delayed resumption of work and operations at various factories internally and externally, as well as disrupted logistics, have already impacted our operational efficiency. While some of these effects may be mitigated by ongoing country-of-origin migration and the investments we have made in resource planning and data management systems such as SAP, we may simply need to ride out much of the impact. The spread of COVID-19 pandemic around the world also adds more uncertainties in 2020.

The direction of our long-term strategy for the manufacturing business remains unchanged. With higher order volatility and lower order visibility becoming a new norm in the future, we will continue to invest in SAP ERP system and other measures to support our efforts in modernizing our manufacturing capabilities. We will continue to seek ways to minimize the risks associated with trade policies, wage inflation, raw material price volatilities, and foreign exchange fluctuations.

We will also strengthen our commitment towards improving our sustainability efforts, especially in areas such as labor protection, occupational health and work safety, environmental sustainability, and in talent development and the training for our workforce. All of these align fully with the Group's core values and corporate social responsibility principles.

Once we accomplish the goals of these initiatives, we will be in a powerful position to profitably meet the enhanced needs of the footwear value chain.

Turning to Pou Sheng, the retail side of the business, the COVID-19 outbreak is bringing a different set of challenges, namely the temporary closure of numerous stores across China, alongside reduced in-store foot traffic, as well as lower demand for sports events and services. The impact of this will likely be material in the short-term, especially in the first half of 2020.

However, the long-term outlook for the sporting goods retail market in China remains promising. Consumers continue to develop higher and higher interest in sports activities and other pro-lifestyle habits – a trend that will only be strengthened further by global sporting events such as the 2021 Summer Olympics in Tokyo, 2022 Soccer World Cup in Qatar and 2022 Winter Olympics in Beijing.

To cater to this growing market, Pou Sheng has continued to invest in its store network and omni-channel capabilities, which supported our robust retail sales growth in 2019 and has positioned the business well for the future. On the operational side, Pou Sheng greatly improved its efficiency by further expanding its product-sharing platform that further integrated our brick and mortar stores and online platforms, in order to achieve more in-season sales, healthier discounting and better inventory management. Alongside this initiative, we have installed dashboards in several key stores to provide real-time in-store information for our frontline staff and management, further enhancing operational efficiency. The relaunch of the YY Sports mobile app, featuring diversified sports services contents and product purchase, will also help strengthen customer loyalty and increase our sales conversion rate.

As a result of these initiatives, combined with our continued investment in sports services, sports events, membership programs and other data-led investments, Pou Sheng is continuing to strengthen its position as a leading partner of the world's premier sports brands in the region. As of the end of 2019, Pou Sheng had 5,883 directly operated stores and 3,950 stores operated by sub-distributors across the Greater China region.

In conclusion, for the reasons outlined above, 2019 was an utmost important year in which we made remarkable progress in a number of key areas in both our manufacturing business and retail business. The benefits that we are starting to feel as a result of these efforts – greater efficiency, robust capabilities and more-responsive operations – will be essential as we brave the stronger headwinds in 2020.

I would like to take this opportunity on behalf of the board of directors of the Company (the "Board") to thank our customers, suppliers, business associates, and shareholders for their support. I would also like to offer my gratitude to our employees for their invaluable service and contributions throughout 2019.

Lu Chin Chu
Chairman

Hong Kong
March 30, 2020

Management Discussion and Analysis

BUILD VALUE FOR OUR STAKEHOLDERS

Business Review

Results

For the year ended December 31, 2019, the Group recorded revenue of US$10,105.4 million, representing an increase of 4.2%, compared with the previous year. The Group's gross profit rose by 2.7%, while the profit attributable to owners of the Company decreased by 2.1% to US$300.5 million, as compared to US$307.1 million recorded for the previous year. Basic earnings per share dropped by 1.1% to 18.64 US cents, compared with 18.84 US cents for the previous year.

Recurring Profit Attributable to Owners of the Company

Excluding all items of non-recurring nature, the recurring profit for the year ended December 31, 2019 declined by 13.3% to US$282.3 million, compared to a recurring profit of US$325.7 million for the previous year. For the year ended December 31, 2019, the Group recognized a non-recurring profit of US$18.3 million, which included a net gain of US$18.6 million from the disposal of Texas Clothing Holding Corp. and together with its subsidiaries (the "TCHC Group") and a net gain of US$8.4 million due to fair value changes on financial assets at fair value through profit or loss ("FVTPL"). By contrast, for the year ended December 31, 2018, the Group recognized a non-recurring loss of US$18.5 million, which included a net loss of US$23.4 million due to fair value changes on financial assets at FVTPL that were partly offset by one-off gains arising from the disposal of associates and subsidiaries.

Operations

General Overview

Yue Yuen is the world's largest manufacturer of athletic, athleisure, casual and outdoor footwear with a diversified portfolio of brand customers and production sites. The Group's production capacity is widely recognized for its responsiveness, flexibility, innovation, design and development capabilities, and superior quality. In 2019, the Group faced several unexpected headwinds, particularly the imposition of trade tariffs by the United States on footwear manufactured in China, coupled with the changing sourcing strategies of various customers on the back of the uncertainties associated with the aforementioned global trade frictions, as well as changing consumer trends. This accelerated the Group's adjustments of product country-of-origin throughout the year. The Group also continued to face increased demand from brand customers for more flexible procurement approaches in reaction to changing consumer preferences and the volatile market dynamics. This together with the increased complexity and versatility of the Group's customers' product portfolios had a temporary adverse impact on the Group's production efficiency during 2019.

To address these challenges, respond to the changing environment and sustain its long-term position, the Group made further progress in adapting its manufacturing business to cater to the faster-moving market environment, particularly in response to increasing demand for greater versatility, flexibility and faster turnaround time. It also continued to enhance its digital transformation and lean manufacturing, adapting its operations to allow flexible set-up and frequent line change-overs through process re-engineering, increased automation levels, and SAP ERP system implementation to optimize its ongoing smart manufacturing strategy. This will ensure that the Group can continue to provide differentiated value-added and one-stop OEM/ODM services to customers with whom it has maintained long-term relationships. The Group also furthered its efforts to foster environmental sustainability, eyeing at the long-term growth viability of its business.

The Group also operates one of the largest and most integrated sportswear retail networks in the Greater China region through its listed subsidiary, Pou Sheng International (Holdings) Limited ("Pou Sheng"). To best achieve its omni-channel strategy of integrating synergies between brick-and-mortar stores and e-commerce channels, Pou Sheng is currently in the process of strengthening its market presence and optimizing operating efficiency by implementing customer experience-focused initiatives, integrating inventories and resources between its omni-channels and retail networks. Pou Sheng is also investing in digitization in the face of ever-changing consumer dynamics. For a more detailed explanation and strategy of the Group's retail business, please refer to the 2019 annual report of Pou Sheng.

The Group remains committed to sustainability, ethical conduct and corporate values. When making important business decisions, the Group considers the interests of all stakeholders, including employees and the surrounding community. The Group monitors and manages its business using comprehensive guidelines on employee relations, workplace safety and the efficient use of raw materials, energy, and other environmental metrics, promoting a culture of ethical conduct and integrity. Yue Yuen's parent company, Pou Chen Group, is also accredited by the Fair Labor Association (FLA) as a result of the Group's efforts in the areas of labor rights and sustainability.

As a people-oriented business, the Group is dedicated to fostering a caring culture and to developing talent internally as part of its long-term sustainable development. For more details on the Group's sustainable development strategy and reporting of its practices on environmental, social and governance, please refer to the 2019 Environmental, Social and Governance Report of the Company.

Total Revenue by Product Category

In the year ended December 31, 2019, revenue attributed to footwear manufacturing activity (including athletic shoes, casual/outdoor shoes and sports sandals) increased by 3.1% to US$5,557.9 million, compared with the previous year, whereas the volume of shoes shipped slightly decreased by 1.1% to 322.4 million pairs and the average selling price per pair increased by 4.3% to US$17.24 per pair, as compared with the previous year primarily due to the Group's efforts to optimize customer and product portfolios.

The Group's athletic footwear category outperformed all other categories as a result of the global athleisure trend, accounting for 81.7% of footwear manufacturing revenue in 2019. Casual/outdoor shoes accounted for 16.3% of footwear manufacturing revenue. When considering the Group's consolidated revenue, athletic shoes represented the Group's principal category, accounting for 44.9% of total revenue in 2019, followed by casual/outdoor shoes, which accounted for 9.0% of total revenue.

The Group's total revenue with respect to the manufacturing business (including footwear, as well as soles, components and others) was US$6,000.6 million in 2019, representing an increase of 2.0% as compared to the previous year.

The Group's distribution sales ("Distribution Business") are derived primarily from Pou Sheng, which operates retail operations for international sporting goods brands in the Greater China region. It also includes sales from TCHC Group, the Group's apparel wholesale subsidiary in North America, which was disposed of on May 31, 2019. Revenue attributable to the Group's Distribution Business was US$4,104.8 million in the year ended December 31, 2019, an increase of 7.6% as compared with the previous year.

In the year ended December 31, 2019, the revenue attributable to Pou Sheng, the Group's retail subsidiary, increased by 14.9% to US$3,933.0 million, compared to US$3,421.7 million in the previous year. In RMB terms (Pou Sheng's reporting currency), revenue increased by 19.9% to RMB27,189.8 million, compared to RMB22,677.4 million in the previous year. As of December 31, 2019, Pou Sheng had 5,883 directly operated retail outlets and 3,950 stores operated by sub-distributors in China.

Total Revenue by Product Category

	For the year ended December 31,				
	2019		2018		
	US$ million	***%***	*US$ million*	*%*	*change %*
Athletic Shoes	**4,541.6**	**44.9**	4,267.7	44.0	6.4
Casual/Outdoor Shoes	**906.2**	**9.0**	1,031.0	10.6	(12.1)
Sports Sandals	**110.1**	**1.1**	91.8	1.0	19.9
Soles, Components & Others	**442.7**	**4.4**	491.0	5.1	(9.8)
Apparel Wholesale (TCHC Group)	**171.8**	**1.7**	392.1	4.0	(56.2)
Retail Sales – Shoes, Apparel and Commissions from Concessionaire Sales	**3,933.0**	**38.9**	3,421.7	35.3	14.9
Total Revenue	**10,105.4**	**100.0**	9,695.3	100.0	4.2

Orders from international brands are received by business units that manage each customer and normally take about ten to twelve weeks to fill. More and more customer orders request a shorter lead-time between 30-45 days, in line with the fast fashion trend.

Sales from the Group's retail business across the Greater China region are recorded on a daily basis, or at periodic intervals if from sub-distributors.

Production Review

In 2019, the Group's manufacturing business shipped a total of 322.4 million pairs of shoes, a slight decline of 1.1% compared to the 326.0 million pairs shipped in the previous year primarily due to its efforts to optimize customer and product portfolios. The average selling price per pair was US$17.24, an increase of 4.3% compared to US$16.53 in the previous year.

In terms of production allocation, Vietnam, Indonesia and China continued to be the Group's main locations by shoe volume in 2019, representing 44%, 39% and 13% of total shipments, respectively, during the year under review.

Cost Review

With respect to the cost of goods sold by the Group's manufacturing business in 2019, total main material costs were US$2,215.0 million (2018: US$2,163.7 million). The direct labor costs and production overheads amounted to US$2,678.5 million (2018: US$2,568.8 million). The total cost of goods sold by the Group's manufacturing business was US$4,893.5 million during the year under review (2018: US$4,732.5 million). For the Group's Distribution Business, cost of sales were US$2,698.8 million (2018: US$2,516.7 million).

In the year ended December 31, 2019, the Group's gross profit increased by 2.7% to US$2,513.1 million. This increase was mostly attributed to Pou Sheng, contributing to the higher revenue growth thanks to improved sell-through and the robust sporting goods market in China.

The gross profit margin of the Group's manufacturing business contracted by 1.0 percentage points to 18.5% as compared to that in the previous year. The decrease in the gross profit margin for the manufacturing business was primarily due to a combination of increased product complexity resulting from the current 'retro fashion' trend, growing demand for flexible production set-up such as dual-sourcing from different countries, as well as shifting production facilities among countries. It also related to the Group's investments in manufacturing optimization for its sustainable growth (including higher levels of automation and SAP ERP system implementation), which resulted in temporary low efficiencies at some of its production facilities.

Given the uncertainties in the global trade environment, including the on-going trade tariff measures between the United States and China, as well as brand customers' demands for more flexible procurement strategies, the Group has and will continue to further adjust production allocation by country in response to the changing sourcing strategies of some brand customers. These measures will require some time and resources to reach optimal operational efficiency.

The gross profit margin for the Group excluding Pou Sheng (i.e. the manufacturing business and TCHC Group) during the year under review was 19.0%.

Pou Sheng's gross profit margin during the year under review expanded to 34.1%, compared to 33.5% in the previous year, which was attributed to the improvement in product and channel mix, sell-through and discounts.

The Group's total selling and distribution expenses for 2019 amounted to US$1,222.1 million (2018: US$1,160.1 million), equivalent to approximately 12.1% (2018: 12.0%) of revenue.

Administrative expenses for 2019 amounted to US$682.7 million (2018: US$658.3 million), equivalent to approximately 6.8% (2018: 6.8%) of revenue, remaining stable.

With cost pressures remaining significant for the manufacturing business, the management will continuously look for ways to improve its efficiency and productivity.

Product Development

In 2019, the Group spent US$208.6 million (2018: US$205.9 million) on product development, including investments in sampling, technological and digitalized development and creation, as well as in production efficiency enhancements. For each of the major branded customers that has an R&D team, a parallel independent product development center exists within the Group to support the said R&D team. In addition to product development work, the Group also cooperates with its customers to seek efficiency improvements in production processes, lead time and to formulate new techniques to produce high-quality footwear, as well as to incorporate innovative and environmental-friendly materials into the design, development and manufacture of its products.

Financial Review

Liquidity, Financial Resources and Capital Structure

The Group's financial position remained solid. As at December 31, 2019, the Group had cash and cash equivalents of US$982.1 million (December 31, 2018: US$851.4 million) and total bank and other borrowings of US$2,089.9 million (December 31, 2018: US$2,123.9 million). The Group's gearing ratio (total bank and other borrowings to total equity) was 46.1% as at December 31, 2019 (December 31, 2018: 46.7%). As of December 31, 2019, the Group had net borrowing of US$1,107.8 million (December 31, 2018: US$1,272.5 million). As at December 31, 2019, the Group had current assets of US$4,492.7 million (December 31, 2018: US$4,410.3 million) and current liabilities of US$2,459.0 million (December 31, 2018: US$2,306.0 million). The current ratio was 1.8 as at December 31, 2019 (December 31, 2018: 1.9).

The Group has relied to a certain extent on debt financing for its funding requirements. With regard to the choice of debt versus equity financing, which would thus affect its capital structure, the Group will consider the impact on its weighted average cost of capital and its leverage ratio etc., with an aim of lowering the weighted average cost of capital while maintaining its gearing ratio at a comfortable level. The Group used debt financing mostly by means of bank loans. In terms of the maturity profile of loans, most of the bank loans for the Group's manufacturing business were long-term committed facilities that partly meet the funding needs of its capital expenditures and long-term investments. Short-term revolving loans facilities were also utilized regularly for daily working capital purposes, especially for the Group's retail business. As of December 31, 2019, around 64.9% of the Group's total bank and other borrowings were with remaining tenor of over 1 year.

Almost all of the bank borrowings of the Group relating to its manufacturing business are denominated in USD. The majority of the Group's cash surplus in relation to its manufacturing business is held in USD, while some cash are held in local currencies (e.g. VND, IDR, RMB) in various countries where its production facilities are located for daily operation purposes. For the Group's retail business, Pou Sheng's bank and other borrowings and cash balances are mostly in RMB, which is its functional currency.

The vast majority of the Group's bank and other borrowings were on floating rate basis. A portion of the Group's floating interest rate risk exposure was hedged by interest rate swaps.

Capital Expenditure

In 2019, the capital expenditure for the Group's manufacturing and Distribution Business segments were US$279.3 million (2018: US$405.2 million) and US$118.8 million (2018: US$89.2 million) respectively. Capital expenditure for the manufacturing business in 2019 included automation investments, capacity migration, as well as upgrades and the maintenance of production facilities in Vietnam, Indonesia and other regions, which was funded primarily by both internal and external resources of the Group. For the Distribution Business, in particular Pou Sheng, resources were invested in the expansion, upgrade and maintenance of retail stores.

Apart from investments for operation purposes which may be made in the Group's ordinary and usual course of business, the Group presently does not have any plan for material investments or acquisition of capital assets.

Contingent Liabilities

The Group had provided guarantees to banks in respect of banking facilities granted to joint ventures and associates, the details of which can be seen in note 44 to the consolidated financial statements in the 2019 annual report of the Company.

Significant Investments and Material Acquisitions/Disposals

In 2019, the share of results from associates and joint ventures was a combined profit of US$52.0 million, compared to a combined profit of US$39.5 million in the corresponding period of last year.

During the year under review, the Group disposed of its entire interest in TCHC Group. The disposal is part of the Company's efforts to focus on its core business. The Group recognized a gain, net of transaction expenses, of approximately US$18.6 million from the disposal in the year ended December 31, 2019.

Details of the material disposals of subsidiaries during the year under review are set out in note 40 to the consolidated financial statements in the 2019 annual report of the Company.

Dividends

A final dividend of HK$0.70 per share (2018: HK$1.10 per share) for the year ended December 31, 2019 has been recommended, amounting to a total dividend per share of HK$1.10 for the year (2018: HK$1.50 per share), inclusive of an interim dividend of HK$0.40 per share (2018: interim dividend of HK$0.40 per share). The recommended final dividend is subject to the approval by shareholders of the Company at the forthcoming annual general meeting.

The Group maintains a stable operating cash flow and a suitable level of cash holdings. The Group's commitment to upholding relatively steady level in dividend payment over time remains intact.

Foreign Exchange Exposure

All revenues from the manufacturing business are denominated in US dollars. The majority of material and component costs are paid in US dollars, while expenses incurred locally are paid for in the local currency i.e. wages, utilities and local regulatory fees. A certain portion of IDR exposure is partly hedged with forward contracts.

For the Group's retail business in China, all revenues are denominated in RMB. Correspondingly, all expenses are also denominated in RMB. For the retail business outside China, both revenues and expenses are denominated in local currencies.

Employees

As at December 31, 2019, the Group had approximately 347,100 employees across all regions in which the Group operates, largely stable as compared to the previous year. The Group adopts a remuneration system based on an employees' performance throughout the year under review and prevailing salary levels in the market.

The Group believes that employees are important assets, and has planned a holistic approach to the recruitment, employment, training and retention of employees.

The Group employs a competitive remuneration scheme and provides comprehensive employee benefits, in line with the relevant laws and regulations applicable to each of its operating locations. It sets aside a certain percentage of profits, according to the annual performance of the Group, as year-end bonuses to reward employees' contributions and work enthusiasm, allowing them to share in its operating results. It also provides insurance plans that are tailor-made to each operating location to reduce the medical expense burden of employees, as well as pension fund contributions in compliance with the laws and regulations of the local jurisdictions in which the Group operates.

The Group regularly undertakes internal and external training courses at all levels, including new employees training, professional training, management training, environmental safety training and corporate core values training, with the objective of upgrading the quality and expertise of the Group's employees and management, as well as boosting their morale.

The social compliance program of the Group's parent, Pou Chen Group has been accredited by the Fair Labor Association (FLA), a non-profit organization dedicated to protecting workers' rights around the world, making the Group the first and only FLA-accredited footwear supplier globally. The accreditation recognized the Group's commitment to globally implement workplace standards; implement a comprehensive system to evaluate and incentivize manufacturing facilities and material suppliers to improve working conditions; invest in a social compliance program, training, and remediation; and improving its transparency in remediating labor violations at its production sites and establishing multiple grievance channels.

Prospects

Heading into 2020, the Group's manufacturing and retail businesses are facing a more diverse range of challenges. In addition to existing uncertainties already impacting the manufacturing business, particularly shifting international trade policies and rapidly changing consumer trends, the recent COVID-19 pandemic around the globe has significantly impacted the Group's operations and will negatively impact its revenue and results in the first half of 2020.

The outbreak of the COVID-19 has adversely affected the Group's operations ranging from its production sites to its supply chain in China and other countries. It will take a period of time for the Group's production bases to return to normal levels.

For the retail business, the COVID-19 pandemic caused Pou Sheng to temporarily close most of its retail stores in China during the key Lunar New Year shopping season and throughout most of February. Given that the revenue of Pou Sheng is mainly derived from the sales of sportswear in brick-and-mortar retail stores, it is expected that the temporary store closures will have a significant impact on its revenue and results for the first half of 2020.

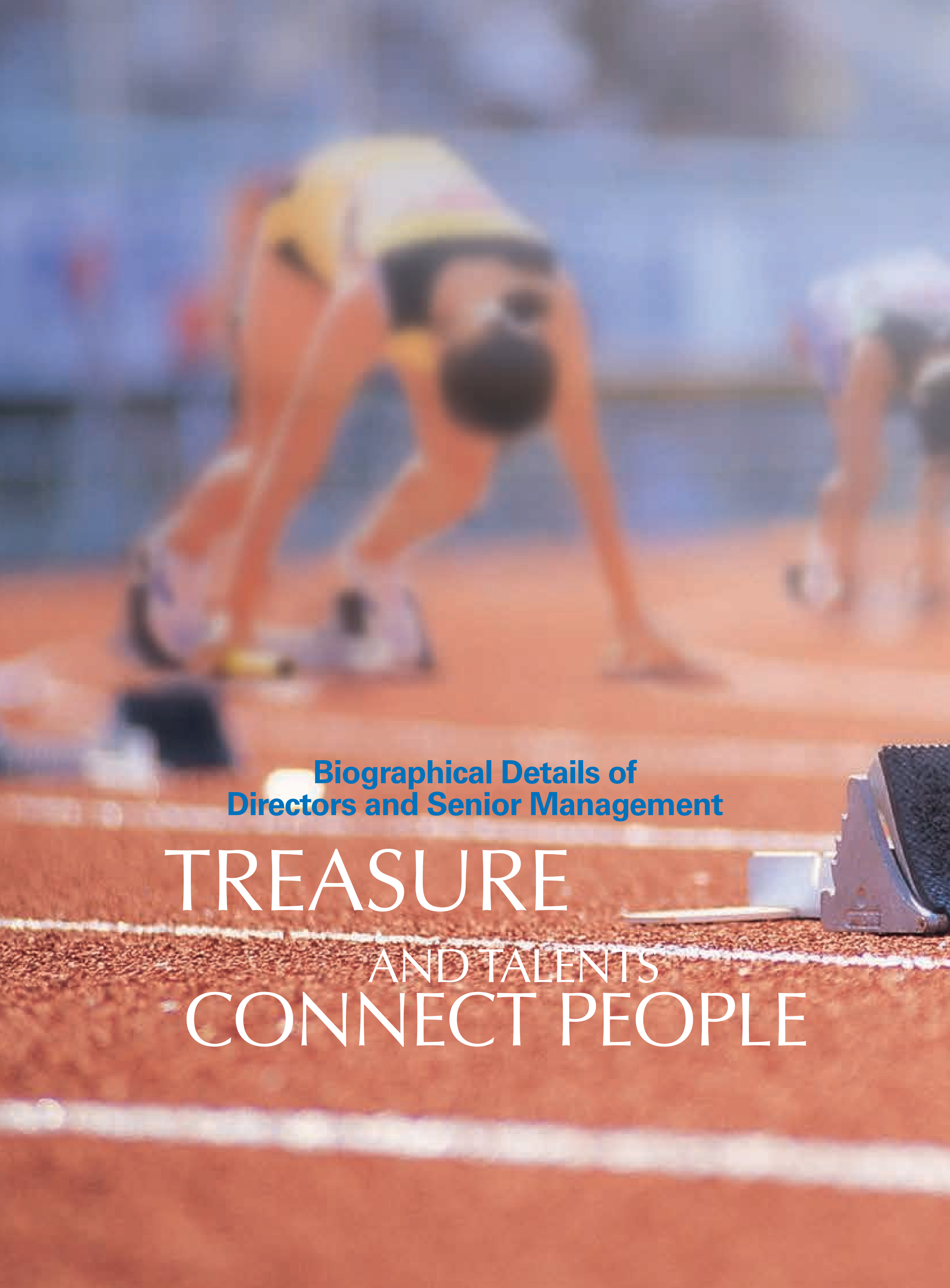
Other than this, the Group will continue to adjust its production according to market seasonality as well as diversified capacity allocation among different countries, which will in the short term affect its operating efficiency. It is critical that the Group continues to demonstrate flexibility as one of its core competencies as changing consumer trends result in shorter lead times, increased seasonality, and higher product complexity.

The Group will continue to accelerate the pace of capacity migration to cost competitive regions as it responds to the addition of a 7.5% tariff (recently lowered from the original level of 15%) by the US on footwear exported from China, the uncertain global environment and increasing demand for flexibility. This includes shifting capacity from China to Southeast Asia, as well as shifting production facilities between Southeast Asian countries, while being mindful of the labor supply situation in the countries where the Group operates, especially in Vietnam. The Group is actively monitoring the macroeconomic and geopolitical situation.

The Group will continue to leverage on its core strengths and competitive edges to overcome these short-term challenges and safeguard its sustainable and steady growth. This includes investing in and implementing ERP data management systems such as SAP to improve the efficiency of the Group's business processes. The Group will continue to enhance its product development and innovation capabilities and explore other value-added and margin-accretive opportunities for vertical integration to tap new markets, creating long-term synergies for its businesses.

Aside from the current short-term challenges, the Group remains optimistic about the long-term growth prospects of its retail business, given increasing health awareness, higher sports participation rates and the growth of 'athleisure' trend in the Greater China region. Pou Sheng's omni-channel strategy, which has been extended to include sports services content, will also continue to benefit from the Chinese government's supportive policies. It will continue to invest in upgrading its store formats, opening new concept mega stores and integrating digital and physical channels and inventories to reinforce the consumer experience and stimulate higher-margin sales, while also addressing dynamic consumer shopping habits.

Going forward, the Group remains confident that these strategies will enable it to continue providing its brand customers with end-to-end solutions, while safeguarding its solid long-term profitability and ability to deliver sustainable returns to shareholders.



Biographical Details of Directors and Senior Management

TREASURE
AND TALENTS
CONNECT PEOPLE

Executive Directors

Mr. Lu Chin Chu, aged 66, has been an executive director and the chairman of the Company since March 26, 2014. Mr. Lu was an executive director of the Company from February 15, 1996 to March 4, 2011. He joined Pou Chen Corporation ("PCC"), being listed on the Taiwan Stock Exchange ("TSE"), in 1977. He is the president of the real estate department of the Group and in charge of the management of the real estate. He is a director of certain subsidiaries of the Company. Mr. Lu is also the president and a director of PCC and he is involved primarily in board level and strategic issues. He is also a director of Wealthplus Holdings Limited ("Wealthplus") and Win Fortune Investments Limited ("Win Fortune"), both are wholly-owned subsidiaries of PCC. PCC, through Wealthplus and Win Fortune, has interests in the shares of the Company which would need to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Lu has over 40 years of experience in the manufacturing of footwear and footwear materials, and holds a Master Degree in Business Administration from National Chung Hsing University in Taiwan. Mr. Lu was a non-executive director of Prosperous Industrial (Holdings) Limited ("Prosperous") from March 29, 2018 to March 31, 2020 and a non-executive director of Luen Thai Holdings Limited from September 17, 2007 to February 15, 2017, both companies being listed on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). He is a director of San Fang Chemical Industry Co., Ltd. ("San Fang") and was also a director of Evermore Chemical Industry Co., Ltd. ("Evermore") from June 19, 2006 to January 16, 2018, both companies being listed on the TSE. Mr. Lu is involved in board level activities and is not engaged in the day-to-day management of San Fang and Evermore.

Biographical Details of Directors and Senior Management

Ms. Tsai Pei Chun, Patty, aged 40, has been the managing director of the Company since June 28, 2013. She graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science Degree in Economics with a concentration in Finance and a College Minor in Psychology. She joined the Group in 2002 and serves as an executive director of the Company from January 18, 2005 with focus on the Group's strategic planning and enterprise developments. Ms. Tsai currently also serves as a non-executive director of Pou Sheng, a non-wholly owned subsidiary of the Company, whose shares are listed on the main board of the Stock Exchange. She is also a director of PCC and Wealthplus. Both PCC and Wealthplus are companies having interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO. She previously served as a board director of Mega Financial Holding Company Limited, a company listed on the TSE. Ms. Tsai is a cousin of Mr. Tsai Ming-Lun, Ming, who resigned as an executive director of the Company on April 1, 2020.

Mr. Chan Lu Min, aged 65, joined the Group in 2001. He is a director and the chairman of PCC and the president of administration management department and in charge of finance and accounting. Mr. Chan was appointed as an executive director of the Company on March 7, 2001. He is a director of certain subsidiaries of the Company. He has 39 years of finance and accounting experience in Taiwan. Mr. Chan is a graduate of Chung Hsing University in Taiwan. Mr. Chan is also a director of Wealthplus and Win Fortune. PCC, through Wealthplus and Win Fortune, has interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO.

Mr. Lin Cheng-Tien, aged 60, graduated from South Fields College, United Kingdom majoring in shoe manufacturing. He joined the Group in 1990 and is a senior executive vice president of the Group responsible for the production, sales and marketing of certain footwear brand customers of the Group. He was the head of a business unit of the Group. Mr. Lin was appointed as an executive director of the Company on March 20, 2015. He is also a director of certain subsidiaries of the Company. Mr. Lin has more than 29 years of experience in the footwear sector. Prior to joining the Group, Mr. Lin had worked with a renowned footwear manufacturing company in Taiwan responsible for the business and development of different brands.

Mr. Tsai Ming-Lun, Ming (resigned on April 1, 2020), aged 42, holds a Bachelor's Degree of Science from National Taiwan University. He graduated from Harvard University in 2004 and holds a Master's Degree in Design Studies with Major in Project Management. Mr. Tsai is specialized in factory management and is responsible for business development and production operation of major customers, and the sourcing of certain footwear materials. Mr. Tsai has served the Group since 2005 and was appointed as an executive director of the Company on June 28, 2013. He resigned as a director of PCC and Wealthplus on April 1, 2020. Both PCC and Wealthplus are companies having interests in the shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO. He resigned as a director of certain subsidiaries of the Company on April 1, 2020. Mr. Tsai is a cousin of Ms. Tsai Pei Chun, Patty, the managing director and an executive director of the Company.

Mr. Hu Chia-Ho, aged 51, graduated from the University of Wisconsin, Madison, the United States of America with a Master's degree of Science. He joined PCC in 1997. He is a vice president of the Group and was the head of the Human Resources Department of PCC and becomes the head of CEO office on April 1, 2020. Mr. Hu was appointed as an executive director of the Company on March 20, 2015. He has extensive experiences in human resources management and business development. Prior to joining PCC, Mr. Hu had worked with Citibank Taiwan and was responsible for corporate financing and the related businesses.

Mr. Liu George Hong-Chih, aged 47, holds a Master of Business Administration Degree in Finance and Entrepreneurial Management from The Wharton School of University of Pennsylvania and Bachelor of Arts Degree in Economics and International Studies from Yale University. Mr. Liu worked as a management consultant with Bain & Company in the U.S. and Beijing, China, after graduating from the university. Mr. Liu was with Morgan Stanley from 2000 to 2010 with primary responsibility in deal origination and execution and client coverage in Greater China. Mr. Liu last held the position of executive director with Morgan Stanley. In June 2010, Mr. Liu joined China International Capital Corporation as managing director and head of Hong Kong Investment Banking Department. Mr. Liu joined the Company on April 29, 2013 and was appointed as an executive director of the Company on June 28, 2013. He is a vice president of the Group responsible for the business development and production management of certain major brands. He is also a director of certain subsidiaries of the Company. Mr. Liu was also a non-executive director of Symphony Holdings Limited, a company listed on the main board of the Stock Exchange, from August 20, 2014 to June 1, 2015.

Mr. Hu Dien Chien, aged 41, holds a Master of Business Administration Degree in Finance and Accounting from New York University Leonard N. Stern School of Business and Bachelor of Business Administration Degree in Finance from National Taiwan University. Mr. Hu worked as a Business Analyst in Deutsche Asset Management in Taiwan after graduating from the university and then Research Associate in CLSA Asia Pacific Markets covering the telecom and petrochemical sectors in Taiwan. After business school, Mr. Hu joined Goldman Sachs (Asia) L.L.C. ("Goldman Sachs") in Hong Kong from 2006 to 2014, where he was responsible for leading strategic/capital market services including business origination and execution for a variety of corporate clients in Greater China. Mr. Hu last held the position of executive director with Goldman Sachs. In 2014, Mr. Hu joined an electric vehicle company in Taiwan as chief financial officer. Mr. Hu was an independent director of Growww Media Co., Ltd., (formerly known as United Advertising Co., Ltd.), a company listed on the TSE, from June 22, 2016 to December 31, 2016. Mr. Hu joined the Company on November 21, 2016 as Chief Financial Officer and was appointed as an executive director of the Company on March 24, 2017. He is a vice president and the Head of Strategy and Investment Department of the Group. He is also a director of certain subsidiaries of the Company. In addition, Mr. Hu has also been an executive director of Eagle Nice (International) Holdings Limited ("Eagle Nice"), a company listed on the main board of the Stock Exchange, since May 1, 2019.

Biographical Details of Directors and Senior Management

Independent Non-executive Directors

Mr. Wong Hak Kun, aged 63, graduated from The University of Hong Kong with a Bachelor Degree in Social Sciences. He is a member of Hong Kong Institute of Certified Public Accountants. He is also a member of Association of Chartered Certified Accountants, Chartered Institute of Management Accountants as well as Institute of Chartered Secretaries and Administrators. Mr. Wong was appointed as an independent non-executive director of the Company on June 1, 2018. Mr. Wong has over 36 years of audit, assurance and management experiences with Deloitte China, of which he was a partner since 1992. Mr. Wong also served as a member of Deloitte China's Governance Board from years 2000 to 2008. Prior to his retirement from Deloitte China in May 2017, he was the Managing Partner of Deloitte China's Audit and Assurance practice. Mr. Wong is an independent non-executive director of Lung Kee (Bermuda) Holdings Limited and Zhejiang Cangnan Instrument Group Company Limited, both being listed on the main board of the Stock Exchange.

Mr. Ho Lai Hong, aged 61, holds a Master of Business Administration Degree from The Hong Kong Polytechnic University. He is a fellow member of The Hong Kong Institute of Chartered Secretaries. He is also a member of the Hong Kong Securities and Investment Institute and a fellow member of the Hong Kong Institute of Directors. Mr. Ho was appointed as an independent non-executive director of the Company on May 24, 2019. Mr. Ho has over 30 years of banking, corporate finance and management experiences with Mizuho Bank Ltd. Prior to his retirement from Mizuho Bank Ltd. in March 2018, he was the General Manager/Alternate Chief Executive of Mizuho Bank Ltd. Hong Kong Branch. Mr. Ho is an independent non-executive director of Foshan Water Environmental Protection Co., Ltd and Leo Paper Group (Hong Kong) Ltd.

Ms. Yen Mun-Gie (also known as Teresa Yen), aged 50, holds an undergraduate degree from University of California at Berkeley and a Master's Degree in Business Administration from University of Southern California, Marshall School of Business. Ms. Yen was appointed as an independent non-executive director of the Company on November 28, 2012. Ms. Yen was a non-executive director of HKC (Holdings) Limited, a company listed on the main board of the Stock Exchange, between October 3, 2007 and May 8, 2015. She is a managing partner of Radiant Capital ("Radiant"), a Northeast Asia focused real estate investment firm. Prior to Radiant, she had been a senior advisor to Cerberus Asia Capital Management, LLC., for 12 years. She worked with KPMG real estate consulting, Sumitomo Bank, Long-Term Credit Bank of Japan and Heller Financial.

Mr. Chen Chia-Shen, aged 65, holds a Doctor of Philosophy Degree in psychology from National Taiwan University. Mr. Chen was appointed as an independent non-executive director of the Company on January 10, 2020. Mr. Chen has worked at National Taiwan University for over 30 years and had acted as the head of the Department and Graduate Institute of Business Administration. He retired as the professor of the Department and Graduate Institute of Business Administration in July 2019 and currently acts as an adjunct professor. He was also a visiting scholar at Wharton School of the University of Pennsylvania, the United States. Mr. Chen has been an independent director of Chia Hsin Cement Corporation, a company listed on the TSE, since 2013. He was also an independent director of CPC Corporation, Taiwan, a public company in Taiwan, for three sessions. He is an external senior consultant at the Industrial Technology Research Institute of Taiwan and the founding chairman and a director of the Taiwan Employee Assistance Professionals Association. He was also the president of the Republic of China Affiliate of the International Council for Small Business and the vice-chairman of the Association of Asian Small and Medium-sized Enterprises.

Biographical Details of Directors and Senior Management

Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) (retired on March 25, 2020), aged 70, holds a Bachelor's degree in Business Administration from National Taiwan University and a Master's degree in Business Administration from National Cheng-chi University in Taiwan. Mr. Hsieh was appointed as an independent non-executive director of the Company on March 26, 2014. Mr. Hsieh commenced his career in corporate banking in 1975. He acted as the chief financial officer of Great Electric Co., Ltd. from 1987 to 1991. He was the managing director of Hanlink Capital Ltd. from 1994 to 2008. He took up the role of independent director of First Sino Bank from November 2008 to December 2013. He was the supervisor of Young Optics Inc. ("Young Optics"), a company listed on the TSE from 2006 to 2012 and was a director of Young Optics from June 13, 2012 to June 10, 2015. Mr. Hsieh was an independent director of Wistron Information Technology & Services Corporation, a company listed on Taipei Exchange (formerly known as the Gre Tai Securities Market) in Taiwan, from November 2010 to June 2019.

Senior Management

Mr. Chang Chia Li, aged 62, joined the Group in 1997 and is a vice president of the Group in charge of the management of global supply chain, and the business development and production management of certain major brand. He is also a director of certain subsidiaries of the Company. He is a college graduate and has 23 years of experience in the footwear business.

Mr. Hsiao Tsai Yuan, aged 61, joined the Group in 1981 and is a vice president of the Group in charge of the business development and production of certain major brands. He is also a director of certain subsidiaries of the Company.

Mr. Lee Cheng Chuan, aged 56, joined the Group in 1989 and is a vice president of the Group in charge of business development and production management of apparel business and footwear joint venture business. He is also a director of certain subsidiaries of the Company. He graduated from National Taipei University of Technology. Mr. Lee was an executive director of Eagle Nice from September 15, 2016 to April 1, 2020.

Mr. Shih Chih-Hung, aged 54, joined the Group in 1991 and is a vice president of the Group mainly responsible for the promulgation and implementation of administrative policies of the Group in Indonesia, Vietnam, Bangladesh, Cambodia and Myanmar. He is also a director of certain subsidiaries of the Company. He graduated from Chung-Yuan University. Mr. Shih has been an executive director of Eagle Nice since April 1, 2020.

Mr. Chung Kun-Hsiang (retired on January 31, 2020), aged 67, joined the Group in 2000 and is a vice president of the Group in charge of business development and production management of certain major brands. He is also a director of certain subsidiaries of the Company. He graduated from the Aletheia University in Taiwan.

Mr. Chau Chi Ming, Dickens, aged 56, is a senior director of Finance & Treasury Department of the Group, responsible for daily financial management and treasury functions. He is also a director of certain subsidiaries of the Company. He was the company secretary of the Company (the "Company Secretary") from January 12, 2014 to March 23, 2016 and has been reappointed as the Company Secretary since July 31, 2019. Mr. Chau had worked in the corporate banking field with an international bank before joining the Group in 1993. He graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree, majoring in Finance. He is a member of The Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants of the UK. Mr. Chau has been a non-executive director of Prosperous since March 31, 2020.

Biographical Details of Directors and Senior Management

Ms. Chua Chun Po, aged 40, is an associate director of Accounting, responsible for accounting and financial reporting of the Group. She is also a director of certain subsidiaries of the Company. She holds a bachelor degree in business administration, majoring in accountancy and has over 18 years of experience in accounting and auditing. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in 2014, she worked in a reputable international accounting firm, a professional accounting body and a Hong Kong listed company.

Ms. Yau Suet Fong, Christina, aged 59, joined the Group in 1993 and is a director of Accounting & Special Projects of the Group responsible for the financial and management accounting of several major subsidiaries of the Group, tax review and special projects. She holds a Bachelor of Business (Accounting) Degree from Charles Sturt University, Australia and has more than 28 years of accounting experience.

Ms. Wang Chi, Olivia, aged 39, is the Investor Relations Director of the Group. Ms. Wang possesses more than 10 years of professional experience in formulating capital market and investor relations strategies prior to joining the Group in 2017. She was previously in charge of investor relations and strategy at L'Occitane International S.A. and Stella International Holdings Limited, etc. Ms. Wang holds a Master's Degree in Corporate Finance from The Hong Kong Polytechnic University, School of Accounting and Finance, a Master's of Science Degree in Public Policy & Management from Carnegie Mellon University, Heinz College, as well as a Bachelor of Political Science Degree from National Taiwan University.

Directors' Report

The directors of the Company (the "Directors") have the pleasure to present their annual report and the audited consolidated financial statements for the year ended December 31, 2019.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are the manufacturing, marketing and retailing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

Results and Appropriations

The results of the Group for the year ended December 31, 2019 are set out in the consolidated income statement on page 91 of the annual report.

During the year, an interim dividend of HK$0.40 per share was paid to the Shareholders for the six months ended June 30, 2019. The Directors recommend the payment of a final dividend of HK$0.70 per share to the Shareholders whose names appear on the register of members of the Company on June 8, 2020, amounting to approximately HK$1,127,117,000.

Subsidiaries, Associates and Joint Ventures

Details of the principal subsidiaries, associates and joint ventures of the Group as at December 31, 2019 are set out in Notes 49, 19 and 20 to the consolidated financial statements respectively.

Share Capital

Details of the share capital of the Company are set out in Note 34 to the consolidated financial statements.

Investment Properties

Details of the movements in the investment properties of the Group during the year are set out in Note 13 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

Donations

During the year ended December 31, 2019, the Group made charitable and other donations totalling approximately US$2.9 million.

Distributable Reserves of the Company

As at December 31, 2019, the Company's reserves available for distribution to the Shareholders were US$1,577,882,000, which comprises contributed surplus of US$38,126,000 and retained profits of US$1,539,756,000 of the Company.

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

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

(b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Directors and Directors' Service Contracts

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

Executive directors:	
Lu Chin Chu *(Chairman)*	
Tsai Pei Chun, Patty *(Managing Director)*	
Chan Lu Min	
Lin Cheng-Tien	
Tsai Ming-Lun, Ming	(resigned on April 1, 2020)
Hu Chia-Ho	
Liu George Hong-Chih	
Hu Dien Chien	
Independent non-executive directors:	
Wong Hak Kun	
Ho Lai Hong	(appointed on May 24, 2019)
Huang Ming Fu	(retired on May 31, 2019)
Yen Mun-Gie *(also known as Teresa Yen)*	
Chen Chia-Shen	(appointed on January 10, 2020)
Hsieh Yung Hsiang *(also known as Alfred Hsieh)*	(retired on March 25, 2020)

Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty, Mr. Hu Dien Chien and Ms. Yen Mun-Gie (also known as Teresa Yen) will retire by rotation at the forthcoming annual general meeting of the Company to be held on May 29, 2020 ("2020 AGM") in accordance with Bye-law 87 of the bye-laws of the Company (the "Bye-laws") and, being eligible, will offer themselves for re-election.

Mr. Chen Chia-Shen who was appointed as an independent non-executive director of the Company on January 10, 2020 in respect of the retirement of Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) shall hold office until 2020 AGM in accordance with Bye-law 86(2) of the Bye-laws and will then be eligible for re-election.

Currently, all independent non-executive directors of the Company are appointed for a specific term of three years, subject to retirement by rotation in accordance with the provision of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Bye-laws.

Directors and Directors' Service Contracts (continued)

The Company has received from each of its independent non-executive directors an annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of its independent non-executive directors are independent.

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

Permitted Indemnity Provisions

Under the Bye-laws, and subject to the applicable laws and regulations, the directors and officers of the Group shall be indemnified out of the assets and profits of the Company from or against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices provided that such indemnity does not extend to any matter in respect of any fraud or dishonesty. Such permitted indemnity provision has been in force throughout the year ended December 31, 2019. The Company has arranged for appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

Directors' and Chief Executives' Interests in Securities

As at December 31, 2019, the interests or short positions of the Directors, chief executives and their associates in the shares and/or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

(a) *Interests in the ordinary shares and underlying shares of HK$0.25 each of the Company*

Name of Director	**Capacity**	**Number of shares/underlying shares held** *(Long position)*		**Percentage of the issued share capital of the Company** *(Note 1)*
Lu Chin Chu	Beneficial owner	45,000		0.00%
Lin Cheng-Tien	Beneficial owner	45,000		0.00%
Tsai Ming-Lun, Ming *(Note 6)*	Beneficial owner	73,000	*(Note 2)*	0.00%
Hu Chia-Ho	Beneficial owner	118,000	*(Note 2)*	0.01%
Liu George Hong-Chih	Beneficial owner	118,000	*(Note 2)*	0.01%
Hu Dien Chien	Beneficial owner	189,000	*(Note 3)*	0.01%

Directors' and Chief Executives' Interests in Securities (continued)

(b) *Interests in the ordinary shares and underlying shares of HK$0.01 each of Pou Sheng, an associated corporation of the Company within the meaning of Part XV of the SFO*

Name of Director	**Capacity**	**Number of shares/underlying shares held** *(Long position)*	**Percentage of the issued share capital of Pou Sheng** *(Note 4)*
Tsai Pei Chun, Patty	Beneficial owner	19,523,000	0.36%
Chan Lu Min	Beneficial owner	851,250	0.02%
Liu George Hong-Chih	Interests of children under 18 and/or spouse	414,000	0.01%

(c) *Interests in the ordinary shares and underlying shares of NT$10.00 each of PCC, an associated corporation of the Company within the meaning of Part XV of the SFO*

Name of Director	**Capacity**	**Number of shares/underlying shares held** *(Long position)*	**Percentage of the issued share capital of PCC** *(Note 5)*
Lu Chin Chu	Beneficial owner	2,120,470	0.07%
Lu Chin Chu	Interest of children under 18 and/or spouse	73,300	0.00%
Tsai Pei Chun, Patty	Beneficial owner	4,177,779	0.14%
Chan Lu Min	Beneficial owner	366,452	0.01%
Lin Cheng-Tien	Beneficial owner	297,760	0.01%
Tsai Ming-Lun, Ming *(Note 6)*	Beneficial owner	30,000	0.00%

Notes:

1. The total issued share capital of the Company as at December 31, 2019 is 1,612,183,986 shares.

2. Each of Mr. Tsai Ming-Lun, Ming, Mr. Hu Chia-Ho and Mr. Liu George Hong-Chih is interested in 40,000 ordinary shares, which were granted by the Company with vesting conditions pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018.

3. Mr. Hu Dien Chien is interested in 75,000 ordinary shares, which were granted by the Company with vesting condition pursuant to the share award scheme of the Company adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018.

4. The total issued share capital of Pou Sheng as at December 31, 2019 is 5,356,472,615 shares.

5. The total issued share capital of PCC as at December 31, 2019 is 2,946,787,213 shares.

6. Mr. Tsai Ming-Lun, Ming resigned as an executive director of the Company on April 1, 2020.

Directors' and Chief Executives' Interests in Securities (continued)

Other than the interest disclosed above, none of the Directors nor the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2019.

Directors' Interests in Competing Businesses

Between the Company and Pou Sheng

The Company was deemed to be interested in approximately 62.19% interest in Pou Sheng as at December 31, 2019, which is accounted for as a subsidiary of the Company. Pou Sheng is listed on the main board of the Stock Exchange. The principal businesses of Pou Sheng and its subsidiaries (collectively, the "Pou Sheng Group") are the retail and distribution of footwear and sportswear in the Greater China region.

As at December 31, 2019, Ms. Tsai Pei Chun, Patty, who was an executive director of the Company, was also a non-executive director of Pou Sheng. Ms. Tsai Pei Chun, Patty also holds certain shares in Pou Sheng.

As the Company and Pou Sheng are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from, Pou Sheng. As Pou Sheng no longer has any footwear manufacturing business, it is expected that there will not be any competition between the Pou Sheng Group and the Group in terms of the Group's footwear manufacturing business.

Between the Company and Eagle Nice

As at December 31, 2019, the Company held indirectly approximately 36.09% interests in Eagle Nice whose shares are listed on the main board of the Stock Exchange. Eagle Nice is principally engaged in the manufacturing and trading of sportwear and garments. Based on the published annual report of Eagle Nice, the revenue of Eagle Nice for the year ended March 31, 2019 was approximately HK$2.7 billion. As the Group's principal activities are manufacturing of footwear business and the retail and distribution of sportswear products, the business of Eagle Nice and the Group potentially compete with each other.

As at December 31, 2019, Mr. Hu Dien Chien, who was an executive director of the Company, was also an executive director of Eagle Nice.

As the Company and Eagle Nice are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independent of, and at arms length from, Eagle Nice.

Save as disclosed above, as at December 31, 2019, none of the Directors had any interest in a business which may compete with that of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Equity-linked Agreement

Save for the share option scheme of the Company, details of which is set out in the section headed "Share Incentive Schemes", no equity-linked agreement that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the year.

Share Incentive Schemes

(a) *Share Option Scheme of the Company*

The Company recognizes the importance of attracting talents and retaining employees and the contributions by other eligible participants by providing them with incentives and rewards through granting share-based incentives so as to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Company believes that this will align their interests with that of the Company. In this connection, the Company has adopted a share option scheme, the details of which are stipulated as follows:

On February 26, 2019, the share option scheme adopted by the Company on February 27, 2009 (the "2009 Share Option Scheme") expired. No share option has been granted under the 2009 Share Option Scheme prior to the expiration of the scheme.

On May 31, 2019, the Company adopted a new share option scheme (the "Yue Yuen Share Option Scheme") under which the Board may at its discretion grant share options to any eligible participants, including directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The Yue Yuen Share Option Scheme is valid and effective for a period of ten years commencing from May 31, 2019 to May 30, 2029, after which no further options may be offered or granted.

As at the date of this report, the total number of shares available for issue under the Yue Yuen Share Option Scheme is 161,449,998 shares, representing approximately 10.01% of the issued shares of the Company.

Without prior approval from the Shareholders, the maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the Yue Yuen Share Option Scheme (including both exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares of the Company in issue for the time being. Any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the twelve-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue on the date of such grant and having an aggregate value in excess of HK$5 million (equivalent to approximately US$0.6 million), must be approved in advance by the Shareholders.

Share Incentive Schemes (continued)

(a) *Share Option Scheme of the Company (continued)*

The Board will specify the period within which the shares must be taken up under an option at the time of grant and such period shall not expire later than ten years from the date of grant.

The Board may, at its discretion, specify the minimum period for which an option must be held before it can be exercised at the time of grant.

A non-refundable consideration of HK$10.00 shall be paid by each grantee on acceptance of the options within 14 days from the date of grant.

The exercise price shall be determined by the Board, but in any event must not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No share option has been granted under the Yue Yuen Share Option Scheme since its adoption.

Further details of the Yue Yuen Share Option Scheme are set out in Note 37 to the consolidated financial statements.

(b) *Share Award Scheme of the Company*

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company to recognize the contributions by certain personnel of the Group (and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder ("Associated Entity")) and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the Board may at its discretion grant any eligible participants awarded shares as it may determine appropriate provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant. 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. Subject to early termination determined by the Board, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund will be made by the Company.

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

Share Incentive Schemes (continued)

(b) *Share Award Scheme of the Company (continued)*

Details of the movements of the awards during the year ended December 31, 2019 are as follows:

			Number of awarded shares				
	Date of grant	Vesting date	Outstanding as at January 1, 2019	Granted during the year	Lapsed/ cancelled during the year	Vested during the year	Outstanding as at December 31, 2019
Directors of the Company							
Tsai Ming-Lun, Ming *(Note 2)*	02.10.2018	31.05.2021	40,000	–	–	–	40,000
Hu Chia-Ho	02.10.2018	31.05.2021	40,000	–	–	–	40,000
Liu George Hong-Chih	02.10.2018	31.05.2021	40,000	–	–	–	40,000
Hu Dien Chien	01.06.2018	29.05.2020	35,000	–	–	–	35,000
	02.10.2018	31.05.2021	40,000	–	–	–	40,000
	21.11.2019	21.11.2019	–	60,000	–	(60,000)	–
Sub-total			195,000	60,000	–	(60,000)	195,000
Employees of the Group and/or Associated Entities							
	03.10.2016	02.10.2018	16,500 *(Note 1)*	–	–	–	16,500
	02.10.2018	31.05.2021	1,140,000	–	(60,000)	–	1,080,000
	21.11.2018	06.11.2019	15,000	–	–	(15,000)	–
	21.11.2018	06.11.2020	20,000	–	–	–	20,000
Sub-total			1,191,500	–	(60,000)	(15,000)	1,116,500
Total			1,386,500	60,000	(60,000)	(75,000)	1,311,500

Note:

1. These 16,500 shares are pending for vest because the employee to whom these shares were awarded on October 3, 2016 had taken unpaid leave of absence on the vesting date. The employee returned to work on September 1, 2019 and the vesting period of these 16,500 shares has been extended to August 31, 2020, as approved by the Board.

2. Mr. Tsai Ming-Lun, Ming resigned as an executive director of the Company on April 1, 2020.

Further details of the Yue Yuen Share Award Scheme are set out in Note 37 to the consolidated financial statements.

Share Incentive Schemes (continued)

(c) *Subsidiary Stock Option Plan*

Prior to April 7, 2017, Texas Clothing Holding Corp. ("TCHC") was a joint venture of the Company (interest in which was held through the Company's subsidiary). On April 7, 2017, TCHC made a repurchase of its own shares (other than those held by the Company's subsidiary and certain shares held by the minority shareholders of TCHC) and TCHC therefore became an indirect majority-owned subsidiary of the Company. On May 31, 2019, the Group disposed its entire interest in TCHC Group and TCHC ceased to be a subsidiary of the Company.

The stock option plan of TCHC was adopted by the board of directors of TCHC (the "TCHC Board") on November 7, 2012 (the "TCHC Stock Option Plan") before TCHC became an indirect majority-owned subsidiary of the Company. The TCHC Stock Option Plan was amended and restated in its entirety on October 9, 2017 (the "Amended TCHC Stock Option Plan") and was approved by shareholders of the Company at a special general meeting held on November 30, 2017. The Amended TCHC Stock Option Plan is applicable to all options already granted and outstanding pursuant to the TCHC Stock Option Plan and did not affect the validity of any previously granted options. Unless otherwise terminated by the TCHC Board pursuant to the terms of the Amended TCHC Stock Option Plan, the Amended TCHC Stock Option Plan is valid and effective for a period of ten years commencing from October 9, 2017 (being the date of approval by the TCHC Board in respect of the Amended TCHC Stock Option Plan), after which no further options may be granted or awarded under the plan. The Amended TCHC Stock Option Plan was terminated and all outstanding options (including both vested and unvested options) under the Amended TCHC Stock Option Plan were cancelled as of the disposal of the TCHC Group on May 31, 2019.

The purpose of the Amended TCHC Stock Option Plan is to assist TCHC as well as any TCHC Affiliate to attract and retain directors, officers, employees, consultants and contractors of outstanding ability and to promote the alignment of their interests with those of the stockholders of TCHC and TCHC Affiliates. "TCHC Affiliate" means a business entity in which TCHC owns at least a majority of the total combined voting power of all classes of stock or other equity interests and any entity that is designated by the committee appointed by the TCHC Board to administer the Amended TCHC Stock Option Plan (the "TCHC Committee") in which TCHC has a significant interest. Participants of the Amended TCHC Stock Option Plan consist of any officer or employee of TCHC or TCHC Affiliate, member of the TCHC Board or the board of directors of a TCHC Affiliate, and consultant or independent contractor to TCHC or a TCHC Affiliate who has been granted an option under the Amended TCHC Stock Option Plan.

The exercise price of an option granted on or after November 30, 2017 may not be less than 100% of the fair market value (determined in accordance with the terms of the Amended TCHC Stock Option Plan) of a TCHC share on the date of grant. Furthermore, for an option designated by the TCHC Committee as an incentive stock option ("Incentive Stock Option") under Section 422 of the Internal Revenue Code of 1986 of the United States, as amended (the "Code") granted to an officer or employee of TCHC or a TCHC Affiliate who owns stock possessing more than 10% of the total combined voting power of all classes of stock of TCHC or a parent corporation or subsidiary corporation of TCHC ("Ten-Percent Stockholder"), the exercise price may not be less than 110% of the fair market value (determined pursuant to the terms of the Amended TCHC Stock Option Plan) of a TCHC share on the date of grant.

Share Incentive Schemes (continued)

(c) *Subsidiary Stock Option Plan* *(continued)*

The terms and conditions of options, including inter alia, (i) any minimum period(s) for which an option must be held, and/or (ii) minimum performance targets that must be reached before the options can be exercised in whole or in part or, if none, a negative statement to that effect, are required to be specified in a written agreement evidencing the option. The TCHC Committee determines and specifies in the written agreement the option period for an option, provided that an option may not be exercisable after ten years (five years in the case of an Incentive Stock Option granted to a Ten-Percent Stockholder) from its date of grant. Subject to the terms of the written agreement, an option may be exercised, in whole or in part, by delivering to TCHC a notice of the exercise, in such form as the TCHC Committee may prescribe, accompanied by full payment for the shares of TCHC with respect to which the option is exercised.

As at May 31, 2019, no shares were available for issue under the Amended TCHC Stock Option Plan.

Without prior approval from the stockholders of TCHC, and (for so long as TCHC remains a subsidiary of the Company) the shareholders of the Company, the total number of shares that may be issued upon exercise of the options granted in any twelve-month period to any participant of the Amended TCHC Stock Option Plan is not permitted to exceed 1% of the shares of TCHC in issue as of the date the options are granted.

Details of movement in stock options under the Amended TCHC Stock Option Plan during the period from January 1, 2019 to May 31, 2019 are listed below:

				Number of underlying shares comprised in the TCHC's stock options				
	Date of grant	**Exercise price** US$	**Exercisable period** *(Note 5)*	**Outstanding as at January 1, 2019**	**Granted during the period**	**Exercised during the period**	**Lapsed/ cancelled during the period**	**Outstanding as at May 31, 2019**
Employees of TCHC								
Tranche – A	25.01.2013	13.92	09.04.2013 to 25.01.2023	45,952	–	–	(45,952)	–
			09.04.2014 to 25.01.2023	45,951	–	–	(45,951)	–
			09.04.2015 to 25.01.2023	45,951	–	–	(45,951)	–
			09.04.2016 to 25.01.2023	45,951	–	–	(45,951)	–
			25.01.2014 to 25.01.2023	34,922	–	–	(34,922)	–
			25.01.2015 to 25.01.2023	34,922	–	–	(34,922)	–
			25.01.2016 to 25.01.2023	34,922	–	–	(34,922)	–
			25.01.2017 to 25.01.2023	34,926	–	–	(34,926)	–
	05.03.2014	13.92	*(Note 4)*	7,352	–	–	(7,352)	–

Share Incentive Schemes (continued)

(c) <u>Subsidiary Stock Option Plan</u> *(continued)*

	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Number of underlying shares comprised in the TCHC's stock options: Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
Tranche – B	25.01.2013	20.72	09.04.2013 to 25.01.2023	20,219	–	–	(20,219)	–
			09.04.2014 to 25.01.2023	20,219	–	–	(20,219)	–
			09.04.2015 to 25.01.2023	20,219	–	–	(20,219)	–
			09.04.2016 to 25.01.2023	20,218	–	–	(20,218)	–
			25.01.2014 to 25.01.2023	7,614	–	–	(7,614)	–
			25.01.2015 to 25.01.2023	7,614	–	–	(7,614)	–
			25.01.2016 to 25.01.2023	7,614	–	–	(7,614)	–
			25.01.2017 to 25.01.2023	7,618	–	–	(7,618)	–
	05.03.2014	20.72	05.03.2015 to 05.03.2024	998	–	–	(998)	–
			05.03.2016 to 05.03.2024	998	–	–	(998)	–
			05.03.2017 to 05.03.2024	998	–	–	(998)	–
			05.03.2018 to 05.03.2024	998	–	–	(998)	–
Tranche – C	25.01.2013	27.33	09.04.2013 to 25.01.2023	21,408	–	–	(21,408)	–
			09.04.2014 to 25.01.2023	21,408	–	–	(21,408)	–
			09.04.2015 to 25.01.2023	21,408	–	–	(21,408)	–
			09.04.2016 to 25.01.2023	21,408	–	–	(21,408)	–
			25.01.2014 to 25.01.2023	8,060	–	–	(8,060)	–
			25.01.2015 to 25.01.2023	8,063	–	–	(8,063)	–
			25.01.2016 to 25.01.2023	8,063	–	–	(8,063)	–
			25.01.2017 to 25.01.2023	8,064	–	–	(8,064)	–
	05.03.2014	27.33	05.03.2015 to 05.03.2024	1,056	–	–	(1,056)	–
			05.03.2016 to 05.03.2024	1,057	–	–	(1,057)	–
			05.03.2017 to 05.03.2024	1,056	–	–	(1,056)	–
			05.03.2018 to 05.03.2024	1,057	–	–	(1,057)	–

Share Incentive Schemes (continued)

(c) Subsidiary Stock Option Plan (continued)

	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Number of underlying shares comprised in the TCHC's stock options: Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
Tranche – D	30.11.2017	24.18	30.11.2017 to 30.11.2027	90,000	–	–	(90,000)	–
			30.11.2018 to 30.11.2027	45,000	–	–	(45,000)	–
			30.11.2019 to 30.11.2027	45,000	–	–	(45,000)	–
			30.11.2017 to 30.11.2027	19,461	–	–	(19,461)	–
			02.09.2018 to 30.11.2027	9,731	–	–	(9,731)	–
			02.09.2019 to 30.11.2027	9,731	–	–	(9,731)	–
			30.11.2018 to 30.11.2027	7,500	–	–	(7,500)	–
			30.11.2019 to 30.11.2027	7,500	–	–	(7,500)	–
			30.11.2020 to 30.11.2027	7,500	–	–	(7,500)	–
			30.11.2021 to 30.11.2027	7,500	–	–	(7,500)	–
Total				817,207 *(Note 1)*	–	–	(817,207)	–

Share Incentive Schemes (continued)

(c) *Subsidiary Stock Option Plan (continued)*

	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
				Number of underlying shares comprised in the TCHC's stock options				
Among the above, the following employees have been granted with options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period:								
Michael Stitt	25.01.2013	13.92	09.04.2013 to 25.01.2023	45,952	–	–	(45,952)	–
			09.04.2014 to 25.01.2023	45,951	–	–	(45,951)	–
			09.04.2015 to 25.01.2023	45,951	–	–	(45,951)	–
			09.04.2016 to 25.01.2023	45,951	–	–	(45,951)	–
	25.01.2013	20.72	09.04.2013 to 25.01.2023	20,219	–	–	(20,219)	–
			09.04.2014 to 25.01.2023	20,219	–	–	(20,219)	–
			09.04.2015 to 25.01.2023	20,219	–	–	(20,219)	–
			09.04.2016 to 25.01.2023	20,218	–	–	(20,218)	–
	25.01.2013	27.33	09.04.2013 to 25.01.2023	21,408	–	–	(21,408)	–
			09.04.2014 to 25.01.2023	21,408	–	–	(21,408)	–
			09.04.2015 to 25.01.2023	21,408	–	–	(21,408)	–
			09.04.2016 to 25.01.2023	21,408	–	–	(21,408)	–
Sub-total				350,312 *(Note 2)*	–	–	(350,312)	–

Share Incentive Schemes (continued)

(c) Subsidiary Stock Option Plan (continued)

	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Number of underlying shares comprised in the TCHC's stock options: Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
Marc Joseph	25.01.2013	13.92	25.01.2014 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2015 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2016 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2017 to 25.01.2023	9,191	–	–	(9,191)	–
	25.01.2013	20.72	25.01.2014 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2015 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2016 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2017 to 25.01.2023	2,154	–	–	(2,154)	–
	25.01.2013	27.33	25.01.2014 to 25.01.2023	2,279	–	–	(2,279)	–
			25.01.2015 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2016 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2017 to 25.01.2023	2,280	–	–	(2,280)	–
Sub-total				54,493 *(Note 3)*	–	–	(54,493)	–
Tad Parnell	25.01.2013	13.92	25.01.2014 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2015 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2016 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2017 to 25.01.2023	9,191	–	–	(9,191)	–
	25.01.2013	20.72	25.01.2014 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2015 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2016 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2017 to 25.01.2023	2,154	–	–	(2,154)	–
	25.01.2013	27.33	25.01.2014 to 25.01.2023	2,279	–	–	(2,279)	–
			25.01.2015 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2016 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2017 to 25.01.2023	2,280	–	–	(2,280)	–
Sub-total				54,493 *(Note 3)*	–	–	(54,493)	–

Share Incentive Schemes (continued)

(c) Subsidiary Stock Option Plan *(continued)*

	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
				Number of underlying shares comprised in the TCHC's stock options				
Tony Anzovino	25.01.2013	13.92	25.01.2014 to 25.01.2023	7,352	–	–	(7,352)	–
			25.01.2015 to 25.01.2023	7,352	–	–	(7,352)	–
			25.01.2016 to 25.01.2023	7,352	–	–	(7,352)	–
			25.01.2017 to 25.01.2023	7,353	–	–	(7,353)	–
	25.01.2013	20.72	25.01.2014 to 25.01.2023	1,155	–	–	(1,155)	–
			25.01.2015 to 25.01.2023	1,155	–	–	(1,155)	–
			25.01.2016 to 25.01.2023	1,155	–	–	(1,155)	–
			25.01.2017 to 25.01.2023	1,156	–	–	(1,156)	–
	25.01.2013	27.33	25.01.2014 to 25.01.2023	1,223	–	–	(1,223)	–
			25.01.2015 to 25.01.2023	1,223	–	–	(1,223)	–
			25.01.2016 to 25.01.2023	1,223	–	–	(1,223)	–
			25.01.2017 to 25.01.2023	1,224	–	–	(1,224)	–
	05.03.2014	13.92	*(Note 4)*	7,352	–	–	(7,352)	–
	05.03.2014	20.72	05.03.2015 to 05.03.2024	998	–	–	(998)	–
			05.03.2016 to 05.03.2024	998	–	–	(998)	–
			05.03.2017 to 05.03.2024	998	–	–	(998)	–
			05.03.2018 to 05.03.2024	998	–	–	(998)	–
	05.03.2014	27.33	05.03.2015 to 05.03.2024	1,056	–	–	(1,056)	–
			05.03.2016 to 05.03.2024	1,057	–	–	(1,057)	–
			05.03.2017 to 05.03.2024	1,056	–	–	(1,056)	–
			05.03.2018 to 05.03.2024	1,057	–	–	(1,057)	–
Sub-Total				54,493 *(Note 3)*	–	–	(54,493)	–

Share Incentive Schemes (continued)

(c) *Subsidiary Stock Option Plan* *(continued)*

	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
				Number of underlying shares comprised in the TCHC's stock options				
Brian Main	25.01.2013	13.92	25.01.2014 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2015 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2016 to 25.01.2023	9,190	–	–	(9,190)	–
			25.01.2017 to 25.01.2023	9,191	–	–	(9,191)	–
	25.01.2013	20.72	25.01.2014 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2015 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2016 to 25.01.2023	2,153	–	–	(2,153)	–
			25.01.2017 to 25.01.2023	2,154	–	–	(2,154)	–
	25.01.2013	27.33	25.01.2014 to 25.01.2023	2,279	–	–	(2,279)	–
			25.01.2015 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2016 to 25.01.2023	2,280	–	–	(2,280)	–
			25.01.2017 to 25.01.2023	2,280	–	–	(2,280)	–
Sub-total				54,493 *(Note 3)*	–	–	(54,493)	–
Jay Patel	30.11.2017	24.18	30.11.2017 to 30.11.2027	50,000	–	–	(50,000)	–
			30.11.2018 to 30.11.2027	25,000	–	–	(25,000)	–
			30.11.2019 to 30.11.2027	25,000	–	–	(25,000)	–
Sub-total				100,000 *(Note 6)*	–	–	(100,000)	–

Share Incentive Schemes (continued)

(c) *Subsidiary Stock Option Plan (continued)*

				Number of underlying shares comprised in the TCHC's stock options				
	Date of grant	Exercise price US$	Exercisable period *(Note 5)*	Outstanding as at January 1, 2019	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at May 31, 2019
Steven Richman	30.11.2017	24.18	30.11.2017 to 30.11.2027	25,000	–	–	(25,000)	–
			30.11.2018 to 30.11.2027	12,500	–	–	(12,500)	–
			30.11.2019 to 30.11.2027	12,500	–	–	(12,500)	–
Sub-total				50,000 *(Note 7)*	–	–	(50,000)	–
Eve Richey	30.11.2017	24.18	30.11.2017 to 30.11.2027	19,461	–	–	(19,461)	–
			02.09.2018 to 30.11.2027	9,731	–	–	(9,731)	–
			02.09.2019 to 30.11.2027	9,731	–	–	(9,731)	–
Sub-total				38,923 *(Note 8)*	–	–	(38,923)	–

Share Incentive Schemes (continued)

(c) *Subsidiary Stock Option Plan* *(continued)*

Notes:

1. This is the aggregate figure for current employees of TCHC, including the eight employees with options granted in excess of 1% of the total number of TCHC's shares in issue in any 12-month period.

2. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and held options exercisable into approximately 10.59% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

3. Each of these four employees of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and held options exercisable into approximately 1.65% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

4. The options would have become vested and fully exercisable upon the occurrence of a liquidity event, and would have expired the earlier of one year after the occurrence of a liquidity event or March 15 of the calendar year after the occurrence of the liquidity event. If not exercised, the options would have expired ten years after the date of grant on March 5, 2024, but for termination of the Amended TCHC Stock Option Plan on May 31, 2019.

5. The vesting period of the stock options is from the date of grant until the commencement of the exercisable period.

6. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and held options exercisable into approximately 3.02% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

7. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and held options exercisable into approximately 1.51% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

8. This employee of TCHC was granted options in excess of 1% of the total number of TCHC's shares in issue in any 12-month period and held options exercisable into approximately 1.18% of TCHC's shares in issue immediately before the Amended TCHC Stock Option Plan was terminated on May 31, 2019.

Saved as disclosed above, no stock options had been granted, exercised, lapsed or cancelled under the Amended TCHC Stock Option Plan during the period from January 1, 2019 to May 31, 2019.

Share Incentive Schemes (continued)

(d) *Share Option Scheme of Pou Sheng*

Pou Sheng recognizes the importance of offering incentives and rewards through the grant of share-based incentive mechanism for attracting talents and retaining employees. Pou Sheng believes that this will align their interests with that of Pou Sheng.

The share option scheme of Pou Sheng was adopted by the shareholders of Pou Sheng on May 14, 2008 (the "Pou Sheng Share Option Scheme"), certain terms of which were amended on March 7, 2012, and was valid and effective for a period of ten years from the date of adoption. The Pou Sheng Share Option Scheme expired at the end of the day on May 13, 2018, after which no further share options should be offered or granted. However, the share options granted prior to the expiration of the Pou Sheng Share Option Scheme shall continue to be valid and exercisable within their respective prescribed exercisable periods.

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

Pursuant to the terms of the Pou Sheng Share Option Scheme, the total number of Pou Sheng's shares which may be issued upon exercise of all share options to be granted under the Pou Sheng Share Option Scheme should not exceed 10% of the total number of the Pou Sheng's issued shares as at the date on which dealings in the Pou Sheng's shares first commence on the Stock Exchange (i.e. June 6, 2008) (being 355,000,000 shares, representing approximately 6.63% of the total number of Pou Sheng's issued shares as at the date of this report). Unless approved by the shareholders of Pou Sheng and the Company, the maximum number of Pou Sheng's shares issued and to be issued upon exercise of the share options granted to each grantee under the Pou Sheng Share Option Scheme in any 12-month period should not exceed 1% of the Pou Sheng's shares in issue for the time being.

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

Share Incentive Schemes (continued)

(d) *Share Option Scheme of Pou Sheng (continued)*

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

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

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

				Number of underlying Pou Sheng's shares comprised in the share options				
Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding as at January 1, 2019	Granted during year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at December 31, 2019
Employees of Pou Sheng								
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012–19.01.2019	1,011,500	–	(1,011,500)	–	–
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	1,307,500	–	(1,307,500)	–	–
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	1,887,500	–	(1,887,500)	–	–
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	2,104,500	–	(2,104,500)	–	–
14.11.2016	2.494	14.11.2016-31.08.2017	01.09.2017-01.09.2019	1,166,320	–	–	(1,166,320)	–
		14.11.2016-31.08.2018	01.09.2018-01.09.2020	1,166,320	–	–	–	1,166,320
		14.11.2016-31.08.2019	01.09.2019-01.09.2021	1,166,320	–	–	–	1,166,320
		14.11.2016-31.08.2020	01.09.2020-01.09.2022	2,332,640	–	–	–	2,332,640
		14.11.2016-31.08.2021	01.09.2021-01.09.2023	5,831,590	–	–	–	5,831,590
Sub-total				17,974,190	–	(6,311,000)	(1,166,320)	10,496,870

Share Incentive Schemes (continued)

(d) *Share Option Scheme of Pou Sheng (continued)*

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding as at January 1, 2019	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at December 31, 2019
				Number of underlying Pou Sheng's shares comprised in the share options				
Former Employees of Pou Sheng								
20.01.2011	1.230	20.01.2011-19.01.2012	20.01.2012-19.01.2019	5,600,000	–	(3,455,000)	(2,145,000)	–
		20.01.2011-19.01.2013	20.01.2013-19.01.2019	2,795,000	–	(1,075,000)	(1,720,000)	–
		20.01.2011-19.01.2014	20.01.2014-19.01.2019	912,500	–	(325,000)	(587,500)	–
		20.01.2011-19.01.2015	20.01.2015-19.01.2019	587,500	–	–	(587,500)	–
07.03.2012	1.050	07.03.2012-06.03.2013	07.03.2013-06.03.2020	375,000	–	–	–	375,000
Sub-total				10,270,000	–	(4,855,000)	(5,040,000)	375,000
Total				28,244,190	–	(11,166,000)	(6,206,320)	10,871,870

The weighted average closing price of Pou Sheng's shares immediately before the dates on which the share options were exercised during the year is HK$1.50 per share.

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

Further details of the Pou Sheng Share Option Scheme are set out in Note 37 to the consolidated financial statements.

Share Incentive Schemes (continued)

(e) *Share Award Scheme of Pou Sheng*

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

Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Pou Sheng Board and approved by the Pou Sheng Board. All the share awards granted under the Pou Sheng Share Award Scheme should be vested in accordance with the conditions (such as employment status, individual performance and common key performance indicators) as determined by the Pou Sheng Board.

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

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

Share Incentive Schemes (continued)

(e) *Share Award Scheme of Pou Sheng (continued)*

Pursuant to the Pou Sheng Share Award Scheme, movements in awarded Pou Sheng's shares during the year are set out below:

	Date of grant	Vesting period	Number of awarded Pou Sheng's shares: Outstanding as at January 1, 2019	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	Outstanding as at December 31, 2019
Director of Pou Sheng							
Lee, Shao-Wu	25.03.2017	25.03.2017-24.03.2019	300,000	–	(300,000)	–	–
	25.03.2017	25.03.2017-24.03.2020	400,000	–	–	–	400,000
	11.08.2018	11.08.2018-10.09.2019	200,000	–	(200,000)	–	–
	11.08.2018	11.08.2018-10.09.2020	300,000	–	–	–	300,000
	11.08.2018	11.08.2018-10.03.2021	500,000	–	–	–	500,000
	23.03.2019	23.03.2019-22.09.2020	–	200,000	–	–	200,000
	23.03.2019	23.03.2019-22.09.2021	–	300,000	–	–	300,000
	23.03.2019	23.03.2019-22.03.2022	–	500,000	–	–	500,000
Sub-total			1,700,000	1,000,000	(500,000)	–	2,200,000
Employees of Pou Sheng							
	24.03.2016	24.03.2016-23.03.2019	2,876,000	–	(2,796,000)	(80,000)	–
	13.08.2016	13.08.2016-12.08.2019	4,950,000	–	(4,800,000)	(150,000)	–
	12.11.2016	12.11.2016-30.08.2019	600,000	–	(600,000)	–	–
	14.11.2016	14.11.2016-31.08.2019	833,680	–	(833,680)	–	–
	14.11.2016	14.11.2016-31.08.2020	1,667,360	–	–	–	1,667,360
	14.11.2016	14.11.2016-31.08.2021	4,168,410	–	–	–	4,168,410
	25.03.2017	25.03.2017-24.03.2020	4,154,000	–	–	(123,000)	4,031,000
	03.07.2017	03.07.2017-02.07.2020	300,000	–	–	–	300,000
	14.11.2017	14.11.2017-11.12.2019	300,000	–	(300,000)	–	–
	14.11.2017	14.11.2017-13.11.2020	3,200,000	–	–	–	3,200,000
	11.08.2018	11.08.2018-30.06.2019	140,000	–	(140,000)	–	–
	11.08.2018	11.08.2018-10.09.2019	3,678,800	–	(3,317,600)	(361,200)	–
	11.08.2018	11.08.2018-30.06.2020	210,000	–	–	–	210,000
	11.08.2018	11.08.2018-10.09.2020	5,518,200	–	–	(541,800)	4,976,400
	11.08.2018	11.08.2018-31.12.2020	350,000	–	–	–	350,000
	11.08.2018	11.08.2018-10.03.2021	9,197,000	–	–	(903,000)	8,294,000
	23.03.2019	23.03.2019-22.09.2020	–	2,453,200	–	(46,000)	2,407,200
	23.03.2019	23.03.2019-30.09.2020	–	112,000	–	–	112,000
	23.03.2019	23.03.2019-22.09.2021	–	3,679,800	–	(69,000)	3,610,800
	23.03.2019	23.03.2019-30.09.2021	–	168,000	–	–	168,000
	23.03.2019	23.03.2019-22.03.2022	–	6,133,000	–	(115,000)	6,018,000
	23.03.2019	23.03.2019-31.03.2022	–	280,000	–	–	280,000
	15.11.2019	15.11.2019-14.12.2020	–	750,000	–	–	750,000
Sub-total			42,143,450	13,576,000	(12,787,280)	(2,389,000)	40,543,170
Total			43,843,450	14,576,000	(13,287,280)	(2,389,000)	42,743,170

Share Incentive Schemes (continued)

(e) *Share Award Scheme of Pou Sheng* *(continued)*

The weighted average closing price of the Pou Sheng's shares immediately before the dates on which the awarded Pou Sheng's shares were granted during the year is HK$1.73 per share.

Further details of the Pou Sheng Share Award Scheme are set out in Note 37 to the consolidated financial statements.

Arrangements to Purchase Shares or Debentures

Save as disclosed in the "Share Incentive Schemes" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests in Securities

As at December 31, 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that, other than the interests disclosed in "Directors' and Chief Executives' Interests in Securities", the following Shareholders had notified the Company of their relevant interests in the ordinary shares and underlying shares of HK$0.25 each of the Company, which represent 5% or more of the issued share capital of the Company:

Name of Shareholder	*Notes*	Number of ordinary shares held	Percentage of the issued share capital of the Company*
		Long position	
Pou Chen Corporation ("PCC")	(a)	824,143,835	51.11%
Wealthplus Holdings Limited ("Wealthplus")	(a)	773,156,303	47.95%
Merrill Lynch & Co. Inc.	(b)	99,315,703	6.16%
Silchester International Investors LLP	(c)	97,081,000	6.02%
		Short position	
Merrill Lynch & Co. Inc.	(b)	109,341,792	6.78%

* The total issued share capital of the Company as at December 31, 2019 is 1,612,183,986 shares.

Substantial Shareholders' Interests in Securities (continued)

Notes:

(a) Of the 824,143,835 ordinary shares beneficially owned by PCC, 773,156,303 ordinary shares were held by Wealthplus and 50,987,532 ordinary shares were held by Win Fortune Investments Limited ("Win Fortune"). Both Wealthplus and Win Fortune are wholly-owned subsidiaries of PCC. Mr. Lu Chin Chu, Ms. Tsai Pei Chun, Patty and Mr. Chan Lu Min, who are directors of the Company are also directors of PCC and Wealthplus. Mr. Tsai Ming-Lun, Ming resigned as a director of the Company, PCC and Wealthplus on April 1, 2020. Mr. Lu Chin Chu and Mr. Chan Lu Min are directors of Win Fortune.

(b) Merrill Lynch & Co. Inc. is deemed to be interested in 35,000 ordinary shares (long position) held directly by Merrill Lynch Portfolio Managers Limited (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch Portfolio Managers Limited. Merrill Lynch Portfolio Managers Limited is wholly-owned by ML Invest, Inc., which is in turn wholly-owned by Merrill Lynch Group, Inc., which is in turn wholly-owned by Merrill Lynch & Co. Inc..

Merrill Lynch & Co. Inc. is also deemed to be interested in 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc. (for discretionary clients) under the SFO by virtue of its interest in more than one-third of the voting shares in Blackrock, Inc.. Merrill Lynch & Co. Inc. owns 49.8% of Blackrock, Inc. through various subsidiaries, namely, Princeton Services, Inc., Princeton Administrators, L.P., Merrill Lynch Investment Managers, L.P. and Fund Asset Management, L.P., which are all 99% owned by Merrill Lynch & Co. Inc. except for Princeton Services, Inc., which is wholly-owned by Merrill Lynch Group, Inc.. Merrill Lynch Group, Inc., which is wholly-owned by Merrill Lynch & Co. Inc., is also deemed to be indirectly interested in the 5,985,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position) held directly by Blackrock, Inc..

In light of the above, Merrill Lynch & Co. Inc. is deemed to be interested in an aggregate of 6,020,785 ordinary shares (long position) and 2,620,000 ordinary shares (short position).

Merrill Lynch & Co. Inc. is also deemed to be interested in 93,294,918 ordinary shares (long position) and 106,721,792 ordinary shares (short position) held directly by Merrill Lynch International under the SFO by virtue of its interest in more than one-third of the voting shares in Merrill Lynch International. Merrill Lynch & Co. Inc. holds Merrill Lynch International through six wholly-owned subsidiaries namely, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings. ML UK Capital Holdings is wholly-owned by Merrill Lynch Holdings Limited, which is in turn wholly-owned by Merrill Lynch Europe Intermediate Holdings, which is in turn wholly-owned by Merrill Lynch Europe Plc, which is in turn wholly-owned by Merrill Lynch International Holdings Inc., which is in turn wholly-owned by Merrill Lynch International Incorporated, which is in turn wholly-owned by Merrill Lynch & Co. Inc.. Merrill Lynch International is 97.2% owned by ML UK Capital Holdings. The above has been prepared based on the disclosure of interest form filed with the Company.

(c) Silchester International Investors LLP is interested in these 97,081,000 ordinary shares in its capacity as investment manager.

Substantial Shareholders' Interests in Securities (continued)

Other than the interests disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at December 31, 2019.

Connected Transactions and Directors' Interests in Transactions, Arrangements or Contracts of Significance

The Company's auditor was 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 Board has received an unqualified letter from the auditor of the Company in accordance with Rule 14A.56 of the Listing Rules containing the auditors' findings and conclusion on the above continuing connected transactions of the Group, stating that the auditor have not noticed anything that causes them to believe that any of these continuing connected transactions: (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreements governing such continuing connected transactions; and (d) have exceeded the relevant annual caps for the financial year ended December 31, 2019. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors confirm that the Company has complied with the requirements of Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions. Details of the transactions regarded as connected transactions for the year ended December 31, 2019 are set out in Note 47(l) to the consolidated financial statements.

Save as disclosed in Note 47(l):

(i) no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year;

(ii) no contract of significance was entered into between the Company or any of its subsidiaries, and a controlling shareholder of the Company or any of its subsidiaries during the year; and

(iii) there was no transaction which needs to be disclosed as connected transaction in accordance with Chapter 14A of the Listing Rules.

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers were approximately 46% of the Group's total sales for the year; and the sales attributable to the Group's largest customer were approximately 19% of the Group's total sales for the year.

The aggregate purchases attributable to the Group's five largest suppliers were approximately 40% of the Group's total purchases for the year; and the purchases attributable to the Group's largest supplier were approximately 20% of the Group's total purchases for the year.

At no time during the year did a Director, a close associate of a Director or a Shareholder, which to the knowledge of the Directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers or suppliers of the Group.

Update on Directors' Information Under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's 2019 interim report on August 13, 2019 are set out below:

Mr. Hsieh Yung Hsiang (also known as Alfred Hsieh) retired as an independent non-executive director of the Company and resigned as a member of the audit committee and the remuneration committee of the Company on March 25, 2020.

Mr. Chen Chia-Shen was appointed as an independent non-executive director of the Company, a member of the audit committee and a member of the remuneration committee of the Company with effect from January 10, 2020.

Mr. Tsai Ming-Lun, Ming resigned as an executive director of the Company on April 1, 2020.

Details of changes in the Directors' remunerations are set out in Note 10 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended December 31, 2019, the Company repurchased a total of 4,459,000 shares of the Company on the Stock Exchange at a total consideration of HK$95,131,050.00 (equivalent to approximately US$12,173,000.00).

Details of the repurchases of shares of the Company during the year ended December 31, 2019 are set out as follows and in Note 34 to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities (continued)

Date of repurchase	No. of shares repurchased	Highest price paid *HK$*	Lowest price paid *HK$*	Total paid *HK$*
May 15, 2019	180,000	21.80	21.65	3,907,450.00
May 16, 2019	180,000	21.80	21.80	3,924,000.00
May 17, 2019	263,000	21.35	21.15	5,584,950.00
May 27, 2019	360,000	21.75	21.50	7,782,975.00
May 29, 2019	360,000	22.00	21.70	7,843,725.00
May 30, 2019	400,000	22.00	21.65	8,713,950.00
May 31, 2019	400,000	21.90	21.70	8,714,850.00
June 3, 2019	216,000	22.00	21.70	4,715,475.00
June 5, 2019	400,000	20.80	20.40	8,260,875.00
June 11, 2019	650,000	21.15	20.85	13,639,400.00
June 12, 2019	400,000	21.05	20.75	8,378,500.00
June 17, 2019	650,000	21.30	20.90	13,664,900.00
Total:	**4,459,000**			**95,131,050.00**

All of the aforesaid repurchased shares were cancelled on June 28, 2019. The Directors believe that the repurchases of shares would lead to an enhancement of the net asset value per share of the Company and its earnings per share. Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2019.

Emolument Policy

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, as authorized by Shareholders at the annual general meeting, having regard to the Group's operating results, the Directors' individual performance and comparable market statistics.

The Company adopted the Yue Yuen Share Option Scheme and the Yue Yuen Share Award Scheme to provide its Directors and eligible employees with incentives and rewards to recognize their contributions and to align their interest with the Company. Details of which are set out in the section "Share Incentive Schemes" and Note 37 to the consolidated financial statements.

Pre-Emptive Rights

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

Corporate Governance

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 69 to 84 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, except for contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year.

Business Review

Business and External Environment

The global economy remained resilient in 2019, with most of the world's major economies recording steady growth, albeit at a slower pace than in 2018. Economic growth in the U.S. moderated as the impact of corporate tax cuts faded away, despite gradual interest rate cuts by the U.S. Federal Reserve in the second half of the year.

China also recorded slower economic growth in 2019, with annual GDP growth slowing to 6.1% compared to 6.6% growth in 2018, according to preliminary estimates by the National Bureau of Statistics. However, the Chinese Government continued to enact favorable policies to promote fitness and sports consumption, supporting the financial performance of the Group's retail business.

The trade relationship between the U.S. and China remained highly contentious, with both sides maintaining import tariffs on certain types of goods from each other's country. This included the U.S. imposing 15% tariffs on Chinese-made footwear in August 2019 (later lowered to 7.5% in January 2020), which propelled brand customers to adjust their country of origin and dual sourcing requirements.

In addition, the Group's manufacturing business continued to face a variety of challenges. These include traditional ones such as rising wages and fluctuating raw material costs, as well as from newer developments such as the rise of "athleisure" trend. The latter has made ordering patterns more volatile and seasonal, and products becoming more complex, while leading brand customers to change their sourcing strategies and demand more flexible turnaround times. To address these challenges, the Group continued to optimize its production base and provide innovative solutions to its brand customers to help control input costs, diversify production and assist in risk management. It continues to invest in automation, process re-engineering and ERP data management systems such as SAP to improve operational efficiency and provide more value to brand customers.

More information and details regarding the business and external environment of the Company are set out in the "Chairman's Statement" on pages 6 to 9 of this annual report.

Business Review (continued)

Performance and Financial Position

The key performance indicators of the Group are as follows:

Key Performance Indicator	12M F2019	12M F2018	12M F2017
Gross Profit Margin (%)	24.9	25.2	25.8
Operating Profit Margin (%)	4.7	5.1	6.6
Net Profit Margin (%)	3.5	3.5	6.0
Total debt to equity (%)	46.1	46.7	42.0
Net debt to equity (%)	24.4	28.0	19.8
Return on equity (%)	7.3	7.4	12.1
Return on asset (%)	4.0	4.1	6.6

The Group is prudently managed in such a way that decision making are focused on long-term objectives, which are aimed towards sustainable development and balancing the interest of various stakeholders.

Environmental Policies and Performance

In respect of the footwear manufacturing business, the Group has established a set of management policies, mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy, water and materials, to reduce the use of natural resources and to protect the environment. The actions taken are aligned with international standards, which include conducting greenhouse gas inventory, proper treatment of effluent and air emissions, reduction, classification and recycling of wastes, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels, etc. The Group is also committed to providing a safe and healthy working environment for the employees, and has gradually established a standardized safety and health management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution. In the event that an employee suffers a major illness, the medical rescue mechanism and emergency rescue measures in the factory will be activated. In addition, providing fast and innovative services to brand customers with professionalism and dedication has always been the core vision of the Group. In recent years, each production base has also been committed to process improvement, flexible manufacturing and local supply in order to shorten delivery time, stay close to the market and provide quick-response services for brand customers with an objective to enhance the competitiveness and long-term value of the Group. The Group also expects that a sustainable supply chain can be established through innovation collaboration with the suppliers and the vision of "resources integration and value enhancement" can be put into practice, such that the fulfilment of corporate social responsibility can be ensured.

Business Review (continued)

Environmental Policies and Performance (continued)

Effective Use of Resources

The Group should conform to the relevant international product specifications and the prohibited and restricted substance standards required by brand customers in selection of raw materials, and at the same time actively adopts materials that conform to the requirements of brand customers for environmentally sustainable materials. For the procurement management of raw materials, the Group not only requires material suppliers to provide relevant material inspection reports and commitment documents for zero use of prohibited and restricted substances, but also conducts sample tests for specific materials to ensure that the quality meets the requirements. With respect to material procurement, we rely on the respective local suppliers to supply the materials in order to reduce the risk of supply interruption as well as carbon emissions in transportation.

The Group's key strategies on energy consumption management include achieving no waste of energy, high operating efficiency, short recovery period, low energy cost and small environmental impact and actively taking various measures to manage energy consumption. In order to achieve sustainable development and operation of the Group, the year 2016 is taken as the baseline and the Group's target is to reduce the energy intensity in 2020 to 8% of the baseline year 2016. According to the target, a four-year overall energy conservation plan with annual goals and corresponding measures has been formulated. Energy-saving budgets are drawn up year by year and energy conservation organizations and systems have been established in each factory with regular meetings to review and constantly track the results. At the same time, energy platforms have been established to exchange energy conservation related technologies and promote measures related to energy conservation and carbon reduction. The Group continued to actively promote energy saving and carbon reduction projects. For certain key production bases, energy saving projects for high energy consumption facilities and improvement of energy saving of the production bases were continuously implemented in 2019. The main implementation measures include: energy management was continuously included as one of the audit items in the annual environment, safety and health audit; the establishment of the energy saving and management organization and the implementation of its management system, etc.

With respect to water resources management policies, the Group aims at gradually increasing the reuse rate of water resources in the factories and avoiding excessive consumption of natural water resources in the medium and long term, in addition to ensuring that water provided meets the specified water quality standards, and that processing of discharged water is in compliance with the local discharge regulations. Large-scale water purification plants and reverse osmosis water purification system equipment have been set up in all production bases. The laboratory at the administrative center of the industrial park performs sample testing of water quality every month and releases the results to all production bases. External parties are also engaged in water quality tests on a regular basis as required by laws to ensure the water in all production bases is safe and clean.

Business Review (continued)

Environmental Policies and Performance (continued)

Emission Management

With respect to greenhouse gas and carbon emission, the Group pays constant attention to the international community's trend of sustainable development. The Group responds to the call of the Paris Climate Accord, which has a goal to keep the increase of global temperature within 2°C and to pursue efforts to limit the increase to 1.5°C. The Group also responses to the United Nations 2030 Sustainable Development Agenda – Sustainable Development Goals, which states that measures must be taken to cope with global climate change and its impacts, as well as the expected demand for international green manufacturing. Greenhouse gas inventory and carbon reduction management have become the essential management issues for the Group's production and manufacturing operations. In addition to compliance with relevant laws and regulations at the production bases in various regions, measures have also been established and implemented by the Group to reduce greenhouse gas emission accordingly. The Group conducts greenhouse gas inventory in factory areas in the production bases according to the ISO 14064-1 standard. In 2019, the management of greenhouse gas inventory was included into the internal annual environment, safety and health audit as a management item, and the Group will continuously enhance the credibility and completeness of the inventory data of its production bases year by year.

As for sewage discharge, the Group has formulated the "Guidelines on Sewage Pollution Control Measures", which focuses firstly on reducing usage at source and preventing generation of waste water, and secondly on recycling and reusing, as well as handling sewage in accordance with the regulatory requirements. In addition to compliance with local discharge regulations in practical management, the medium- and long-term management goals aim at improving the reuse rate of water resources and gradually reducing the discharge volumes. There is a dedicated water quality laboratory in every sewage treatment work to perform the testing and monitoring of water quality. We also regularly entrust inspection agency approved by competent local authority to conduct water sampling and testing of the effluent according to laws. The sewage is properly discharged through legally permitted means. Effluent from stand-alone factories are discharged to the receiving water bodies designated by the local authorities according to laws and regulations, while those from factories located in industrial development parks are discharged to municipal sewage treatment works or the sewage treatment works in the industrial areas according to laws and regulations. There is no direct discharge into nearby water bodies. Some factories are also equipped with detention ponds to receive the treated water from sewage treatment works as a water supply source for subsequent reuse in the factories as well as in the parks where employees can relax after work.

Business Review (continued)

Environmental Policies and Performance (continued)

Emission Management (continued)

With respect to the prevention of air pollution, the Group has formulated the "Guidelines on Air Pollution Control Management". The first guiding principle is to keep the emission in line with the local emission standards. The next guiding principle is the introduction of pollution assessment on production processes with the aim of proper handling of the pollution in accordance with the regulatory requirements. Prevention and control facilitates have been set up and air pollution emission testing has been carried out to ensure that the emission meets the emission standards stipulated by local laws and regulations to reduce the impact on the environment. In recent years, the awareness of sustainable development has been gradually strengthened, and the environmental protection laws of every country are becoming more stringent. The Group has also actively responded to the international sustainable development goals. We have strengthened our environmental protection management by conducting compliance checks and continuous improvement for the environmental impact on the Group's factories, and conducting improvement for the pollution control constructions for volatile organic gases in accordance with the requirements of environmental impact assessments. For some of the production bases in mainland China, the Group has further enhanced the efficiency for treating organic solvents and volatile gases. As planned, facilities for the prevention and control of pollution will be gradually installed to reach the government's standards for comprehensive treatment, so as to assume the corporate responsibility of improving air quality in the local areas.

With respect to waste management, the Group's strategy focuses on the legal clearance, removal and disposal, and reduction and reuse of wastes. The clearance, removal and disposal of all the wastes must be carried out by government-certified service providers according to local laws and regulations. Recyclable wastes are collected according to classifications specified by brand customers. The developments of production bases were carried out in line with the Manufacturing Excellence program (automatic laser cutting machines, outsole rubber granulator machines, and process flow reviews and adjustments) to reduce the amount of wastes generated in the manufacturing process.

The Group has also continued to promote and implement a number of green office measures such as office power saving, paper saving and reduction of use of bottled water.

Workplace Safety

With respect to occupational safety and health management, in addition to compliance with the corresponding local laws and regulations in the region where the relevant factory is located and brand customers' requirements, the Group has also followed international standards of the occupational safety and health management system and the "FLA Workplace Code of Conduct", and established a series of management directives for all departments to follow, so as to manage and prevent hazards. Each of the factories and the administrative centers of the Group has set up an "Environmental, Energy, and Safety and Health Committee" and holds regular meetings. The members of the committee are appointed or selected from managers and general employees of each department, and are reappointed or re-selected at least once every two years, allowing each department to review relevant management issues related to safety and health in a fixed organizational structure. The Group has formulated safety and health management performance systems and various standards for the factories to implement and track the relevant results. The Group has also established an electronic surveillance system to monitor abnormal incidents, as well as a prevention mechanism by way of conducting data analysis to help focus on major risks.

Business Review (continued)

Environmental Policies and Performance (continued)

Product Management and Services

The Group is committed to providing customers with products of high quality and safety. The Group places high importance on any customer demand for product quality and will continue to improve its five core competitive advantages of "Innovation, speed, flexibility, quality, sustainability", as well as continue to develop cutting-edge technologies and modularize its existing production lines, so that it can provide customers with more flexible and diversified customized products in small quantities. From product development to production, the Group follows international legal requirements and complies with the brand customers' lists of prohibited and restricted substances and the ZDHC Foundation's standards in the selection of raw materials, which can only be put into production after the formulation of standardized production process, through a comprehensive process and quality control strategy, in order to provide customers with stable and consistently high-quality products that are consistent with the principles of eco-friendliness and human health.

The Group continues to carry out streamlining of operation process and apply various kinds of electronic systems and management tools, in order to enhance the production optimization capabilities of the production bases in various regions. The Group has also improved its product development capability, and strengthened its factory automation and production efficiency, through research and development of customized digital tools, process improvements, integration of hardware and software systems and the establishment of a shoe manufacturing knowledge database. At the same time, we have continued to introduce new production models and new manufacturing technologies, improve the automated production process and extend further in the application of industry 4.0. Through the integration of the Internet of Things, all production facilities of production bases in various regions are incorporated into the Internet of Things early warning system for maintenance, to ensure the facilities can deliver the highest production capacity with consistent product qualities. The objective is to achieve continuous operation of the production line and full digitalization, with the ultimate goal being the establishment of intelligent production plants with smart, flexible production, distributed manufacturing and quick response, and the production of products which are in line with not only the manufacturer's philosophy but also the consumers' needs.

Customer Trade Secret, Privacy and Intellectual Property Protection

Dedicated technical research and development centers were set up by the Group for customers, with strictly separated production areas and zoned processing operation areas so that the brand customers' privacy and trade secrets are protected. As an original equipment manufacturer for footwear products, the Group also respects the intellectual property rights of the brand customers. The brand customers' intellectual property rights (such as trade marks) are only applied to products according to the scopes authorized by the brand customers. The Group requires its staff and suppliers to protect confidential information, intellectual property rights, etc. In the event of any breach, the Group will immediately stop the breach, review the mechanism and take improvement measures.

Business Review (continued)

Supply Chain Management

The suppliers of the Group largely comprise four categories: raw material suppliers, mechanical equipment suppliers, engineering contractors and service contractors. Through integration of industry resources and cooperation in know-how and technology, the Group connects the upper, middle and lower streams of the footwear manufacturing industry, covering relevant areas in machineries, chemical engineering, materials as well as in moulds to form a complete supply chain system of the Group.

To assist brand customers in developing unique and innovative products of high quality, and to perform the Group's responsibilities as citizens of the planet earth, the Group focuses primarily on aspects of quality and sustainable development management with respect to management of raw material and mechanical equipment suppliers. The Group sets various quality and sustainable development indicators, regularly evaluates suppliers and implements management mechanisms. Within the Group's supplier quality assessment system, there are 11 scoring categories for quality management, while sustainable development management covers 12 categories of assessment items, which can be summarized into three aspects, namely, environmental management, fire safety and safety and health. Except for suppliers appointed by brand customers or those supplying specific items (such suppliers must follow the international social and environmental practices and standards stipulated by brand customers, including those on labor issues), the Group selects new suppliers of raw materials and mechanical equipment by applying the environmental standards. New suppliers must fill in a self-assessment form which covers assessment items including environmental management, fire safety, safety and health, code of conduct of the company and etc. In addition, the Group also regularly conducts random site visits to new suppliers every year. After collecting the self-assessment forms and conducting sample site visits, the Group will decide whether to include them as the Group's suppliers. Professional teams will subsequently carry out quality assessments and evaluation of sustainable development indicators to ensure that the relevant suppliers have systematic quality control capabilities, and that a supplier sustainable development management system will be established. In addition, the Group conducts regular reviews quarterly or half-yearly with the relevant suppliers according to the characteristics of different supplied items, so as to ensure the continued maintenance of quality standards and compliance with legal requirements of the production and supply of daily raw materials and mechanical equipment, which are critical to quality assurance for the brand customers and prompt adaptation to the trend of sustainable development. The procurement ratio of the suppliers who has failed to meet requirements will be adjusted through a supplier management mechanism, in order to establish a high quality supply chain management system.

For more information on sustainable development of the Group and details regarding the Company's environmental policies and performance in respect of the footwear manufacturing business, as well as compliance with the relevant laws and regulations, please refer to the 2019 Environmental, Social and Governance Report of the Company.

For the relevant environmental policies and performance regarding the retail business as well as event management and sport services, please refer to the environmental, social and governance report in the 2019 annual report of Pou Sheng.

Business Review (continued)

Compliance with Laws and Regulations

The Group operates its footwear manufacturing business mainly in China, Vietnam, Indonesia, Cambodia, Bangladesh and Myanmar. During the year ended December 31, 2019 and up to the date of this report, the Group is generally in compliance with all relevant laws and regulations of respective jurisdictions that have a significant impact on the Company. For further details, please refer to the 2019 Environmental, Social and Governance Report of the Company.

Relationship with Stakeholders

The Group identified stakeholders that are related to footwear manufacturing business including shareholders/investors, customers, employees, local community, regulatory authorities, suppliers, media, and non-governmental organizations. The Group conducts interactive communication with its stakeholders through various channels and seeks for their opinions and suggestions which will be used as important reference for the Group's sustainable development strategy.

Shareholders/Investors

The Group understands that the issues which are of concerns to shareholders/investors are the economic performance, corporate governance and market image etc.. The Group maintains close communication with shareholders/investors through various communication channels (such as publishing news on the Company/HKEx websites, convening shareholders' meetings, publishing press releases, conducting roadshows, factory visits and analyst briefings) to enable shareholders/investors to learn about the latest status of the Group.

Customers

The Group has established long-term cooperation relations with multiple international eminent brands, to whom we are committed to providing fast and innovative services and products with high quality and safety. The Group continually improves its service quality and responds immediately to brand customers' needs in terms of delivery lead time, quality and price, so as to strengthen the relationship with the brand customers and their reliance on the Group's product development capability and quality service.

Employees

The Group upholds the idea of "Focus on People, for the People". The Group believes that employees are important assets, and has planned a holistic approach of recruitment, employment, training and retention of employees and team events are organized to build the employees' sense of belonging. The Group provides employees with comprehensive training, competitive compensation and diversified communication channels. The performance management system has been introduced to effectively motivate the employees to engage in continuous development, to help the employees in career planning, and to achieve succession of talents and the Group's objective of sustainable operation.

Community

The Group adheres to the belief of "taking from the society, and giving back to the society". Apart from maintaining sound business development, the Group also actively demonstrates its corporate core value of Service. In 2019, the participation in local community charitable activities continuously focused on three main aspects: education, health and medical care and local public relations.

Business Review (continued)

Relationship with Stakeholders (continued)

Regulatory Authorities

The Group understands that the regulatory authorities in all business districts consider corporate governance and compliance with laws and regulations as important issues, thus it uses its best efforts to cooperate with the relevant government and regulatory authorities on compliance inspections, make regular submission of monthly and quarterly statements and attended consultation visits.

Suppliers

The Group regards suppliers as cooperative partners. In addition to communicating with suppliers by way of letters of undertaking, procurement contracts, regular assessments, selection and management mechanism and business communication, the Group has also held exhibitions of suppliers' products, providing a platform for the exchange and sharing of information on the demand and development trends of products and materials among the suppliers and the Group's research and development personnel. In addition, the Group also made plans of the web platforms during the exhibition periods to help suppliers promote new materials, new technologies and future trends.

Media

The issues of concerns to the media are employee rights and the Group's business operation status. The Group not only releases information to the media through communication documents of relevant issues/press releases, but also coordinates requests for visits by the media.

Non-governmental Organizations

The issues of major concerns to non-governmental organizations (such as Fair Labor Association and World Federation of the Sporting Goods Industry) are labor relations, labor rights, compliance with the laws and regulations and environmental issues. The Group also closely liaises with non-governmental organizations through various channels (including ad hoc communication meetings, emails and phone contacts, etc.).

Regarding Pou Sheng's relationship with its stakeholders, Pou Sheng's environmental policies and performance as well as compliance with relevant laws and regulations that have a significant impact on Pou Sheng, please refer to the 2019 annual report of Pou Sheng.

Business Review (continued)

Principal Risks and Uncertainties

The Group's activities involve both footwear manufacturing in various countries, as well as sportswear retailing across the Greater China region. The principal types of risk faced by each business are listed below.

For the footwear manufacturing business, the Group faces risks and uncertainties associated with:

- Managing the impact on sales, costs, profit and cash flows resulting from:
  - Changing economic conditions
  - Changing market trends
  - Competitive environment
  - Increasing demand from brand customers on higher flexibility and shorter lead time
  - The rising cost of wages and salaries, rents, services and utilities
  - Potential operation delays caused by potential labor strikes
  - Seasonality and volatility
  - Defaults on receivables due from brand customers
- Complying with local government policies, such as trade policy, accounting standards and other laws, rules and regulations – across multiple jurisdictions – which may adversely affect the Group's business and operation.
- Political instability associated with emerging or less developed countries that may impact transportation, worker sentiment and brand customer orders.
- Disrupted supply chains and operations due to the COVID-19 outbreak.
- Fluctuations in commodity prices and issues affecting other production inputs, such as pricing and supply, which could impact the operation and profitability of the Group.
- Over relying on key brands' strategy and reputation.
- Over-procurement by brand customers leading to excess inventory on their books and in the market, a drop in subsequent orders for the Group's products.
- Foreign exchange risk as some of the Group's output costs are denominated in local currencies (including the Chinese Renminbi, Indonesian Rupiah and Vietnamese Dong), while the revenues are mostly denominated in the US Dollar. The Group's functional and reporting currencies are both the US Dollar.
- Managing a very large number of production line staff.
- Overly relying on/the potential loss of executives/expatriates.
- Difficulty in recruiting local talents.
- Failure of operational infrastructure.

Business Review (continued)

Principal Risks and Uncertainties (continued)

- Ineffective initiatives to react to technological changes in production process and planning, use of materials, as well as design and development.

- Impairment on goodwill and intangibles assets.

- Impairment on investments in joint ventures and associates.

- Impairment on advances and loans to joint ventures and associates.

For the retail business, the Group faces risks and uncertainties associated with:

- Managing the impact on sales, costs, profit and cash flows resulting from:

  - Changing economic conditions in China
  - Changing market trends
  - Competitor activity
  - Seasonality and/or adverse weather
  - The rising cost of wages and salaries, rents, services and utilities
  - Defaults on receivables due from other business partners

- Changes in government policy that may affect consumer demand for sporting goods in China.

- Managing the Group's organic growth and ensuring a robust growth and successful integration of new businesses.

- Over relying on key brands' strategy and reputation; Changing strategy (particularly for the China market) and performance of major brand partners, which could have an adverse effect on the Group's retail business and financial performance.

- Hampered consumer sentiment and disrupted store operations due to the COVID-19 outbreak.

- Falling consumer spending leading to excess inventory within the Group's retail channels, requiring aggressive discounting activity, and/or inventory obsolescence and discounting due to rapid changes in fashion trends.

- Changes in consumers' shopping preference from offline to online channels.

- Foreign exchange risk as Pou Sheng's reporting currency is the Renminbi, while the Group's reporting currency is the US Dollar.

- Impairment on goodwill and intangibles assets.

- Overly relying on/the potential loss of key executives.

- Failure of operational infrastructure.

- Failure of IT system and data security functions.

Business Review (continued)

Event after the Reporting Period

Details of significant event occurred after the reporting period are set out in Note 50 to the consolidated financial statements.

Future Development

Information and details regarding the future development in the Company's business are set out in the Chairman's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 10 to 21.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the latest practicable date prior to the printing of this annual report.

Auditor

There was no change in the Company's auditor in the preceding three years. A resolution will be proposed at the 2020 AGM to re-appoint Messrs. Deloitte Touche Tohmatsu ("Deloitte") as the auditor of the Company.

On behalf of the Board

Tsai Pei Chun, Patty
Managing Director

Hong Kong, March 30, 2020

Corporate Governance Report

The Company believes that good corporate governance provides a framework that is essential for effective management, healthy corporate culture, successful business growth and thereby enhancing Shareholders' value. It is committed to maintaining a high standard of corporate governance practices through the establishment of a comprehensive and efficient framework of policies, procedures and systems throughout the Group.

Corporate Governance Practices

During the year ended December 31, 2019, the Company has applied the principles of and has complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year ended December 31, 2019.

Board of Directors

As at the date of this report, the Board comprises the following twelve Directors:

Executive Directors

Mr. Lu Chin Chu *(Chairman)*
Ms. Tsai Pei Chun, Patty *(Managing Director)*
Mr. Chan Lu Min
Mr. Lin Cheng-Tien
Mr. Tsai Ming-Lun, Ming *(resigned on April 1, 2020)*
Mr. Hu Chia-Ho
Mr. Liu George Hong-Chih
Mr. Hu Dien Chien

Independent Non-executive Directors

Mr. Wong Hak Kun
Mr. Ho Lai Hong
Ms. Yen Mun-Gie *(also known as Teresa Yen)*
Mr. Chen Chia-Shen

The list of Directors and their role and function is available on the Company's website.

During the year ended December 31, 2019, the Company has at all times met the requirements under Rules 3.10(1) and (2), and 3.10A of the Listing Rules by appointing sufficient number of independent non-executive directors with at least one of them possesses appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of its independent non-executive directors an annual confirmation confirming their independence pursuant to Rule 3.13 of the Listing Rules.

Relationship between Board Members

Ms. Tsai Pei Chun, Patty is the cousin of Mr. Tsai Ming-Lun, Ming, who resigned as an executive director of the Company on April 1, 2020, and both of them are members of the Tsai family. Save as disclosed herein, none of the members of the Board are related to one another.

Functions of the Board

The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval (after taking into consideration of the recommendations made by the relevant committees) of all policies, overall strategies, risk management and internal control systems, and monitoring the performance of the senior management. The Directors make decisions objectively and in the interests of the Company.

The day-to-day management, administration and operation of the Group are delegated to the managing director and the senior management of the Company. The delegated functions and work tasks are reviewed periodically.

Board meetings and practices

The Board meets regularly and Board meetings are held at least four times a year at approximately quarterly intervals. The chairman holds at least annually one meeting with the independent non-executive directors of the Company without the presence of other Directors. Notices of regular Board meetings are served to all Directors at least fourteen days before the meetings to ensure that all Directors are given the opportunity to attend the meetings. All Directors are advised to inform the Company Secretary any time before the date specified on the notice if they wish to include any matter in the agenda of the meeting. Matters which are material and may cause potential conflicts of interest will be dealt with by physical Board meetings instead of by written resolutions of the Directors. Draft minutes of Board meetings are circulated to all Directors for review and comments within a reasonable time after the meetings prior to confirmation. Minutes are recorded in sufficient detail of the matters considered by the Board and decisions reached. The final versions of the minutes would be opened for inspection at any reasonable notice by any Directors.

During the year ended December 31, 2019, seven Board meetings and one Shareholders' meeting were held. The attendance rate of each Board members at such meetings are set out in the section entitled "Attendance rate of meetings".

General Meetings

The summary of the matters resolved at the general meeting of the Company held in 2019 are as follows:

Date	Type of general meeting	Matters resolved
May 31, 2019	Annual general meeting	• Adopted the audited financial statements for the year ended December 31, 2018; • Approved the re-election of Directors, re-appointment of auditor and grant of general mandates to issue and repurchase shares; and • Approved and adopted the Yue Yuen Share Option Scheme.

General Meetings (continued)

The 2020 AGM of the Company is scheduled to be held on Friday, May 29, 2020 at 2:00 p.m.. Shareholders may refer to the notice of the 2020 AGM dated April 24, 2020 for details.

All resolutions at the general meetings of the Company shall be decided by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted by a show of hands.

Induction and Continuous Professional Development of Directors

According to code provision A.6.1 of the CG Code, all newly appointed Directors are given a comprehensive, formal and tailored induction programme to ensure their proper understanding of the Company's operations and business, awareness of their responsibilities and obligations under the Listing Rules and relevant laws.

According to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development ("CPD") to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Company has received from all Directors of their respective training records. A summary of the trainings participated by the Directors during the year ended December 31, 2019 is as follows:

	Mode of CPD Training	
	Reading materials	**Attending seminar**
Executive Directors		
Lu Chin Chu	3 hours	2 hours
Tsai Pei Chun, Patty	3 hours	2 hours
Chan Lu Min	3 hours	2 hours
Lin Cheng-Tien	3 hours	2 hours
Tsai Ming-Lun, Ming	3 hours	2 hours
Hu Chia-Ho	3 hours	2 hours
Liu George Hong-Chih	3 hours	1 hour
Hu Dien Chien	3 hours	2 hours
Independent Non-executive Directors		
Wong Hak Kun	3 hours	2 hours
Huang Ming Fu[1]	N/A	1 hour
Ho Lai Hong[2]	3 hours	1 hour
Yen Mun-Gie (also known as Teresa Yen)	3 hours	2 hours
Hsieh Yung Hsiang (also known as Alfred Hsieh)	3 hours	2 hours

Notes:

1. Mr. Huang Ming Fu retired as an independent non-executive director of the Company on May 31, 2019.

2. Mr. Ho Lai Hong was appointed as an independent non-executive director of the Company on May 24, 2019.

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to cover the liabilities of the Directors that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended December 31, 2019, no claim was made against any Directors.

Chairman and Managing Director

The position of the chairman of the Company is held by Mr. Lu Chin Chu and the position of the managing director of the Company is held by Ms. Tsai Pei Chun, Patty. The roles of the chairman and the managing director are clearly segregated and are not exercised by the same individual.

The chairman of the Company provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. It also ensures that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategies and policies and that Board decisions taken are in the Group's best interests and fairly reflect the Board's consensus. The managing director of the Company leads the management in the day-to-day operation of the Group's business in accordance with the business plans and develops and proposes the Group's strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

Appointment and Re-Election of Directors

Any appointment of a new Director is recommended by the nomination committee of the Company (the "Nomination Committee") with reference to the Company's Nomination Policy and Board Diversity Policy for the Board's consideration and approval and is subject to the approval by the Shareholders in general meetings. Any Director who is appointed by the Board to fill a casual vacancy shall retire at the first general meeting of the Company after appointment. Any Director who is appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company.

All independent non-executive directors of the Company are appointed for a specific term of three years. All Directors are subject to retirement by rotation at least every three years and re-election in accordance with the provisions of the Listing Rules and the Bye-laws. At least one-third of the Directors shall retire from office every year at the Company's annual general meeting.

Board Committees

Currently, the Board has established three principal committees, namely the Nomination Committee, the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each committee is delegated with specific authorities by the Board in assisting the Board to discharge its duties and to administer particular aspects of the Group's activities. The Board and all Board committees are provided with adequate resources to discharge their duties and can seek independent professional advice at the Company's expense whenever deemed necessary by Directors. The roles and functions of each committee are summarized below.

Nomination Committee

The Nomination Committee was established on December 29, 2011 with written terms of reference which are available under the "Corporate Governance" section of the Company's website.

Board Committee (continued)

Nomination Committee (continued)

The Nomination Committee currently comprises Mr. Ho Lai Hong (chairman of the Nomination Committee), Ms. Tsai Pei Chun, Patty and Ms. Yen Mun-Gie (also known as Teresa Yen). All of the Nomination Committee members are independent non-executive directors of the Company except for Ms. Tsai Pei Chun, Patty who is an executive director of the Company.

The primary duties of the Nomination Committee are: (i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board; (ii) to identify individuals suitably qualified to become Board members; (iii) to assess the independence of independent non-executive directors of the Company; (iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and (v) to review the Board Diversity Policy of the Company and make recommendation to the Board on any revisions to the same, as appropriate, to ensure its effectiveness.

The Nomination Committee held one meeting during the year ended December 31, 2019. The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the work performed by the Nomination Committee for the year ended December 31, 2019:

- Assessed, reviewed and affirmed the independence of the independent non-executive directors of the Company;
- Reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- Considered the re-appointment of four executive directors of the Company upon expiry of their respective service agreements in 2019, and made recommendation for the Board's approval;
- Considered the appointment of a new independence non-executive director of the Company, with reference to his independence and the Company's Board Diversity Policy and Nomination Policy, and made recommendation for the Board's approval;
- Recommended the retirement and re-election of Directors at the 2019 AGM for the Board's approval; and
- Reviewed the Company's Board Diversity Policy and Nomination Policy and their respective effectiveness.

Board Committee (continued)

Remuneration Committee

The Remuneration Committee was established with written terms of reference which are available under the "Corporate Governance" section of the Company's website.

The Remuneration Committee currently comprises Mr. Wong Hak Kun (chairman of the Remuneration Committee), Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen. All of the Remuneration Committee members are independent non-executive directors of the Company.

The primary duties of the Remuneration Committee are to make recommendations to the Board on (i) the Company's policy and structure for all Directors' and senior management's remuneration; (ii) the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments, etc.; and (iii) the remuneration of non-executive directors.

The Remuneration Committee held two meetings during the year ended December 31, 2019. The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the work performed by the Remuneration Committee for the year ended December 31, 2019:

- Considered the remuneration of a new independent non-executive director of the Company, and made recommendation for the Board's approval;
- Considered the remuneration of four executive directors of the Company for renewal of their service agreements in 2019, and made recommendation for the Board's approval;
- Reviewed the Company's 2018 remuneration for management with reference to the Board's corporate goal and objectives, salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group, and made recommendation for the Board's approval;
- Reviewed the Company's policy and structure for all Directors' and senior management's remuneration;
- Reviewed the granting of share awards to a director of the Company pursuant to the Yue Yuen Share Award Scheme, and made recommendation for the Board's approval; and
- Made sure that no Director or his/her associate was involved in deciding his/her own remuneration.

Pursuant to B.1.5 of the CG Code, the remuneration of the senior management of the Company by band for the year ended December 31, 2019 was set out in Note 10 to the consolidated financial statements.

Board Committees (continued)

Audit Committee

The Audit Committee was established with written terms of reference which are available under the "Corporate Governance" section of the Company's website.

The Audit Committee currently comprises Mr. Wong Hak Kun (chairman of the Audit Committee), Mr. Ho Lai Hong, Ms. Yen Mun-Gie (also known as Teresa Yen) and Mr. Chen Chia-Shen. All of the Audit Committee members are independent non-executive directors of the Company. The Audit Committee has reviewed the audited consolidated financial statements for the year ended December 31, 2019.

The primary duties of the Audit Committee are: (i) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; (ii) to approve the remuneration and terms of engagement of the external auditor; (iii) to monitor integrity of the Company's financial statements, interim and annual reports, and to review significant financial reporting judgments contained in such documents; and (iv) to oversee the Company's financial reporting system, risk management and internal control systems. At least twice a year the Audit Committee meets with the external auditor, without the presence of executive directors of the Company, to discuss any area of concern during the audit or review.

The Audit Committee held four meetings during the year ended December 31, 2019 (two of the meetings have met with the external auditor of the Company). The attendance rate of each committee members are set out in the section entitled "Attendance rate of meetings".

The following is a summary of the major works performed by the Audit Committee for the year ended December 31, 2019:

- Reviewed the continuing connected transactions of the Group for the year ended December 31, 2018;
- Reviewed the Group's final results for the year ended December 31, 2018 and the interim results for the six months period ended June 30, 2019;
- Made recommendation to the Board for re-appointment of Deloitte as the Group's external auditor;
- Reviewed Deloitte's performance, independence and objectivity and the effectiveness of the audit process and its scope;
- Reviewed the Group's quarterly results for the three months ended March 31, 2019 and for the nine months ended September 30, 2019 respectively;
- Reviewed the "Report to the Audit Committee" prepared by the external auditor for the year ended December 31, 2018 and the six months ended June 30, 2019 respectively;
- Reviewed the internal audit report and the effectiveness of the risk management and internal control systems, both for the year ended December 31, 2018 and the six months ended June 30, 2019 respectively;

Board Committee (continued)

Audit Committee (continued)

- Reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and the effectiveness of the internal audit function, and made recommendation to the Board; and

- Reviewed the arrangements employees of the Group can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

Attendance Rate of Meetings

The attendance rate of the Board, principal committees and Shareholders' meetings held in 2019 are as follows:

	Shareholders' Meetings	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting
	Number of Meeting(s) Attended/Held				
Executive Directors					
Lu Chin Chu	1/1	7/7	N/A	N/A	N/A
Tsai Pei Chun, Patty	1/1	7/7	N/A	N/A	1/1
Chan Lu Min	1/1	7/7	N/A	N/A	N/A
Lin Cheng-Tien	0/1	7/7	N/A	N/A	N/A
Tsai Ming-Lun, Ming	1/1	6/7	N/A	N/A	N/A
Hu Chia-Ho	1/1	7/7	N/A	N/A	N/A
Liu George Hong-Chih	1/1	5/7	N/A	N/A	N/A
Hu Dien Chien	1/1	7/7	N/A	N/A	N/A
Independent Non-Executive Directors					
Wong Hak Kun	1/1	7/7	4/4	2/2	N/A
Huang Ming Fu[1]	0/1	2/3	2/2	1/1	1/1
Ho Lai Hong[2]	1/1	4/4	2/2	1/1	N/A
Yen Mun-Gie *(also known as Teresa Yen)*	1/1	7/7	4/4	2/2	1/1
Hsieh Yung Hsiang *(also known as Alfred Hsieh)*	0/1	6/7	4/4	1/2	N/A

Notes:

1. Mr. Huang Ming Fu retired as an independent non-executive director of the Company on May 31, 2019.

2. Mr. Ho Lai Hong was appointed as an independent non-executive director of the Company on May 24, 2019.

Corporate Governance Functions

The Board is primarily responsible for performing the corporate governance functions of the Company.

The following is a summary of the work performed by the Board for the year ended December 31, 2019:

- Reviewed the Statement of Policy on Corporate Governance of the Company;
- Reviewed the training and continuous professional development of the Directors;
- Reviewed the practices on compliance with legal and regulatory requirements and the CG Code; disclosure in the Corporate Governance Report;
- Reviewed the Guidelines for Securities Transactions by Relevant Employees of the Company;
- Reviewed the effectiveness of the Company's Shareholders' Communication Policy; and
- Reviewed and adopted the Code of Conduct of the Company.

The Board has already adopted a Statement of Policy on Corporate Governance which sets out the key corporate governance principles observed by the Company and illustrates the practices and systems established by the Board in line with those principles. It serves as a framework guideline to assist the Board in supervising the management of the business and affairs of the Group.

Board Diversity Policy

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. As mentioned in the Board Diversity Policy adopted by the Company, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates may bring to the Board. Further details of the Board's composition with their diversity perspectives are included in the section "Biographical Details of Directors and Senior Management" of this report.

Nomination Policy

The Company adopted a Nomination Policy on November 13, 2018. The Nomination Policy incorporated the selection criteria and nomination procedures for nomination of Directors. When considering a candidate nominated for directorship or a director's proposed re-appointment, the Nomination Committee will have regard to the following factors:

- with reference to the Company's Board Diversity Policy, a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;

Nomination Policy (continued)

- commitment to devote sufficient time and attention to the Company's affairs;
- character and integrity;
- accomplishment, experience and knowledge in the relevant industry; and
- in respect of an independent non-executive director, independence of the candidate.

The aforesaid criteria are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

The Nomination Committee identifies or selects candidates recommended to the Nomination Committee pursuant to the aforesaid criteria. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. The Board maintains final decision on all matters relating to the selection and appointment of Directors and its recommendation of candidates to stand for election at any general meeting. Where the re-election or appointment of Directors is subject to shareholders' approval at a general meeting, a circular containing all the information of the candidates required under Rules 13.51(2) of the Listing Rules (as amended from time to time) and other applicable rules and regulations shall be sent to shareholders. No Director should be involved in deciding the recommendation of his/her own re-election.

Dividend Policy

The Company adopted a Dividend Policy on November 13, 2018. The Company is committed to maintaining a sustainable and stable absolute return to shareholders in the form of dividend. The Board has complete discretion on whether to pay a dividend, subject to shareholder's approval, where applicable. The Board shall decide the form, frequency and amount of the dividend payments.

The actual dividend payments will depend on a number of factors, including but not limited to the following:

- Financial performance of the Company;
- Conservation of adequate funds for the Company's capital expenditures or other strategic initiatives for growth and expansion prospects;
- Cash position and availability of funds for dividend payments;
- Financial position of the Company such as its capital structure and debt repayment capabilities;
- Any restraints on dividend payments as contained in the financing agreements; and
- Other factors that the Board may consider relevant.

The Company's ability to make distributions is also subject to the requirements of Bermuda law, the Bye-laws, the Listing Rules and any other applicable laws and regulations.

Auditor's Remuneration

During the year ended December 31, 2019, the remuneration paid or to be payable to the Company's external auditor, Deloitte, is set out as follows:

	US$'000
Audit services	1,423
Non-audit services	801
Total	2,224

The above non-audit services include the review of interim financial statements, professional advisory on taxation and professional services rendered in connection with review of lease system and consolidation system implementation.

Directors' Responsibility and Auditor's Responsibility in Respect of Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of the Group's affairs and results. In doing so, the generally accepted accounting standards and suitable accounting policies in Hong Kong are adopted and applied consistently. The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Company's ability to continue as a going concern.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 85 to 90 of this annual report.

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. Ms. Ng Yuk Yee, Feona resigned and Mr. Chau Chi Ming, Dickens was appointed as the Company Secretary on July 31, 2019. Each of them confirmed that she/he has taken at least 15 hours of relevant professional training during the year under review in compliance with Rule 3.29 of the Listing Rules.

Shareholders' Rights

The general meetings of the Company provide a communication channel between the Shareholders and the Board. An annual general meeting of the Company is held in each year and at the place as may be determined by the Board. General meetings other than an annual general meeting are called special general meetings. The Board may whenever it thinks fit convene special general meetings.

The Procedures for Shareholders to Convene a Special General Meeting

Pursuant to Bye-law 58 of the Bye-laws, Shareholders holding at the date of the 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 at the Company's principal place of business in Hong Kong, to require a special general meeting to be convened 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 requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act of Bermuda.

Shareholders' Rights (continued)

The Procedures for Sending Enquiries to the Board

The enquiries must be in writing with the detailed contact information of the requisitionists and deposited with the Board or the Company Secretary at the Company's principal place of business in Hong Kong as below:

Yue Yuen Industrial (Holdings) Limited
22nd Floor, C-Bons International Center
108 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

The Procedures for Shareholders to Put Forward Proposals at Shareholders' Meetings

Pursuant to Sections 79 and 80 of the Companies Act of Bermuda, registered Shareholders are entitled to put forward proposals at general meetings if they (i) represent not less than one-twentieth of the total voting rights at general meetings of the Company at the date of deposit of the requisition; or (ii) are not less than 100 registered Shareholders. The written requisition stating the resolution(s) should be duly signed by the registered Shareholder(s) concerned, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with must be deposited at the Company's principal place of business in Hong Kong. The requisition will be verified by the Company's branch share registrar in Hong Kong and upon their confirmation that the same is proper and in order, the Company Secretary will arrange to include the proposed resolution in the agenda of the general meeting.

The Procedures for Shareholders to Propose a Person for Election as a Director

As regards the procedures for proposing a person for election as a Director, please refer to the procedures made available under the "Corporate Governance" section of the Company's website.

Information Disclosure and Investor Relations

The Board maintains an on-going dialogue with the Shareholders and the investment community mainly through the Company's financial reports, annual general meetings and by making available its corporate communications and publications on the Company's website.

There is no change in the Memorandum of Association and Bye-laws of the Company during the year ended December 31, 2019. The aforesaid constitutional document is available for public inspection at the Company's website.

Shareholders Communication Policy

The Company has adopted a Shareholders Communication Policy setting out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, with a view to enabling the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.

Risk Management and Internal Control

The Board is responsible for maintaining sound and effective risk management and internal control systems for the Group, as well as reviewing the effectiveness of these systems. These systems are designated to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss, and to assist in the achievement of the Group's objectives. These systems also ensure the maintenance of proper accounting records and compliance with operating procedures as well as relevant laws and regulations.

During the year under review, the internal audit function of the Group was performed by the internal audit department, which was responsible for the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group. At the same time, it also assessed the risks inherent to the business and operation, and conducted reviews or audits to provide reasonable, and not absolute, assurance that adequate governance and controls are in place to address such risks. The Board had reviewed, through the Audit Committee, the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. The Board had also reviewed, through the Audit Committee, the effectiveness of the Group's risk management and internal control systems including financial control, operational control and compliance control, for the year ended December 31, 2018 and for the six months ended June 30, 2019, in March and in August 2019 respectively, and considered such systems to be effective and adequate.

Main Features of the Risk Management and Internal Control Systems

The Board performs its duties by formulating policies and procedures, including parameters for delegated authorization, which provide a framework for identification and management of risks. The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval of all policies, overall strategies, risk management and internal control systems after taking into consideration of the recommendations made by the relevant committees, as well as monitoring the performance of the senior management and approving the detailed operational and financial report, budget and business plan submitted by the management. Meanwhile, the managing director conducts regular reviews with the management team of each core business unit on their authorized functions and work.

The management (including relevant heads of business units, departments and divisions) appropriately designs, implements and monitors the risk management and internal control systems, and ensures the effective performance of these systems; monitors risks and takes measures to mitigate risks in daily operations; provides timely responses and follow-up actions to findings on internal control matters raised by internal audit department or by external auditors; and provides confirmation to the Board on the effectiveness of these systems.

The Audit Committee is responsible for the ongoing review of the Group's risk management and internal control functions. On behalf of the Board, the Audit Committee regularly reviews the Group's risk management and internal control systems; ensures that the management has performed its duty to have effective systems; considers major investigation findings on risk management and internal control matters and management's responses to these findings; ensures co-ordination between the internal audit department and external auditor; and ensures that the internal audit function is adequately resourced and has appropriate standing within the Group, and reviews and monitors the effectiveness of the internal audit function.

Risk Management and Internal Control (continued)

Risk Management

The Group has put in place a set of internal audit planning and risk assessment systems, for the identification, assessment and management of significant risks. The processes are:

1. Audit Planning

    a. Audit Subject Selection – The Group's risks are assessed according to financial risk factor and non-financial risk factor, and different factors are weighted according to their respective importance. At the same time, the Group's businesses are categorized into eight industry groups, according to the characteristics of the respective product, for the assessment of risks and the selection of business units as audit subjects accordingly. Apart from selecting audit subjects according to the risks assessment system, the auditing work will also be carried out according to the instructions of the Board and the senior management of the Group, or according to the requests of the heads of the business units.

    b. Audit Preparation – After an annual refreshment of relevant data, the risk levels of each business units are recalculated, the audit of the new financial year is planned, and the Group's risk assessment report and the internal audit plan are presented to the Audit Committee by the head of the internal audit department.

2. Information Inspection and Evaluation – According to the annual internal audit plan and audit procedures, to understand, examine and evaluate the situation of internal control. According to the needs revealed from internal control assessment, the test is broadened to discover problems, after which the audit report will be produced and recommendations are made.

3. Audit results are communicated to the audited business units.

4. The head of the internal audit department reports to the Audit Committee half-yearly and annually on the results of audit work.

5. Improvements on defects discovered and mitigation of risks are requested and progresses are continuously tracked.

Internal Control Measures

Executive directors are appointed to the boards of all significant operating subsidiaries and associates to oversee the operations of these companies, which include the participation in their board meetings, approval of budgets and operating strategies, as well as the identification of related risks and formulation of key performance indicators. The management team of each core business unit is responsible for every business in their respective department. Similarly, the management team of each business unit is also responsible for their own conduct and performance. The Group's managing director continuously monitors the Group's performance and reviews the risk conditions of these companies through these measures.

The Group's internal control procedures include a set of comprehensive reporting system, through which informative reports are produced to the management team of each core business unit and to the executive directors.

Risk Management and Internal Control (continued)

Internal Control Measures (continued)

As part of the Group's annual business plan, business plans and budgets are prepared annually by individual business units, which are subject to approval by the management team and the managing director. Regular reviews of the differences between projections and actual financial data are conducted, and comparisons of variances against the original budgets are made and approved. In preparing budgets and making revised forecasts, the management will identify, assess and report on the likelihood of significant risks facing the business units and their potential financial impacts.

The executive directors of the Company review the monthly management reports which cover the financial performance and major operating statistics of each business unit, and meet regularly with the operation management team and senior business management team of the business units to review such reports, compare the business performances against the budgets and perform business forecasts as well as material risks assessments and strategies. In addition, the heads of the management team of the core business units meet quarterly with the managing director and their respective team members to review and carry out risk assessments, decisions and related matters of the major issues.

Inside Information

In respect of compliance with the requirements of the SFO and the Listing Rules to identify, handle and disseminate inside information (having the meaning under the SFO), the Group has adopted the Inside Information Policy to ensure that inside information of the Group is disseminated to the public in equal and timely manner and in accordance with the applicable laws and regulations. It is the obligation of the Board to ensure the Company's compliance with its disclosure responsibilities. The Company must disclose inside information to the public as soon as reasonably practicable, unless the "safe harbor" provisions under the SFO apply. The Board shall take reasonable precautions for preserving the confidentiality of inside information and the relevant announcement (if applicable) before publication. The Company has implemented procedures and adopted the "Guidelines for Securities Transactions by Relevant Employees". To guard against mishandling of inside information, the Group's securities transactions by the Directors and relevant employees are subject to pre-clearance and the Directors and relevant employees are notified of the regular blackout period and securities dealing restrictions. If there are rumours in the public, concern should be addressed to the disclosure committee of the Company for determination as to whether the nature of such rumours falls into the category of insider information as mentioned above. No persons other than those authorized by the Board shall disclose or clarify any inside information, or attempt to do so, in particular to the media, analysts or investors. Any disclosure of inside information must be made through the electronic publication system operated by the Stock Exchange's and the Company's website.

Risk Management and Internal Control (continued)

Internal Audit

The head of the Group's internal audit department reports to the managing director on the department's daily duties, and directly reports to the Audit Committee. The internal audit department formulates its annual audit plan based on the risks assessment method, taking into consideration the operational mechanism of the Group. The plan is reviewed by the Audit Committee and re-assessed during the year, if necessary, to ensure that sufficient resources are available for use and the objectives of the plan are achieved. The internal audit department is responsible for the assessment of the risk management and internal control systems of the Group, provision of impartial advices on the system, reporting the assessment results to the Audit Committee, managing director and relevant senior management, and following up on all reports to ensure the satisfactory resolution of all issues. Depending on the business nature and risks of the individual business unit, the work of internal audit function includes reviews on finance/information technology and operation, recurring and ad hoc audits and fraud investigations, etc. In addition, the internal audit department also communicates with the Group's external auditors on a regular basis.

For the year under review, the Audit Committee considered that the Group's risk management and internal control systems were adequate and effective.

Deloitte. 德勤

TO THE MEMBERS OF YUE YUEN INDUSTRIAL (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Yue Yuen Industrial (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 91 to 234, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
We identified the impairment assessment of goodwill that has been allocated group of cash generating units ("CGUs") which are engaged in manufacturing and marketing of footwear materials as a key audit matter due to the complexity and significant judgments and estimates involved in the management's assessment process. As disclosed in Note 18 to the consolidated financial statements, the carrying amount of this goodwill was US$183,395,000 as at December 31, 2019. Determining whether goodwill is impaired required the management's estimation of the recoverable amount of the group of CGUs to which the goodwill has been allocated, which is higher of its fair value less cost of disposal and value in use.. In estimating the value in use of the CGUs, key inputs used by the management included discount rates, growth rates, budgeted sales and gross margins and their related cash inflows and outflows patterns of the CGUs. The management engaged independent valuer to carry out valuation of the value in use of the group of CGUs which are engaged in the manufacturing and marketing of footwear materials. The management of the Group determined that there was no impairment in the CGUs containing goodwill during the year ended December 31, 2019.	Our procedures in relation to the impairment assessment of goodwill allocated to the manufacturing and marketing of footwear materials included: • Evaluating the competence, capabilities and objectivity of the independent valuer; • Evaluating the assumptions underpinning the discounted cash flow models, including growth rates, budgeted sales and gross margins through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industry trend; • Assessing the reasonableness of the discount rates applied in determining the value in use by benchmarking against market data; • Evaluating the reasonableness of and reperforming the sensitivity analysis provided by the management of the Group to assess the extent of impact on the value in use; and • Evaluating the historical accuracy of the forecasted future cash flows by comparing them to the actual results in the current year on a sample basis and understanding the causes of any significant variances.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of net realizable value of finished goods	
We identified the assessment of net realizable value of finished goods for the retail and distribution of sportswear products as a key audit matter due to the significant judgments and estimates involved in the determination of the net realizable value of these finished goods by the management of the Group. As disclosed in Notes 25 and 9 to the consolidated financial statements, the carrying amount of finished goods for the retail and distribution of sportswear products included in the inventories balances as at December 31, 2019 was US$1,151,884,000 and the net changes in allowance for inventories arose from the finished goods for the retail and distribution of sportswear products credited to the consolidated income statement for the year then ended was US$8,827,000. Accumulated allowance made as at December 31, 2019 was US$22,585,000. As explained in Note 4(b)(iii) to the consolidated financial statements, the management of the Group reviewed the aging of the inventories at the end of the reporting period and made allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market. The management of the Group estimated the net realizable value for those items based primarily on the inventories condition, current market conditions and latest transaction prices.	Our procedures in relation to assessment of net realizable value of finished goods for the retail and distribution of sportswear products included: • Evaluating the assumptions for no allowance made on new and fast-moving finished goods based on the Group's pricing policies and historical net realizable value; • Comparing the estimated selling prices of finished goods for the retail and distribution of sportswear products in prior year to their actual selling price in the current year, on a sample basis, to evaluate the reasonableness of methodologies, judgments and assumptions adopted by the management of the Group on the assessment of net realizable value of finished goods for the retail and distribution of sportswear products; • Evaluating the accuracy of aging analysis of finished goods for the retail and distribution of sportswear products by utilizing computer assisted audit techniques; and • Reperforming the calculation of allowance made by management of the Group.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Woo King Wa.

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

Consolidated Income Statement

For the year ended December 31, 2019

	NOTES	2019 US$'000	2018 US$'000
Revenue	5	**10,105,387**	9,695,282
Cost of sales		**(7,592,334)**	(7,249,224)
Gross profit		**2,513,053**	2,446,058
Other income		**127,313**	120,856
Selling and distribution expenses		**(1,222,129)**	(1,160,057)
Administrative expenses		**(682,665)**	(658,291)
Other expenses		**(264,902)**	(249,975)
Finance costs	6	**(92,122)**	(80,551)
Share of results of associates		**26,999**	12,489
Share of results of joint ventures		**24,996**	26,991
Other gains and losses	7	**17,895**	(17,956)
Profit before taxation		**448,438**	439,564
Income tax expense	8	**(95,438)**	(98,448)
Profit for the year	9	**353,000**	341,116
Attributable to:			
Owners of the Company		**300,546**	307,116
Non-controlling interests		**52,454**	34,000
		353,000	341,116
		US cents	US cents
Earnings per share	12		
– Basic		**18.64**	18.84
– Diluted		**18.60**	18.70

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2019

	2019 US$'000	2018 US$'000
Profit for the year	**353,000**	341,116
Other comprehensive income (expense)		
Items that will not be reclassified subsequently to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	**12,139**	(23,715)
Share of other comprehensive (expense) income of associates and joint ventures	**(2,795)**	9,316
Remeasurement of defined benefit obligations, net of tax	**(7,740)**	2,450
Revaluation gain on transfer of properties to investment properties, net of tax	**1,559**	9,686
	3,163	(2,263)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on the translation of foreign operations	**(14,686)**	(49,197)
Share of other comprehensive expense of associates and joint ventures	**(134)**	(22,074)
Reserve released upon disposal of subsidiaries	**(380)**	147
Reserve released upon disposal of associates and a joint venture	**–**	(2,074)
Reserve released upon deemed disposal of associates	**(40)**	(724)
	(15,240)	(73,922)
Other comprehensive expense for the year	**(12,077)**	(76,185)
Total comprehensive income for the year	**340,923**	264,931
Total comprehensive income for the year attributable to:		
Owners of the Company	**294,593**	249,099
Non-controlling interests	**46,330**	15,832
	340,923	264,931

Consolidated Statement of Financial Position

At December 31, 2019

	NOTES	2019 US$'000	2018 US$'000
Non-current assets			
Investment properties	13	**113,222**	109,725
Property, plant and equipment	14	**2,362,234**	2,351,690
Right-of-use assets	15	**580,161**	–
Deposits paid for acquisition of property, plant and equipment		**105,235**	111,636
Prepaid lease payments		**–**	160,651
Intangible assets	16	**40,683**	103,775
Goodwill	17	**261,558**	273,834
Interests in associates	19	**413,966**	416,525
Interests in joint ventures	20	**248,886**	248,565
Amount due from a joint venture	21	**–**	437
Equity instruments at fair value through other comprehensive income	22	**31,889**	15,685
Other financial assets at amortized cost	23	**–**	6,740
Financial assets at fair value through profit or loss	24	**36,811**	19,988
Rental deposits and prepayments		**25,622**	24,562
Deferred tax assets	32	**67,969**	61,920
Deferred consideration receivable	40(a)	**8,500**	–
		4,296,736	3,905,733
Current assets			
Inventories	25	**1,822,845**	1,774,855
Trade and other receivables	26	**1,603,843**	1,741,464
Prepaid lease payments		**–**	4,830
Equity instruments at fair value through other comprehensive income	22	**–**	4,056
Other financial assets at amortized cost	23	**6,036**	1,806
Financial assets at fair value through profit or loss	24	**19,141**	20,195
Taxation recoverable		**12,771**	11,633
Restricted bank deposits		**1,150**	–
Bank balances and cash	27	**982,079**	851,420
		4,447,865	4,410,259
Assets classified as held for sale	28	**44,790**	–
		4,492,655	4,410,259

Consolidated Statement of Financial Position

At December 31, 2019

	NOTES	2019 US$'000	2018 US$'000
Current liabilities			
Trade and other payables	29	1,461,995	1,388,514
Contract liabilities	30	64,005	44,592
Financial liabilities at fair value through profit or loss	24	–	20,048
Taxation payable		69,344	56,970
Bank and other borrowings	31	733,283	795,917
Lease liabilities	33	130,368	–
		2,458,995	2,306,041
Net current assets		2,033,660	2,104,218
Total assets less current liabilities		6,330,396	6,009,951
Non-current liabilities			
Financial liabilities at fair value through profit or loss	24	10,287	–
Bank and other borrowings	31	1,356,596	1,328,006
Deferred tax liabilities	32	40,465	44,003
Lease liabilities	33	272,364	–
Retirement benefit obligations	46(b) & (c)	117,593	91,906
		1,797,305	1,463,915
Net assets		4,533,091	4,546,036
Capital and reserves			
Share capital	34	52,040	52,182
Reserves		4,046,666	4,075,318
Equity attributable to owners of the Company		4,098,706	4,127,500
Non-controlling interests	48	434,385	418,536
Total equity		4,533,091	4,546,036

The consolidated financial statements on pages 91 to 234 were approved and authorized for issue by the board of directors of the Company on March 30, 2020 and are signed on its behalf by:

Tsai Pei Chun, Patty
MANAGING DIRECTOR

Hu Dien Chien
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

	Equity attributable to owners of the Company														
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Other reserve US$'000 (note b)	Other revaluation reserve US$'000	Property revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Non-distributable reserve fund US$'000 (note c)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2018	53,197	694,027	36,023	(16,688)	22,336	4,551	10,559	(10,206)	2,172	81,255	83,442	3,317,992	4,278,660	391,386	4,670,046
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	307,116	307,116	34,000	341,116
Remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	3,632	3,632	102	3,734
Deferred tax arising from remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	(1,260)	(1,260)	(24)	(1,284)
Revaluation gain on transfer of properties to investment properties	–	–	–	–	–	–	12,915	–	–	–	–	–	12,915	–	12,915
Deferred tax arising from revaluation gain on transfer of properties to investment properties	–	–	–	–	–	–	(3,229)	–	–	–	–	–	(3,229)	–	(3,229)
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	(31,265)	–	(31,265)	(17,932)	(49,197)
Fair value loss on equity instruments at fair value through other comprehensive income	–	–	(23,715)	–	–	–	–	–	–	–	–	–	(23,715)	–	(23,715)
Share of other comprehensive income (expense) of associates and joint ventures	–	–	9,316	–	–	–	–	–	–	–	(21,719)	–	(12,403)	(355)	(12,758)
Reserve released upon disposal of associates and joint ventures	–	–	–	–	–	–	–	–	–	–	(2,209)	135	(2,074)	–	(2,074)
Reserve released upon deemed disposal of associates	–	–	–	–	–	–	–	–	–	–	(869)	145	(724)	–	(724)
Reserve released upon disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	106	–	106	41	147
Total comprehensive (expense) income for the year	–	–	(14,399)	–	–	–	9,686	–	–	–	(55,956)	309,768	249,099	15,832	264,931
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	–	–	–	–	–	–	–	–	1,421	–	–	–	1,421	2,881	4,302
Share awards vested	–	–	–	–	–	–	–	3,062	(3,244)	–	–	182	–	–	–
Share option lapsed under share option scheme of a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	1,276	1,276	(1,276)	–
Share repurchased and cancelled	(1,015)	(89,319)	–	–	–	–	–	–	–	–	–	–	(90,334)	–	(90,334)
Exercise of a listed subsidiary's share options	–	–	–	–	(398)	–	–	–	–	–	–	–	(398)	1,459	1,061
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(582)	(582)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(144)	–	144	–	(11)	(11)
Released upon disposal of equity instruments at fair value through other comprehensive income	–	–	(1,218)	–	–	–	–	–	–	–	–	1,218	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	(145)	–	–	–	–	–	–	–	(145)	14,337	14,192
Dividends (Note 11)	–	–	–	–	–	–	–	–	–	–	–	(312,079)	(312,079)	–	(312,079)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(5,490)	(5,490)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	–	–	14,236	–	(14,236)	–	–	–
At December 31, 2018	52,182	604,708	20,406	(16,688)	21,793	4,551	20,245	(7,144)	349	95,347	27,486	3,304,265	4,127,500	418,536	4,546,036

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

	Equity attributable to owners of the Company														
	Share capital US$'000	Share premium US$'000	Investments revaluation reserve US$'000	Special reserve US$'000 (note a)	Other reserve US$'000 (note b)	Other revaluation reserve US$'000	Property revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Non-distributable reserve fund US$'000 (note c)	Translation reserve US$'000	Retained profits US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At January 1, 2019	52,182	604,708	20,406	(16,688)	21,793	4,551	20,245	(7,144)	349	95,347	27,486	3,304,265	4,127,500	418,536	4,546,036
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	300,546	300,546	52,454	353,000
Remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	(10,536)	(10,536)	(39)	(10,575)
Deferred tax arising from remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	–	–	2,819	2,819	16	2,835
Revaluation gain on transfer of properties to investment properties	–	–	–	–	–	–	2,079	–	–	–	–	–	2,079	–	2,079
Deferred tax arising from gain on revaluation of properties to investment properties	–	–	–	–	–	–	(520)	–	–	–	–	–	(520)	–	(520)
Exchange difference arising on the translation of foreign operations	–	–	–	–	–	–	–	–	–	–	(8,708)	–	(8,708)	(5,978)	(14,686)
Fair value gain on equity instruments at fair value through other comprehensive income	–	–	12,139	–	–	–	–	–	–	–	–	–	12,139	–	12,139
Share of other comprehensive expense of associates and joint ventures	–	–	(2,795)	–	–	–	–	–	–	–	(11)	–	(2,806)	(123)	(2,929)
Reserve released upon deemed disposal of an associate	–	–	–	–	–	–	–	–	–	–	(40)	–	(40)	–	(40)
Reserve released upon disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	(380)	–	(380)	–	(380)
Total comprehensive income (expense) for the year	–	–	9,344	–	–	–	1,559	–	–	–	(9,139)	292,829	294,593	46,330	340,923
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	–	–	–	–	–	–	–	–	1,253	–	–	–	1,253	3,753	5,006
Share awards vested	–	–	–	–	–	–	–	234	(214)	–	–	(20)	–	–	–
Share option lapsed under share option scheme of a listed subsidiary	–	–	–	–	–	–	–	–	–	–	–	336	336	(336)	–
Cancellation of share options of a subsidiary (Note 37(e))	–	–	–	–	–	–	–	–	–	–	–	(3,911)	(3,911)	(10,673)	(14,584)
Share repurchased and cancelled	(142)	(12,031)	–	–	–	–	–	–	–	–	–	–	(12,173)	–	(12,173)
Exercise of a listed subsidiary's share options	–	–	–	–	601	–	–	–	–	–	–	–	601	1,156	1,757
Acquisition of additional interests in subsidiaries	–	–	–	–	(223)	–	–	–	–	–	–	–	(223)	62	(161)
Capital contribution from non-controlling interests	–	–	–	–	(175)	–	–	–	–	–	–	–	(175)	14,602	14,427
Dividends (Note 11)	–	–	–	–	–	–	–	–	–	–	–	(309,095)	(309,095)	–	(309,095)
Dividends paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	(9,271)	(9,271)
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	(29,774)	(29,774)
Transfer to non-distributable reserve fund	–	–	–	–	–	–	–	–	–	19,417	–	(19,417)	–	–	–
At December 31, 2019	**52,040**	**592,677**	**29,750**	**(16,688)**	**21,996**	**4,551**	**21,804**	**(6,910)**	**1,388**	**114,764**	**18,347**	**3,264,987**	**4,098,706**	**434,385**	**4,533,091**

notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the nominal amount of the shares of subsidiaries acquired pursuant to a corporate reorganization in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1992.

(b) The Group accounted for the acquisition of additional interests in subsidiaries and partial disposal of interests in subsidiaries without losing control as equity transactions and the difference between the carrying amount of the non-controlling interests and the fair value of the consideration paid or received, after re-attribution of relevant reserves, was recognized in "other reserve".

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 US$'000	2018 US$'000
OPERATING ACTIVITIES		
Profit before taxation	448,438	439,564
Adjustments for:		
Depreciation of property, plant and equipment	340,414	314,496
Depreciation of right-of-use assets	139,369	–
Release of prepaid lease payments	–	4,062
Amortization of intangible assets	15,320	19,062
Net changes in allowance for inventories	(11,073)	(5,275)
Loss on disposal of property, plant and equipment	17,904	21,827
Loss on disposal of prepaid lease payments	–	57
Equity-settled share-based payments	5,006	4,302
Defined benefit costs recognized	15,245	13,471
Dividend income from equity instruments at fair value through other comprehensive income ("FVTOCI")	(869)	(1,018)
Finance costs	92,122	80,551
Interest income	(8,805)	(10,273)
Share of results of joint ventures	(24,996)	(26,991)
Share of results of associates	(26,999)	(12,489)
Fair value changes on financial assets at fair value through profit or loss ("FVTPL")	(8,435)	23,449
Fair value changes on investment properties	(925)	(501)
Gain on disposal of subsidiaries	(18,644)	(4,780)
Gain on disposal of a joint venture	–	(1,053)
Gain on disposal of associates	–	(8,436)
Gain on disposal of assets classified as held for sale	–	(5,582)
Write-off of goodwill	97	–
Impairment loss on interests in associates	8,605	4,799
Impairment loss on interests in a joint venture	1,470	–
Impairment loss on trade and other receivables	2,252	6,191
Reversal of impairment loss on amount due from a joint venture	(92)	–
Loss on deemed disposal of associates	20	4,478
Loss on deregistration of subsidiaries	9	–
Operating cash flows before movements in working capital	985,433	859,911
Increase in inventories	(184,176)	(220,260)
Increase in trade and other receivables	(8,336)	(83,221)
Increase in rental deposits and prepayments	–	(3,765)
Increase in trade and other payables	87,489	52,628
Increase (decrease) in contract liabilities	1,554	(6,997)
(Increase) decrease in financial assets at FVTPL	(1,022)	4,150
Decrease in retirement benefit obligations	(6,007)	(17,944)
Net cash generated from operations	874,935	584,502
Overseas taxation paid	(81,350)	(104,678)
NET CASH FROM OPERATING ACTIVITIES	793,585	479,824

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	NOTE	2019 US$'000	2018 US$'000
INVESTING ACTIVITIES			
Payment for acquisition of property, plant and equipment		**(394,910)**	(475,853)
Payment for rental deposits		**(8,399)**	–
Payment for right-of-use assets		**(3,219)**	–
Purchase of intangible assets		**(1,389)**	(1,422)
Proceeds from disposal of property, plant and equipment		**15,234**	26,509
Proceeds from disposal of right-of-use assets		**59**	–
Dividends received from joint ventures		**18,631**	19,320
Dividends received from associates		**14,495**	35,705
Dividends received from equity instruments at FVTOCI		**869**	1,018
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	40	**97,214**	14,209
Deposits received in respect of/proceeds from disposal of assets classified as held for sale		**37,847**	6,377
Refund of investment cost from an associate		**2,438**	–
Acquisition of financial assets at FVTPL		**(4,161)**	–
Settlement of currency structured and forward contracts		**(1,740)**	(9,972)
Redemption of other financial assets at amortized cost		**2,400**	1,200
Placement of structured bank deposits		**(130,184)**	(83,741)
Release of structured bank deposits		**130,184**	83,741
Placement of restricted bank deposits		**(2,150)**	–
Release of restricted bank deposits		**1,000**	–
Interest received		**10,148**	11,481
Repayment from amount due from a joint venture		**526**	–
Addition of prepaid lease payments		**–**	(15,871)
Purchase of investment properties		**–**	(2,661)
Proceeds from disposal of investment properties		**–**	2,579
Proceeds from disposal of prepaid lease payments		**–**	30
Proceeds from disposal of associates		**–**	26,993
Proceeds from disposal of equity instruments at FVTOCI		**–**	9,445
NET CASH USED IN INVESTING ACTIVITIES		**(215,107)**	(350,913)

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 US$'000	2018 US$'000
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(2,679,968)	(3,297,443)
Bank and other borrowings raised	2,756,255	3,475,668
Interest paid	(72,311)	(76,038)
Payment of upfront fee on bank borrowings	(120)	(3,010)
Repayment of lease liabilities, including related interests	(144,805)	–
Dividends paid	(309,095)	(312,079)
Dividends paid to non-controlling interests of subsidiaries	(8,870)	(5,490)
Share repurchased	(12,173)	(90,334)
Acquisition of additional interests in subsidiaries	(161)	(582)
Proceeds from issuance of a subsidiary's shares upon exercise of a subsidiary's share options	1,757	1,061
Contribution from non-controlling interests of subsidiaries	13,762	14,192
NET CASH USED IN FINANCING ACTIVITIES	(455,729)	(294,055)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	122,749	(165,144)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	7,910	(20,261)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	851,420	1,036,825
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	982,079	851,420

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate parent is Pou Chen Corporation ("PCC"), a company listed on the Taiwan Stock Exchange Corporation. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information Section of the annual report.

The consolidated financial statements are presented in United States dollar ("USD"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Group are the manufacturing, marketing and retailing of athletic footwear, athletic style leisure footwear, casual and outdoor footwear.

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

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

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

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

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

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

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 Leases

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

Definition of a lease

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

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

As a lessee

The Group applied HKFRS 16 from January 1, 2019. The Group applied the modified retrospective approach and has not restated comparative amounts with the cumulative effect recognized at the date of initial application. Right-of-use assets relating to the Group's operating leases are measured at the amount of lease liabilities on initial application by applying HKFRS 16.C8(b)(ii) transition, adjusted by the amount of any prepaid or accrued lease payments.

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

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rates for certain leases of retails shops, warehouses and office buildings in the PRC, Hong Kong and overseas were determined on a portfolio basis.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 Leases (continued)

As a lessee (continued)

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

Other than the reclassification of prepaid lease payments of US$165,481,000 and prepaid rentals of US$19,100,000, the Group recognized lease liabilities of US$309,875,000 and related right-of-use assets of US$309,875,000, at January 1, 2019.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant jurisdictions at the date of initial application. The weighted average incremental borrowing rates applied in PRC, Hong Kong and overseas are ranged from 1.6% to 5.0%.

	US$'000
Operating lease commitments disclosed as at December 31, 2018	378,544
Less: Recognition exemption – short-term leases and leases with lease term ending within 12 months of the date of initial application	(28,576)
Recognition exemption – low-value assets	(169)
Others	(2,690)
	347,109
Lease liabilities discounted at relevant incremental borrowing rates as at January 1, 2019	309,875
Analyzed as	
Current portion	102,032
Non-current portion	207,843
	309,875

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

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 Leases (continued)

As a lessee (continued)

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

	notes	**Right-of-use assets** US$'000
Right-of-use assets relating to operating leases recognized upon application of HKFRS 16		309,875
Reclassified from prepaid lease payments	(a)	165,481
Reclassified from prepaid rentals	(b)	19,100
		494,456
By class:		
Leasehold land		165,481
Land and buildings and retail stores		328,565
Machinery equipments		176
Motor vehicles		234
		494,456

notes:

(a) Upfront payments for leasehold lands in the PRC and overseas were classified as prepaid lease payments as at December 31, 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to US$4,830,000 and US$160,651,000 respectively were reclassified to right-of-use assets.

(b) Prepaid rent for retail stores and buildings, which the Group leased from third parties under operating lease was classified as prepayments as at December 31, 2018. Upon the application of HKFRS 16, the current and non-current portions of prepaid rent amounting to US$14,276,000 and US$4,824,000 respectively were reclassified to right-of-use assets.

Other than described above, the application of HKFRS 16 as a lessee in the current year has had no material impact on the Group's financial position and the disclosures set out in these consolidated financial statements.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 Leases (continued)

As a lessor

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

There is no material impact in applying HKFRS 16 as a lessor on the Group's consolidated financial statements as at December 31, 2019 and for the year ended December 31, 2019.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

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

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

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

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

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

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since January 1, 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

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

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

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

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

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

All 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an interest in an associate or a joint venture.

Business combinations

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low-value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest, are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU"), or group of CGUs that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

Interests in associates and joint ventures

An associate is an entity over which the Group has 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.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates and joint ventures (continued)

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) until disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an interest in an associate becomes an interest in a joint venture or an interest in a joint venture becomes an interest in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

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

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

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

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

Revenue from contracts with customers

Under HKFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

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

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

Investment properties

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

Effective January 1, 2019, investment properties also include leased properties which are being recognized as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to September 30, 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to September 30, 1995, the revaluation increase arising on the revaluation of these assets was credited to the property revaluation reserve. Any future decrease in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the property revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is stated at cost less accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost or fair value of items of property, plant and equipment, other than construction in progress and freehold land, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land under HKFRS 16 or prepaid lease payments under HKAS 17) at the date of transfer is recognized in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment of tangible and intangible assets below).

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

Leases

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

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

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

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

Allocation of consideration to components of a contract

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of land and buildings and retail stores, machinery equipments and motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Refundable rental deposits

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

Lease liabilities

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

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

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period in which the event or condition that triggers the payment occurs.

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

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

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments with reference to revenue generated by tenants are recognized as income when they arise.

Ownership interests in leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

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

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

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

(i) Amortized cost and interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Equity instruments designated as at FVTOCI

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

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend on the financial asset and is included in the "other gains and losses" line item in profit or loss.

Impairment of financial assets

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, amounts due from associates, amounts due from joint ventures, amounts due from connected and related parties, restricted bank deposit, bank balances and cash, other financial assets at amortized cost and deferred consideration receivable). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognizes lifetime ECL for trade receivables. The ECL on trade receivables are assessed collectively using a provision matrix with appropriate groupings. In addition, debtors that are credit-impaired are assessed for ECL individually.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(iv) Write-off policy

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

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

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities is held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Financial liabilities at amortized cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of loss allowance, as determined in accordance with HKFRS 9; and

(ii) the amount initially recognized less, when appropriate, cumulative amortization over the guarantee period.

Derecognition

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

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received is recognized in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

Share options granted to employees and other providing similar services

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options at the grant date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vested, with a corresponding increase in equity.

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

When the share options are exercised, the amount previously recognized in equity will be transferred to share premium of the relevant group entity. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in equity will be transferred to retained profits.

When the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognizes immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period. The amount previously recognized in equity will be transferred to retained profits upon cancellation.

Awarded shares granted to employees and other providing similar services

For grants of awarded shares that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of awarded shares at the grant date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of awarded shares that will eventually be vested, with a corresponding increase in equity (share award reserve).

At the end of each reporting period, the Group revises its estimates of the number of awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity (share award reserve).

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

When the trustee transfers the Company's granted shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under share award scheme. Accordingly, the related expense of the granted shares vested is reversed from share award reserve. The difference arising from such transfer is debited/credited to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

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

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

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans, including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme, are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss.

Past service cost is recognized in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognized when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs (continued)

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).

- Net interest expense or income.

- Remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rates at the beginning of the period to the net defined benefit liability or asset.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Short-term and other long-term employee benefits

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

(i) Property interest in land

Despite the Group has paid substantially the full purchase consideration as detailed in Notes 13, 14 and 15, formal certificates of certain of the Group's rights to the use of the land were not yet granted from the relevant government authorities. In the opinion of the directors, the absence of formal certificates to these land use rights does not impair the carrying value of the relevant properties to the Group.

(ii) Deferred taxation on investment properties

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

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

(a) Critical judgments in applying the entity's accounting policies (continued)

(iii) Revenue recognition from sales of products with no alternative use at a point in time

Under HKFRS 15, control of the asset is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered the contractual terms and the relevant local laws that apply to those relevant contracts. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators such as whether the right to payment for the Group for the performance completed to date include a reasonable profit margin. Accordingly, the sales of products with no alternative use is considered to be performance obligation satisfied at a point in time.

(iv) Discount rate determination for lease liabilities

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

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

(b) Key sources of estimation uncertainty

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

(i) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU or group of CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGU or group of CGUs containing goodwill using suitable discount rates. Where the expected future cash flows arising from the relevant CGU or group of CGUs differ from the original estimation, an impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 18.

(ii) Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 39(b) and 26 respectively.

(iii) Allowance for inventories

The management of the Group reviews the aging and saleability of the inventories amounting to US$1,823 million (2018: US$1,775 million) at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management of the Group estimates the net realizable value for such items based primarily on the inventories condition, current market conditions and latest transaction prices. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items. Where the actual transaction prices are less than expected, a loss may arise.

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

(b) Key sources of estimation uncertainty (continued)

(iv) Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The directors of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where input of Levels 1 and 2 are not available, the Group engages third party qualified valuers to perform the valuation. The directors of the Company work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments and non-financial instruments. Notes 13 and 39(c) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

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

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, which is the value in use, (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including profitability of the retail store. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the asset belongs. The Group has material operational leasehold improvements and right-of-use assets used in the retail stores which are subject to impairment test in the event of trading performance is below expectation. An asset impairment assessment is carried out against retail stores which still underperform after one year's operation since opening. The management has performed detailed review on plant and equipment and right-of-use assets, and no material impairment noted.

5. REVENUE AND SEGMENTAL INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of performance, focuses specifically on the revenue analysis by principal categories of the Group's business. The principal categories of the Group's business are manufacturing and sales of footwear products ("Manufacturing Business") and retail and distribution of sportswear and apparel products ("Retailing Business"). Accordingly, no segment information is presented.

The information regarding revenue derived from the principal businesses described above is reported below.

	2019 US$'000	2018 US$'000
Revenue		
Manufacturing Business	6,000,574	5,881,493
Retailing Business	4,104,813	3,813,789
	10,105,387	9,695,282

Revenue from major products

The following is an analysis of the Group's revenue from its major products recognized in a point in time:

	2019 US$'000	2018 US$'000
Athletic shoes	4,541,560	4,267,717
Casual/outdoor shoes	906,176	1,031,020
Sports sandals	110,147	91,830
Soles, components and others	442,691	490,926
Retail sales - shoes, apparel and commissions from concessionaire sales	3,932,965	3,421,657
Apparel wholesale	171,848	392,132
	10,105,387	9,695,282

5. REVENUE AND SEGMENTAL INFORMATION (continued)

Manufacturing Business

The Group manufactures and sells the footwear products to brand companies directly.

Revenue is recognized when control of the goods has transferred, being when the goods have been shipped to the designated location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

Retailing Business

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

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

Geographical information

The Group's revenue is mainly derived from customers located in the United States of America ("US"), Europe and the PRC. The Group's revenue by the geographical location of the customers, determined based on the destination of goods delivered, irrespective of the origin of the goods, is detailed below:

	2019 US$'000	2018 US$'000
US	**2,022,102**	2,177,512
Europe	**1,712,288**	1,774,055
PRC	**4,797,963**	4,185,939
Other countries in Asia	**1,035,235**	1,013,773
Others	**537,799**	544,003
	10,105,387	9,695,282

5. REVENUE AND SEGMENTAL INFORMATION (continued)

Geographical information (continued)

The Group's business activities are conducted predominantly in the PRC, Vietnam, Indonesia, Myanmar, Cambodia, US and Republic of China ("Taiwan"). Information about the Group's non-current assets by the geographical location of the assets is detailed below:

	2019 US$'000	2018 US$'000
PRC	**1,372,309**	979,757
Vietnam	**902,062**	873,437
Indonesia	**649,869**	646,233
Myanmar	**111,289**	110,311
Cambodia	**57,237**	59,614
US	**26,914**	88,496
Taiwan	**79,729**	76,147
Others	**27,748**	28,044
	3,227,157	2,862,039

note: Non-current assets excluded goodwill, interests in associates, interests in joint ventures, amount due from a joint venture, deferred tax assets, deferred consideration receivable and financial instruments.

Information about major customers

Revenue from customers contributing over 10% of the total annual revenue of the Group are as follows:

	2019 US$'000	2018 US$'000
Customer A	**1,929,398**	1,776,863
Customer B	**1,719,523**	1,602,086

6. FINANCE COSTS

	2019 US$'000	2018 US$'000
Interest on bank and other borrowings	**74,068**	76,038
Interest on lease liabilities	**15,508**	–
Amortization of upfront fee on bank borrowings	**2,546**	4,513
	92,122	80,551

7. OTHER GAINS AND LOSSES

	2019 US$'000	2018 US$'000
Fair value changes on financial assets at FVTPL	**8,435**	(23,449)
Fair value changes on investment properties	**925**	501
Gain on disposal of subsidiaries	**18,644**	4,780
Gain on disposal of a joint venture	**–**	1,053
Gain on disposal of associates	**–**	8,436
Write-off of goodwill	**(97)**	–
Impairment loss on interests in associates	**(8,605)**	(4,799)
Impairment loss on interests in a joint venture	**(1,470)**	–
Reversal of impairment loss on amount due from a joint venture	**92**	–
Loss on deemed disposal of associates	**(20)**	(4,478)
Loss on deregistration of subsidiaries	**(9)**	–
	17,895	(17,956)

8. INCOME TAX EXPENSE

	2019 US$'000	2018 US$'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax ("EIT") (note ii)		
– current year	54,072	59,189
– under(over)provision in prior years	516	(206)
– dividend withholding tax in the PRC (note ii)	–	336
Overseas taxation (notes iii & iv)		
– current year	50,446	49,645
– underprovision in prior years	363	4,406
	105,397	113,370
Deferred tax credit (Note 32)	(9,959)	(14,922)
	95,438	98,448

notes:

(i) Hong Kong

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

(ii) PRC

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

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

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

8. INCOME TAX EXPENSE (continued)

notes: (continued)

(iii) Vietnam

As approved by the relevant tax authorities in Vietnam, certain subsidiaries of the Company are entitled to two to four years' exemption from income taxes followed by four to nine years of a 50% tax reduction based on preferential income tax rates, commencing from the first profitable year.

The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% for both years.

(iv) Overseas

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, certain subsidiaries of the Company established in Macau are exempted from Macao Complementary Tax.

Taxation arising in other jurisdictions including Indonesia, Taiwan and US is calculated at the rates prevailing in the respective jurisdictions, which were 25%, 20% and 21% respectively for both years.

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

	2019 US$'000	2018 US$'000
Profit before taxation	**448,438**	439,564
Tax at domestic rates applicable to profits of taxable entities in the countries concerned (note)	**55,760**	54,917
Tax effect of share of results of associates and joint ventures	**(11,598)**	(13,220)
Tax effect of expenses not deductible for tax purpose	**98,973**	94,647
Tax effect of income not taxable for tax purpose	**(12,873)**	(9,437)
Tax effect of tax losses not recognized	**14,396**	17,515
Effect of tax holidays granted to PRC subsidiaries	**(3,966)**	(3,872)
Effect of tax exemption granted to overseas subsidiaries	**(46,133)**	(46,638)
Withholding tax on dividends	**–**	336
Underprovision in prior years	**879**	4,200
Income tax expense for the year	**95,438**	98,448

note: As the Group operates in several different tax jurisdictions, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

9. PROFIT FOR THE YEAR

	2019 US$'000	2018 US$'000
Profit for the year has been arrived at after charging (crediting):		
Employee benefit expense, including directors' emoluments (note iii)		
– basic salaries, bonus, allowances and staff welfare	2,138,722	2,073,976
– retirement benefit scheme contributions	262,880	231,018
– share-based payments	5,006	4,302
	2,406,608	2,309,296
Release of prepaid lease payments	–	4,062
Auditor's remuneration	1,423	1,727
Amortization of intangible assets (included in selling and distribution expenses)	15,320	19,062
Depreciation of property, plant and equipment (note iii)	340,414	314,496
Depreciation of right-of-use assets	139,369	–
Loss on disposal of property, plant and equipment (included in other expenses)	17,904	21,827
Gain on disposal of assets classified as held for sale	–	(5,582)
Research and development expenditure (included in other expenses)	208,604	205,890
Net changes in allowance for inventories (included in cost of sales) (note ii)	(11,073)	(5,275)
Loss on disposal of prepaid lease payments	–	57
Impairment loss on trade and other receivables (Note 39(b))	2,252	6,191
Interest income	(8,805)	(10,273)
Dividend income from equity instruments at FVTOCI	(869)	(1,018)
Net exchange loss (gain) (included in other expenses (other income))	15,091	(5,739)
Total operating lease income	(17,749)	(15,681)

notes:

(i) For the years ended December 31, 2019 and 2018, cost of inventories recognized as expenses represents cost of sales as shown in the consolidated income statement.

(ii) Changes in allowance for inventories of US$8,827,000 credited to the consolidated income statement (2018: allowance for inventories of US$9,444,000) for the year ended December 31, 2019 arose from the finished goods for the retail and distribution of sportswear and footwear products.

(iii) The staff costs and depreciation of property, plant and equipment disclosed above included amounts capitalized in inventories.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO is as follows:

	Fees US$'000	Salaries and other benefits US$'000	Performance related bonus US$'000	Retirement benefit scheme contributions US$'000	Share-based payments US$'000	Total US$'000
For the year ended December 31, 2019						
Executive directors:						
Lu Chin Chu	–	128	642	–	–	770
Chan Lu Min	–	93	180	–	–	273
Tsai Pei Chun, Patty	–	142	205	–	–	347
Liu George Hong-Chih	–	137	367	2	32	538
Tsai Ming-Lun, Ming	–	92	141	–	32	265
Hu Chia-Ho	–	62	19	–	32	113
Lin Cheng-Tien	–	93	289	–	–	382
Hu Dien Chien	–	183	217	3	252	655
Sub-total	–	930	2,060	5	348	3,343
Independent non-executive directors:						
Wong Hak Kun (note i)	38	–	–	–	–	38
Huang Ming Fu (note ii)	15	–	–	–	–	15
Yen Mun-Gie	37	–	–	–	–	37
Hsieh Yung Hsiang	37	–	–	–	–	37
Ho Lai Hong (note iii)	22	–	–	–	–	22
Sub-total	149	–	–	–	–	149
Total						3,492

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Fees US$'000	Salaries and other benefits US$'000	Performance related bonus US$'000	Retirement benefit scheme contributions US$'000	Share-based payments US$'000	Total US$'000
For the year ended December 31, 2018						
Executive directors:						
Lu Chin Chu	–	131	638	–	–	769
Chan Lu Min	–	95	179	–	–	274
Tsai Pei Chun, Patty	–	143	204	–	–	347
Liu George Hong-Chih	–	135	360	2	59	556
Tsai Ming-Lun, Ming	–	92	140	–	59	291
Hu Chia-Ho	–	64	19	–	59	142
Lin Cheng-Tien	–	95	288	–	–	383
Hu Dien Chien	–	170	229	3	142	544
Sub-total	–	925	2,057	5	319	3,306
Independent non-executive directors:						
Wong Hak Kun (note i)	23	–	–	–	–	23
Huang Ming Fu	36	–	–	–	–	36
Chu Li-Sheng (note iv)	15	–	–	–	–	15
Yen Mun-Gie	36	–	–	–	–	36
Hsieh Yung Hsiang	36	–	–	–	–	36
Leung Yee Sik (note v)	15	–	–	–	–	15
Sub-total	161	–	–	–	–	161
Total						3,467

Notes:

i. Wong Hak Kun was appointed as an independent non-executive director on June 1, 2018.

ii. Huang Ming Fu retired as an independent non-executive director on May 31, 2019.

iii. Ho Lai Hong was appointed as an independent non-executive director on May 24, 2019.

iv. Chu Li-Sheng retired as an independent non-executive director on June 4, 2018.

v. Leung Yee Sik retired as an independent non-executive director on June 4, 2018.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

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

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

Bonus was determined with reference to the Group's operating results, individual performance and comparable market statistics.

Significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year are disclosed in Note 47.

(b) Employees' emoluments

Of the five employees with the highest emoluments in the Group, two (2018: two) were directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2018: three) employees were as follows:

	2019 US$'000	2018 US$'000
Basic salaries and other allowances	**835**	1,537
Performance related bonus	**781**	1,385
Retirement benefit scheme contributions	**50**	3
Share-based payments	**392**	115
	2,058	3,040

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments (continued)

The emoluments of the remaining three (2018: three) employees were within the following bands:

	2019 Number of employees	2018 Number of employees
HK$4,000,001 to HK$4,500,000	2	–
HK$5,500,001 to HK$6,000,000	–	1
HK$6,000,001 to HK$6,500,000	–	1
HK$7,000,001 to HK$7,500,000	1	–
HK$11,500,001 to HK$12,000,000	–	1
	3	3

No emoluments were paid by the Group to any of the directors or the five highest paid employees (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during both years. None of the directors has waived any emoluments during both years.

(c) Emoluments of senior management

None of the senior management of the Group is either a director of the Company or one of the top five highest paid individuals during both years.

The emoluments of the ten (2018: eleven) individuals of senior management for the year were within the following bands:

	2019 Number of employees	2018 Number of employees
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	4	4
HK$2,000,001 to HK$2,500,000	2	4
HK$2,500,001 to HK$3,000,000	2	1
HK$3,000,001 to HK$3,500,000	1	–
	10	11

11. DIVIDENDS

	2019 US$'000	2018 US$'000
Dividends recognized as distribution during the year:		
2019 Interim dividend of HK$0.40 per share (2018: 2018 Interim dividend of HK$0.40 per share)	**82,092**	82,375
2018 Final dividend of HK$1.10 per share (2018: 2017 Final dividend of HK$1.10 per share)	**227,003**	229,704
	309,095	312,079

The directors recommend the payment of a final dividend of HK$0.70 per share for the year ended December 31, 2019. The proposed dividend of approximately HK$1,127,117,000 will be paid on or before June 24, 2020 to those shareholders whose names appear on the Company's register of members on June 8, 2020.

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

12. EARNINGS PER SHARE

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

	2019 US$'000	2018 US$'000
Earnings:		
Earnings for the purpose of basic earnings per share, being profit for the year attributable to owners of the Company	**300,546**	307,116
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of subsidiaries based on dilution of their earnings per share	**(525)**	(2,089)
Earnings for the purpose of diluted earnings per share	**300,021**	305,027

12. EARNINGS PER SHARE (continued)

	2019	2018
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,611,983,383**	1,630,441,582
Effect of dilutive potential ordinary shares:		
– Unvested awarded shares	**1,344,404**	1,123,514
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,613,327,787**	1,631,565,096

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company (see Note 37(b)).

13. INVESTMENT PROPERTIES

	Completed investment properties US$'000
FAIR VALUE	
At January 1, 2018	85,985
Additions	2,661
Exchange realignment	(658)
Net increase in fair value recognized in profit or loss	501
Transfer from property, plant and equipment (Note 14)	10,762
Transfer from prepaid lease payments	138
Revaluation gain on transfer from property, plant and equipment and prepaid lease payments	12,915
Disposal	(2,579)
At December 31, 2018	109,725
Exchange realignment	(189)
Net increase in fair value recognized in profit or loss	925
Transfer from property, plant and equipment (Note 14)	666
Transfer from right-of-use assets	16
Revaluation gain on transfer from property, plant and equipment and right-of-use assets	2,079
At December 31, 2019	**113,222**

13. INVESTMENT PROPERTIES (continued)

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

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

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

The fair value of the Group's investment properties as at December 31, 2019 and December 31, 2018 has been arrived at on the basis of a valuation carried out on the respective dates by Cushman & Wakefield Limited, APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation") and Jones Lang LaSalle ("JLL") which are independent qualified professional valuers not connected with the Group. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties. The market yield is determined by reference to the yields derived from analysing the sales transactions of similar properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties situated in the PRC and US was the market yield, which ranged from 3.5% to 9.0% and 3.95% to 4.25% (2018: 3.5% to 9.0% and 3.95% to 4.25%), respectively. A slight increase in the market yield used would result in a significant decrease in fair value measurement of the respective investment properties, and vice versa.

Details of the Group's investment properties at Level 3 fair value hierarchy are as follows:

	As at December 31,	
	2019	2018
	US$'000	US$'000
Investment properties located in:		
PRC	**88,722**	86,825
US	**24,500**	22,900

There were no transfers into or out of Level 3 during the years ended December 31, 2019 and December 31, 2018.

13. INVESTMENT PROPERTIES (continued)

As at December 31, 2019, the Group had not obtained the formal land use rights certificates for certain of its investment properties, the carrying value of which at that date was approximately US$17.9 million (2018: US$18.1 million). In the opinion of the directors, the absence of formal certificates to these land use rights does not impair their carrying value to the Group as the Group has paid substantially the full purchase consideration of these land interests and the probability of being evicted on the ground of an absence of formal certificates is remote.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000 (note i)	Freehold land US$'000	Land and buildings US$'000 (notes i, ii & iii)	Construction in progress US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
COST OR VALUATION									
At January 1, 2018	1,760,676	12,724	137,841	114,913	1,443,241	396,344	241,701	35,848	4,143,288
Exchange realignment	(2,907)	–	(406)	(22)	(319)	(10,380)	(2,002)	(157)	(16,193)
Additions	103,711	69,186	–	44,595	234,839	70,948	23,554	4,790	551,623
Reclassification	72,599	–	–	(78,743)	–	6,144	–	–	–
Transfer to investment properties (Note 13)	(12,544)	–	(4,122)	–	–	–	–	–	(16,666)
Disposal of subsidiaries (Note 40)	–	–	–	–	(886)	(172)	(65)	(28)	(1,151)
Disposals	(9,353)	–	–	–	(120,830)	(84,907)	(21,212)	(3,317)	(239,619)
At December 31, 2018	1,912,182	81,910	133,313	80,743	1,556,045	377,977	241,976	37,136	4,421,282
Exchange realignment	(866)	–	(118)	–	1	(3,324)	(555)	(40)	(4,902)
Additions	39,815	–	–	63,624	149,897	105,240	40,012	2,828	401,416
Reclassification	33,655	–	–	(47,326)	–	13,671	–	–	–
Transfer to investment properties (Note 13)	(1,040)	–	–	–	–	–	–	–	(1,040)
Disposal of subsidiaries (Note 40)	–	–	–	(677)	–	(10,094)	(14,294)	–	(25,065)
Disposals	(944)	–	–	–	(66,423)	(66,051)	(14,334)	(3,219)	(150,971)
At December 31, 2019	**1,982,802**	**81,910**	**133,195**	**96,364**	**1,639,520**	**417,419**	**252,805**	**36,705**	**4,640,720**
Comprising:									
At cost	1,982,802	81,910	97,682	96,364	1,639,520	417,419	252,805	36,705	4,605,207
At valuation – 1995	–	–	35,513	–	–	–	–	–	35,513
	1,982,802	81,910	133,195	96,364	1,639,520	417,419	252,805	36,705	4,640,720

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Freehold land	Land and buildings	Construction in progress	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	(note i)		(notes i, ii & iii)						
DEPRECIATION AND IMPAIRMENT									
At January 1, 2018	662,424	–	37,426	–	854,349	234,256	148,692	23,856	1,961,003
Exchange realignment	(1,217)	–	(118)	–	(280)	(5,700)	(1,060)	(109)	(8,484)
Provided for the year	83,597	–	3,159	–	140,805	59,887	23,556	3,492	314,496
Transfer to investment properties (Note 13)	(4,546)	–	(1,358)	–	–	–	–	–	(5,904)
Eliminated on disposal of subsidiaries (Note 40)	–	–	–	–	(171)	(39)	(16)	(10)	(236)
Eliminated on disposals	(5,575)	–	–	–	(99,220)	(65,330)	(18,308)	(2,850)	(191,283)
At December 31, 2018	734,683	–	39,109	–	895,483	223,074	152,864	24,379	2,069,592
Exchange realignment	(353)	–	(35)	–	(26)	(1,775)	(327)	(30)	(2,546)
Provided for the year	87,148	–	3,090	–	151,638	67,191	28,154	3,193	340,414
Transfer to investment properties (Note 13)	(374)	–	–	–	–	–	–	–	(374)
Eliminated on disposal of subsidiaries (Note 40)	–	–	–	–	–	(4,961)	(6,055)	–	(11,016)
Eliminated on disposals	(124)	–	–	–	(54,422)	(47,591)	(12,709)	(2,738)	(117,584)
At December 31, 2019	**820,980**	**–**	**42,164**	**–**	**992,673**	**235,938**	**161,927**	**24,804**	**2,278,486**
CARRYING VALUE									
At December 31, 2019	**1,161,822**	**81,910**	**91,031**	**96,364**	**646,847**	**181,481**	**90,878**	**11,901**	**2,362,234**
At December 31, 2018	1,177,499	81,910	94,204	80,743	660,562	154,903	89,112	12,757	2,351,690

14. PROPERTY, PLANT AND EQUIPMENT (continued)

notes:

(i) As at December 31, 2019, the Group had not obtained the formal land use rights and building ownership certificates for certain of the properties included in buildings and land and buildings above, the carrying values of which at that date were approximately US$29.9 million (2018: US$31.3 million) and US$5.2 million (2018: US$5.4 million), respectively. In the opinion of the directors, the absence of formal certificates to these land use rights and building ownership certificates does not impair their carrying value to the Group as the Group has paid substantially the full purchase consideration of these land interests and buildings and the probability of being evicted on the ground of an absence of formal certificates is remote.

(ii) As at December 31, 2019, certain of the Group's properties included in land and buildings were carried at their 1995 valuation less subsequent depreciation. If such properties had not been revalued in 1995, the carrying value of these land and buildings would have been US$18,301,000 (2018: US$18,994,000) instead of US$18,773,000 (2018: US$19,484,000).

(iii) In the opinion of the directors, the land and building element of certain of properties held by the Group cannot be allocated reliably. Accordingly, they are presented on a combined basis as land and buildings as above. As at December 31, 2019, the carrying value of such properties situated in the PRC and Hong Kong were US$59,857,000 (2018: US$62,178,000) and US$31,174,000 (2018: US$32,026,000) respectively.

Property, plant and equipment, other than freehold land and construction in progress, are depreciated on a straight-line method at the following rates per annum:

Land and buildings	Over 20 years to 50 years, or the lease terms of the relevant land whichever is shorter
Plant and machinery	5% – 15%
Leasehold improvements	10% – 50%
Furniture, fixtures and equipment	20% – 30%
Motor vehicles	20% – 30%

15. RIGHT-OF-USE ASSETS

Right-of-use assets

	Leasehold lands US$'000	Land and buildings and retail stores US$'000	Machinery and equipments US$'000	Motor vehicles US$'000	Total US$'000
As at January 1, 2019					
Carrying value	165,481	328,565	176	234	494,456
As at December 31, 2019					
Carrying value	162,183	417,600	173	205	580,161
For the year ended December 31, 2019					
Depreciation charge	4,262	134,807	174	126	139,369
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16					45,576
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets					73
Variable lease payments not included in the measurement of lease liabilities					272,122
Total cash outflow for leases					465,795
Additions to right-of-use assets, excluding those classified as investment properties					253,769

15. RIGHT-OF-USE ASSETS (continued)

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

The Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of approximately US$7.6 million (2018: US$7.8 million) in which the Group is in the process of obtaining.

The Group regularly entered into short-term leases for retail stores, motor vehicles and office equipment. As at December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases expense during the year.

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

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

16. INTANGIBLE ASSETS

	Brand names US$'000	Customer relationship US$'000	Licensing agreements US$'000	Non-compete agreements US$'000	Trade name and trademarks US$'000	Total US$'000
COST						
At January 1, 2018	71,291	10,392	15,287	63,200	45,821	205,991
Additions	–	1,000	–	–	422	1,422
Written off	–	–	–	(40,015)	–	(40,015)
Exchange realignment	(3,246)	(371)	(681)	(1,476)	(187)	(5,961)
At December 31, 2018	68,045	11,021	14,606	21,709	46,056	161,437
Exchange realignment	(935)	(50)	(164)	(332)	16	(1,465)
Additions	–	–	–	1,389	–	1,389
Written off	–	(7,725)	–	–	–	(7,725)
Disposal of subsidiaries (Note 40)	–	(3,246)	–	–	(46,072)	(49,318)
At December 31, 2019	**67,110**	**–**	**14,442**	**22,766**	**–**	**104,318**
AMORTIZATION AND IMPAIRMENT						
At January 1, 2018	19,811	7,644	8,036	46,071	–	81,562
Provided for the year	12,729	765	1,526	4,042	–	19,062
Eliminated on written off	–	–	–	(40,015)	–	(40,015)
Exchange realignment	(1,348)	(349)	(412)	(838)	–	(2,947)
At December 31, 2018	31,192	8,060	9,150	9,260	–	57,662
Exchange realignment	(517)	(49)	(115)	(135)	–	(816)
Provided for the year	12,204	520	1,466	1,130	–	15,320
Eliminated on written off	–	(7,725)	–	–	–	(7,725)
Eliminated on disposal of subsidiaries (Note 40)	–	(806)	–	–	–	(806)
At December 31, 2019	**42,879**	**–**	**10,501**	**10,255**	**–**	**63,635**
CARRYING VALUE						
At December 31, 2019	**24,231**	**–**	**3,941**	**12,511**	**–**	**40,683**
At December 31, 2018	36,853	2,961	5,456	12,449	46,056	103,775

16. INTANGIBLE ASSETS (continued)

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

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

17. GOODWILL

	US$'000
COST	
At January 1, 2018	277,505
Exchange realignment	(3,671)
At December 31, 2018	273,834
Exchange realignment	(1,003)
Eliminated on disposal of subsidiaries (Note 40)	(11,176)
Write-off	(97)
At December 31, 2019	**261,558**

Particulars regarding impairment assessment on goodwill are disclosed in Note 18.

18. IMPAIRMENT ASSESSMENT ON GOODWILL

For the purposes of impairment assessment of goodwill, the carrying value of goodwill as detailed in Note 17 have been allocated to the following units of groups of CGUs:

	Goodwill	
	2019	2018
	US$'000	US$'000
Manufacturing and marketing of footwear materials ("Unit A")	**183,395**	183,492
Manufacturing and marketing of sports apparel ("Unit B")	**346**	346
Retailing Business – Retail and distribution of sportswear products ("Unit C")	**77,817**	78,820
Retailing Business – Retail and distribution of apparels ("Unit D")	**–**	11,176
	261,558	273,834

The management of the Group determined that there were no impairment in any of its groups of CGUs containing goodwill during the years ended December 31, 2019 and 2018. The retail and distribution of apparels ("Unit D") was disposed during the year ended December 31, 2019. The basis of the recoverable amounts of the above groups of CGUs and their principal underlying assumptions are summarized below.

The recoverable amounts of the above CGUs and groups of CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rates ranging from 13% to 17% (2018: 13% to 22%). The value in use calculation for Unit A and the discount rates used for Unit C were determined by independent valuers. The cash flows beyond the five year period are extrapolated using a steady growth rate of 2%, 1%, and 3% for Unit A, Unit B and Unit C respectively (2018: 2%, 1%, 3% and 4% for Unit A, Unit B, Unit C and Unit D respectively). These growth rates are based on the forecasts of the relevant industries and do not exceed the average long-term growth rate for the relevant industries. Other key assumptions for the value in use calculations included budgeted sales and gross margins and their related cash inflows and outflows patterns, estimated based on the units' historical performance and management's expectation of the market development. The management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amounts of Unit A, Unit B and Unit C to fall below their respective carrying amounts.

19. INTERESTS IN ASSOCIATES

	2019 US$'000	2018 US$'000
Cost of interests in associates (note):		
Listed in Hong Kong	**55,318**	56,167
Listed in Taiwan	**97,115**	97,115
Unlisted	**59,963**	75,989
Share of post-acquisition profits and reserves, net of dividends received	**210,175**	187,254
Less: impairment losses	**(8,605)**	–
	413,966	416,525
Fair value of listed investments	**333,764**	321,145

note: Included in cost of investments is goodwill of US$74,986,000 (2018: US$75,835,000).

The Group's material associates at the end of the reporting period are Oftenrich Holdings Limited ("Oftenrich") and San Fang Chemical Industry Co. Ltd. ("San Fang"). In the opinion of the directors, the nature of the activities of these associates are strategic to the Group's activities. Oftenrich and San Fang are accounted for using equity method in these consolidated financial statements. Details of the Group's material associates at the end of the reporting period are as follows:

Name of entity	Place of incorporation	Principal place of operation	Proportion of issued and fully paid up ordinary share and voting right held by the Group		Principal activities
			2019	2018	
Oftenrich	Bermuda	PRC	**45%**	45%	Investment holding and its subsidiaries are engaged in manufacture and sales of safety shoes and casual shoes
San Fang (note)	Taiwan	Taiwan	**44.72%**	44.72%	Manufacture and sales of synthetic leather

note: The company's shares are listed on the Taiwan Stock Exchange Corporation.

19. INTERESTS IN ASSOCIATES (continued)

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

Summarized financial information in respect of each of the Group's material associates are set out below. The summarized financial information below represents amount shown in the associates' financial statements prepared in accordance with HKFRSs.

	2019		2018	
	Oftenrich US$'000	**San Fang US$'000**	Oftenrich US$'000	San Fang US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income				
Revenue	**307,479**	**268,725**	308,702	195,835
Profit for the year	**10,537**	**14,074**	9,733	9,574
Other comprehensive income (expense) for the year	**–**	**11,935**	(50)	(23,618)
Total comprehensive income (expense) for the year	**10,537**	**26,009**	9,683	(14,044)
Profit for the year, attributable to the Group	**4,741**	**6,294**	4,380	4,282
Other comprehensive income (expense) for the year, attributable to the Group	**–**	**5,337**	(22)	(10,562)
Total comprehensive income (expense) for the year, attributable to the Group	**4,741**	**11,631**	4,358	(6,280)
Dividends received from the associate during the year	**–**	**2,970**	4,500	9,890

19. INTERESTS IN ASSOCIATES (continued)

	2019 Oftenrich US$'000	2019 San Fang US$'000	2018 Oftenrich US$'000	2018 San Fang US$'000
Financial information of consolidated statement of financial position				
Non-current assets	91,297	373,486	64,997	341,432
Current assets	147,681	124,260	148,585	127,355
Current liabilities	(81,408)	(122,715)	(82,230)	(126,065)
Non-current liabilities	(15,718)	(120,955)	(37)	(108,012)
Net assets	141,852	254,076	131,315	234,710
Reconciliation to the carrying amount of interest in the associate:				
Net assets attributable to the equity holders of the associate	141,852	254,076	131,315	234,710
Proportion of the Group's ownership interest in the associate	45%	44.72%	45%	44.72%
Net assets of the Group's interest in the associate	63,833	113,623	59,092	104,962
Goodwill	16,110	35,586	16,110	35,586
Carrying amount of the Group's interest in the associate	79,943	149,209	75,202	140,548
Fair value of listed associate	N/A	140,489	N/A	138,459

19. INTERESTS IN ASSOCIATES (continued)

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

The Group has discontinued recognition of its share of losses of an associate. The amounts of unrecognized share of results of that associate, extracted from the relevant management accounts of the associate, for the year and cumulatively, are as follows:

	2019 US$'000	2018 US$'000
Unrecognized share of losses of the associate for the year	184	362

	2019 US$'000	2018 US$'000
Cumulative unrecognized share of losses of the associate	6,352	6,168

Aggregate information of associates that are not individually material:

	2019 US$'000	2018 US$'000
Profit for the year, attributable to the Group	15,964	3,827
Other comprehensive (expense) income for the year, attributable to the Group	(6,491)	3,906
Total comprehensive income for the year, attributable to the Group	9,473	7,733
Carrying amount of the Group's interests in these associates	184,814	200,775

20. INTERESTS IN JOINT VENTURES

	2019 US$'000	2018 US$'000
Cost of unlisted interests in joint ventures (note)	**174,492**	167,817
Share of post-acquisition profits and other comprehensive income, net of dividends received	**74,394**	86,831
Less: impairment losses	**–**	(6,083)
	248,886	248,565

note: Included in cost of investments is goodwill of approximately US$3,725,000 (2018: US$11,327,000).

All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements. Details of the Group's material joint venture at the end of the reporting period are as follows:

Name of entity	Place of incorporation	Principal place of operation	Proportion of issued and fully paid up ordinary share and voting right held by the Group		Principal activities
			2019	2018	
Ka Yuen Rubber Factory Limited ("Ka Yuen")	BVI	PRC	**50%**	50%	Manufacture and sales of rubber soles
中奧廣場管理集團有限公司 (「中奧廣場」)	PRC	PRC	**46.82%**	46.82%	Real estate developer and stadium service provider
Twinways Investments Limited ("Twinways")	BVI	Vietnam	**50%**	50%	Manufacturing of footwear accessories and molds

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

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

20. INTERESTS IN JOINT VENTURES (continued)

Summarized financial information in respect of the Group's material joint venture is set out below. The summarized unaudited financial information below represents amount shown in the joint venture's financial statements prepared in accordance with HKFRSs.

	2019			2018		
	Ka Yuen US$'000	中奧廣場 US$'000	Twinways US$'000	Ka Yuen US$'000	中奧廣場 US$'000	Twinways US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income						
Revenue	**69,929**	**65,152**	**109,889**	81,822	62,888	109,250
Profit for the year	**5,320**	**13,517**	**13,466**	12,701	19,961	17,045
Other comprehensive expense for the year	**–**	**(1,386)**	**(64)**	–	(3,634)	(488)
Total comprehensive income for the year	**5,320**	**12,131**	**13,402**	12,701	16,327	16,577
Profit for the year, attributable to the Group	**2,660**	**6,329**	**6,733**	6,351	9,346	8,522
Other comprehensive expense for the year, attributable to the Group	**–**	**(649)**	**(32)**	–	(1,702)	(244)
Total comprehensive income for the year, attributable to the Group	**2,660**	**5,680**	**6,701**	6,351	7,644	8,278
Dividends received from the joint venture during the year	**4,250**	**2,831**	**6,000**	5,000	2,940	4,000
The above profit for the year include the following:						
Depreciation and amortization	**1,933**	**57**	**4,641**	1,936	101	4,328
Interest income	**109**	**752**	**704**	102	173	639
Interest expense	**1**	**–**	**95**	8	25	58
Income tax expense	**996**	**6,320**	**1,485**	1,362	8,957	1,802

20. INTERESTS IN JOINT VENTURES (continued)

	2019			2018		
	Ka Yuen US$'000	中奧廣場 US$'000	Twinways US$'000	Ka Yuen US$'000	中奧廣場 US$'000	Twinways US$'000
Financial information of consolidated statement of financial position						
Non-current assets	11,066	13,368	32,506	12,054	7,032	29,012
Current assets	45,707	170,118	95,072	58,179	207,469	98,037
Current liabilities	(12,113)	(62,674)	(22,403)	(22,462)	(100,894)	(21,929)
Non-current liabilities	(69)	–	(6,032)	–	–	(5,025)
Non-controlling interests	–	(25,020)	(12,058)	–	(23,899)	(14,412)
Net assets attributable to the equity holders of the joint venture	44,591	95,792	87,085	47,771	89,708	85,683
The above amounts of assets and liabilities include the followings:						
Cash and cash equivalents	24,781	22,350	50,200	27,701	38,442	49,895
Reconciliation to the carrying amount of interest in the joint venture:						
Net assets attributable to the equity holders of the joint venture	44,591	95,792	87,085	47,771	89,708	85,683
Proportion of the Group's ownership interest in the joint venture	50%	46.82%	50%	50%	46.82%	50%
Net assets of the Group's interest in the joint venture	22,296	44,850	43,542	23,886	42,001	42,841
Goodwill	–	3,725	–	–	3,725	–
Carrying amount of the Group's interest in the joint venture	22,296	48,575	43,542	23,886	45,726	42,841

20. INTERESTS IN JOINT VENTURES (continued)

Aggregate information of joint ventures that are not individually material:

	2019 US$'000	2018 US$'000
Profit for the year attributable to the Group	**9,274**	2,772
Other comprehensive expense for the year, attributable to the Group	**(1,094)**	(4,134)
Total comprehensive income (expense) for the year, attributable to the Group	**8,180**	(1,362)
Carrying amount of the Group's interests in these joint ventures	**134,473**	136,112

21. AMOUNT DUE FROM A JOINT VENTURE

The loan to a joint venture was secured by the equity interests in the relevant joint venture held by the other joint venture partners, interest bearing at the prevailing lending rate of the People's Bank of China ("PBOC") and had no fixed terms of repayment. The loan was repaid during the year ended December 31, 2019.

22. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 US$'000	2018 US$'000
Equity securities listed overseas	**31,555**	19,416
Unlisted private equity investments	**334**	325
	31,889	19,741

All the listed investments are stated at their fair values, determined by reference to bid prices quoted in active markets.

The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

Analyzed for reporting purposes for equity instruments at fair value through other comprehensive income:

	2019 US$'000	2018 US$'000
Current assets	**–**	4,056
Non-current assets	**31,889**	15,685
	31,889	19,741

23. OTHER FINANCIAL ASSETS AT AMORTIZED COST

	2019 US$'000	2018 US$'000
Listed bond securities at amortized cost:		
– listed on the Stock Exchange with fixed coupon interests ranging from 2.625% to 7.000% per annum and maturity dates ranging from July 3, 2019 to November 12, 2020	4,822	7,303
– listed on Singapore Exchange Limited with a fixed coupon interest at 6.125% per annum and maturity date on July 16, 2020	608	623
– listed on London Stock Exchange Group plc with a fixed coupon interest at 5.875% per annum and maturity date on June 24, 2020	606	620
	6,036	8,546

Analyzed for reporting purposes for other financial assets at amortized cost:

	2019 US$'000	2018 US$'000
Current assets	6,036	1,806
Non-current assets	–	6,740
	6,036	8,546

24. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS

		Non-current assets		Current assets		Current liabilities		Non-current liabilities	
	notes	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Credit linked notes	(i)	19,956	19,310	–	–	–	–	–	–
Unlisted overseas funds		4,161	–	13,490	12,066	–	–	–	–
Interest rate swaps	(ii)	379	678	–	–	–	–	10,287	–
Currency structured forward contracts	(iii)	–	–	–	22	–	18,851	–	–
Forward contracts	(iv)	–	–	5,651	8,107	–	1,197	–	–
Contingent consideration	(v)	12,315	–	–	–	–	–	–	–
		36,811	19,988	19,141	20,195	–	20,048	10,287	–

24. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

notes:

(i) On October 25, 2017, the Company invested US$20 million for an index & credit linked notes which will mature on September 20, 2022.

(ii) Interest rate swaps

Aggregate notional amount	Maturity	Swaps
As at December 31, 2019		
US$50 million	March 2021	From London Interbank Offered Rate ("LIBOR") to 0.84%
US$200 million	August 2022	From LIBOR to fixed rate of 1.85% to 1.93%
US$250 million	July 2023	From LIBOR to fixed rate of 2.635% to 2.640%
As at December 31, 2018		
US$50 million	March 2021	From LIBOR to 0.84%

(iii) Currency structured forward contracts

During the year ended December 31, 2018, the Group had entered into a number of USD/Renminbi ("RMB") structured forward contracts in which the Group was able to sell USD/buy RMB on a monthly basis at more favorable exchange rates than the market plain forward rates or spot rates prevailing on the trade dates of the transactions under certain RMB exchange rate scenario. However, the Group was obligated to sell USD/buy RMB for certain specified amounts at pre-determined exchange rates which were less favorable than the then prevailing market spot rates on settlements under certain scenario of depreciation of RMB against USD. All the currency structured forward contracts expired during 2019.

(iv) Forward contracts

Major terms of foreign currency forward contracts are as below:

Aggregate notional amount	Maturity	Forward exchange rates
As at December 31, 2019		
US$132.7 million	February to August 2020	Sell USD/buy Indonesia Rupiah ("IDR") at 14,610 to 14,700

Aggregate notional amount	Maturity	Forward exchange rates
As at December 31, 2018		
US$141 million	September 2019	Sell USD/buy IDR at 14,070 to 16,235

(v) Contingent consideration

Contingent consideration represents the receivables from the purchaser in relation to the disposal of TCHC Group (as defined in Note 40).

25. INVENTORIES

	2019 US$'000	2018 US$'000
Raw materials	**241,909**	260,512
Work in progress	**179,075**	185,945
Finished goods	**1,401,861**	1,328,398
	1,822,845	1,774,855

As at the end of the reporting period, inventories of US$1,151,884,000 (2018: US$974,654,000) represented finished goods for the retail and distribution of sportswear products, in which accumulated allowance made as at December 31, 2019 was US$22,585,000 (2018: US$31,769,000).

26. TRADE AND OTHER RECEIVABLES

	2019 US$'000	2018 US$'000
Trade receivables	**1,151,391**	1,287,148
Less: allowance for credit losses	**(9,605)**	(18,622)
	1,141,786	1,268,526
Other receivables (note i)	**143,517**	124,007
Amounts due from associates (note ii)	**5,719**	6,334
Amounts due from joint ventures (note ii)	**3,206**	4,933
Amounts due from connected and related parties (note ii)	**8,455**	2,069
Rental deposits, prepayments and others	**101,888**	133,061
Deposits paid to trade suppliers	**107,974**	72,726
Value-added tax recoverable	**91,298**	129,808
	1,603,843	1,741,464

notes:

(i) Included in other receivables are amount due from a non-controlling interest of a subsidiary of US$4,882,000 (2018: US$2,912,000), which is unsecured and expected to be recovered within one year and carries fixed interest rate of 6.53% (2018: 6.53%) per annum.

(ii) Except for an aggregate amount of US$435,000 due from an associate as at December 31, 2018 which carried fixed interest rate of 3.91% per annum, the remaining amounts are unsecured, interest-free and repayable on demand.

26. TRADE AND OTHER RECEIVABLES (continued)

The Group allows credit period ranging from 30 days to 90 days which are agreed with each of its trade customers. Included in trade and other receivables are trade receivables, net of allowance for credit losses, of US$1,141,786,000 (2018: US$1,268,526,000) and an aged analysis based on invoice date at the end of the reporting period, which approximated to the respective revenue recognition dates, is as follows:

	2019 US$'000	2018 US$'000
0 to 30 days	702,705	761,237
31 to 90 days	434,629	492,301
Over 90 days	4,452	14,988
	1,141,786	1,268,526

As at December 31, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$52,411,000 (2018: US$36,764,000) which are past due as at the reporting date. Out of the past due balances, US$930,000 (2018: US$796,000) has been past due 90 days or more and is not considered as in default because the management is of the opinion that the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended December 31, 2019 are set out in Note 39(b).

27. BANK BALANCES AND CASH

The bank balances and short-term bank deposits are interest-bearing at market interest rate and are with an original maturity of three months or less. The bank deposits carry interest at rates ranged from 0.01% to 6.90% (2018: 0.01% to 8.50%) per annum.

28. ASSETS CLASSIFIED AS HELD FOR SALE

	2019 US$'000	2018 US$'000
Amount comprises:		
Interests in joint ventures	**41,989**	–
Interests in associates	**2,801**	–
Total assets classified as held for sale	**44,790**	–

During the year ended December 31, 2019, the Group entered into various disposal framework agreements to dispose of its interests in associates/joint ventures, with an expectation that the disposal will complete within twelve months from date of classification as assets classified as held for sale. The Group ceased to equity pick up their results at the time when they reclassified as assets classified as held for sale. The carrying value at the date of classification is presented separately in the consolidated statement of financial position.

29. TRADE AND OTHER PAYABLES

	2019 US$'000	2018 US$'000
Trade and bills payables	**499,501**	486,891
Accrued employee benefit expense	**490,721**	453,141
Other tax payables	**26,318**	27,252
Utility and rental payables	**6,305**	9,390
Other accruals and payables	**297,299**	284,214
Construction payable	**53,424**	47,483
Amounts due to associates (note)	**292**	330
Amounts due to joint ventures (note)	**13,759**	8,820
Amounts due to connected and related parties (note)	**15,062**	20,839
Deposits from customers	**59,314**	50,154
	1,461,995	1,388,514

Note: The amounts are unsecured, interest-free and repayable on demand.

29. TRADE AND OTHER PAYABLES (continued)

An aged analysis of trade and bills payables based on the invoice date at the end of the reporting period is as follows:

	2019 US$'000	2018 US$'000
0 to 30 days	**373,736**	372,591
31 to 90 days	**119,883**	110,468
Over 90 days	**5,882**	3,832
	499,501	486,891

The credit period on purchases of goods ranged from 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

30. CONTRACT LIABILITIES

	2019 US$'000	2018 US$'000
Sales of sportswear and footwear products	**64,005**	44,592

As at January 1, 2018, contract liabilities amounted to US$51,589,000.

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

The contract liabilities will be recognized as revenue within one year upon receipt.

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

31. BANK AND OTHER BORROWINGS

(a) Bank borrowings

The Group's bank borrowings are unsecured and carry fixed interest rate at 1.60% or variable interest rates at a credit spread over Hong Kong Interbank Offered Bank ("HIBOR"), LIBOR or Taipei Interbank Offered Rate ("TAIBOR") or prevailing lending rate quoted by PBOC, as appropriate.

31. BANK AND OTHER BORROWINGS (continued)

(a) Bank borrowings (continued)

The range of effective interest rates on the Group's bank borrowings during the year are as follows:

	2019	2018
Effective interest rate:		
Variable rate short-term bank borrowings	**0.85% to 5.00%**	1.49% to 6.70%
Fixed rate long-term bank borrowings	**1.60%**	1.60%
Variable rate long-term bank borrowings	**2.60% to 3.81%**	1.59% to 3.75%

	2019 US$'000	2018 US$'000
Fixed rate bank borrowings	**43,407**	42,510
Variable rate bank borrowings	**1,966,774**	1,955,614
	2,010,181	1,998,124
The bank borrowings are repayable*:		
Within one year	**653,585**	670,118
Within a period of more than one year, but not exceeding two years	**117,363**	74,611
Within a period of more than two years, but not exceeding five years	**1,239,233**	1,253,395
	2,010,181	1,998,124

* The amounts due are based on scheduled repayment dates set out in the loan agreements. The carrying amounts of bank borrowings that contain a repayment on demand clause (shown under current liabilities) are all repayable within one year.

(b) Other borrowings

As at December 31, 2019, other borrowings of US$79,698,000 (2018: US$125,799,000) represented loans from a subsidiary of PCC carrying fixed interest rates of ranging from 3.90% to 4.00% (2018: 4.35%) per annum, are unsecured and repayable within one year.

32. DEFERRED TAXATION

The following is an analysis of the deferred tax balances for financial reporting purpose:

	2019 US$'000	2018 US$'000
Deferred tax assets	**(67,969)**	(61,920)
Deferred tax liabilities	**40,465**	44,003
	(27,504)	(17,917)

The major deferred tax liabilities (assets) recognized and movements thereon during the year are as follows:

	Accelerated tax depreciation US$'000	Revaluation of investment properties US$'000	Undistributed earnings of the PRC and overseas entities US$'000 (note)	Fair value adjustments of intangible assets on business combinations US$'000	Tax losses US$'000	Accrual for severance allowance US$'000	Right-of-use assets/ related lease liabilities US$'000	Total US$'000
At January 1, 2018	(22,038)	8,106	2,919	25,566	(7,320)	(13,913)	–	(6,680)
(Credit) charge to profit or loss (Note 8)	(9,648)	78	(336)	(4,664)	405	(757)	–	(14,922)
Charge to other comprehensive income	–	3,229	–	–	–	1,284	–	4,513
Exchange realignment	–	–	(94)	(734)	–	–	–	(828)
At December 31, 2018	(31,686)	11,413	2,489	20,168	(6,915)	(13,386)	–	(17,917)
(Credit) charge to profit or loss (Note 8)	(1,360)	162	–	(3,740)	–	(3,592)	(1,429)	(9,959)
Charge (credit) to other comprehensive income	–	520	–	–	–	(2,835)	–	(2,315)
Disposal of subsidiaries (Note 40)	(3,451)	–	–	(6,422)	6,915	3,376	45	463
Exchange realignment	–	–	(34)	2,248	–	–	10	2,224
At December 31, 2019	**(36,497)**	**12,095**	**2,455**	**12,254**	**–**	**(16,437)**	**(1,374)**	**(27,504)**

note: These entities include subsidiaries, associates and joint ventures.

32. DEFERRED TAXATION (continued)

As at December 31, 2019, the Group had unused tax losses of approximately US$706.8 million (2018: US$676.1 million) available for offset against future profits. A deferred tax asset has been recognized in respect of tax losses of US$19.8 million as at December 31, 2018. No deferred tax asset has been recognized in respect of the remaining tax losses of US$706.8 million (2018: US$656.3 million) due to the unpredictability of future profit streams.

Under the relevant laws of the PRC and Taiwan, withholding tax is also imposed on dividend declared in respect of profits earned by the subsidiaries of the Company. At December 31, 2019, the aggregate amount of undistributed earnings of the Company's PRC subsidiaries and Taiwan's subsidiaries in respect of which the Group has not provided for dividend withholding tax were approximately US$1,026.6 million (2018: US$918.6 million) and US$106.5 million (2018: US$90.1 million) respectively. No deferred tax liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The Group has provided defined benefit plan for the employee in Indonesia, Taiwan and US. During the year ended December 31, 2019, deferred tax assets of US$3,592,000 (2018: deferred tax assets of US$757,000) and deferred tax assets of US$2,835,000 (2018: deferred tax liabilities of US$1,284,000) has been recognized in respect of the temporary differences between accrued expenses and future benefit payment and the actuarial losses arising from remeasurement of the defined benefit obligations respectively.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

33. LEASE LIABILITIES

	2019 US$'000
Lease liabilities payable:	
Within one year	130,368
Within a period of more than one year but not exceeding two years	110,612
Within a period of more than two years but not exceeding five years	126,888
Within a period of more than five years	34,864
	402,732
Less: Amount due for settlement with 12 months shown under current liabilities	(130,368)
Amount due for settlement after 12 months shown under non-current liabilities	272,364

34. SHARE CAPITAL

	No. of shares	Amount HK$'000
Ordinary shares of HK$0.25 each		
Authorized:		
At January 1, 2018, December 31, 2018 and December 31, 2019	2,000,000,000	500,000
Issued and fully paid:		
At January 1, 2018	1,648,501,986	412,125
Share repurchased and cancelled (note i)	(31,859,000)	(7,965)
At December 31, 2018	1,616,642,986	404,160
Share repurchased and cancelled (note ii)	(4,459,000)	(1,114)
At December 31, 2019	1,612,183,986	403,046

34. SHARE CAPITAL (continued)

	2019 US$'000	2018 US$'000
Shown in the consolidated financial statements as at December 31	**52,040**	52,182

notes:

(i) During the year ended December 31, 2018, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of HK$0.25 each repurchased	Price per share Highest price paid	Lowest price paid	Aggregate consideration paid HK$'000
April 2018	6,580,000	HK$24.65	HK$23.95	160,062
May 2018	4,416,500	HK$22.95	HK$21.95	99,964
June 2018	2,328,000	HK$23.00	HK$22.90	53,517
August 2018	13,886,000	HK$22.20	HK$19.38	290,183
September 2018	4,627,000	HK$22.60	HK$21.10	102,059
December 2018	21,500	HK$22.00	HK$22.00	473
	31,859,000			706,258

The aggregate consideration paid of approximately HK$706,258,000 was equivalent to approximately US$90,334,000.

(ii) During the year ended December 31, 2019, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of HK$0.25 each repurchased	Price per share Highest price paid	Lowest price paid	Aggregate consideration paid HK$'000
May 2019	2,143,000	HK$22.00	HK$21.15	46,472
June 2019	2,316,000	HK$22.00	HK$20.40	48,659
	4,459,000			95,131

The aggregate consideration paid of approximately HK$95,131,000 was equivalent to approximately US$12,173,000.

35. INFORMATION ON THE FINANCIAL POSITION OF THE COMPANY

	2019 US$'000	2018 US$'000
Non-current assets		
Property, plant and equipment	608	805
Investments in subsidiaries	3,059,384	3,059,384
Other financial assets at amortized cost	–	6,740
Financial assets at FVTPL	20,335	19,988
	3,080,327	3,086,917
Current assets		
Amounts due from subsidiaries	358,287	256,350
Sundry receivables	3,464	2,947
Other financial assets at amortized cost	6,036	1,806
Financial assets at FVTPL	5,651	8,129
Bank balances and cash	91,642	66,360
	465,080	335,592
Current liabilities		
Sundry payables	4,770	4,543
Financial liabilities at FVTPL	–	20,048
Amount due to a substantial shareholder	84	4,055
Bank borrowings	–	175,000
	4,854	203,646
Net current assets	460,226	131,946
Total assets less current liabilities	3,540,553	3,218,863
Non-current liabilities		
Financial liabilities at FVTPL	10,287	–
Bank borrowings	1,313,189	1,210,885
	1,323,476	1,210,885
Net assets	2,217,077	2,007,978
Capital and reserves		
Share capital	52,040	52,182
Reserves (Note 36)	2,165,037	1,955,796
	2,217,077	2,007,978

36. RESERVES OF THE COMPANY

	Share premium US$'000	Contributed surplus US$'000 (note)	Investments revaluation reserve US$'000	Shares held under share award scheme US$'000	Share award reserve US$'000	Retained profits US$'000	Total US$'000
At January 1, 2018	694,027	38,126	1,218	(10,206)	2,172	1,540,065	2,265,402
Profit for the year	–	–	–	–	–	90,371	90,371
Released upon disposal of equity instruments through other comprehensive income	–	–	(1,218)	–	–	1,218	–
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share awards not yet vested	–	–	–	–	1,421	–	1,421
Share awards vested	–	–	–	3,062	(3,244)	182	–
Dividends (Note 11)	–	–	–	–	–	(312,079)	(312,079)
Share repurchased and cancelled	(89,319)	–	–	–	–	–	(89,319)
At December 31, 2018	604,708	38,126	–	(7,144)	349	1,319,757	1,955,796
Profit for the year	–	–	–	–	–	529,114	529,114
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share awards not yet vested	–	–	–	–	1,253	–	1,253
Share awards vested	–	–	–	234	(214)	(20)	–
Dividends (Note 11)	–	–	–	–	–	(309,095)	(309,095)
Share repurchased and cancelled	(12,031)	–	–	–	–	–	(12,031)
At December 31, 2019	**592,677**	**38,126**	**–**	**(6,910)**	**1,388**	**1,539,756**	**2,165,037**

note: The contributed surplus of the Company represents the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company under a corporate reorganization in 1992 and the nominal amount of the Company's shares issued for the acquisition.

37. SHARE-BASED PAYMENT TRANSACTIONS

The Company and Pou Sheng operate share incentive schemes, particulars of which are set out below.

(a) Share option scheme of the Company

The Company's share option scheme was adopted pursuant to a shareholders' resolution passed on February 27, 2009 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and has expired on February 26, 2019.

On May 31, 2019, the Company adopted a new share option scheme (the "Yue Yuen Share Option Scheme") under which the board of directors of the Company may at its discretion grant share options to any eligible participants, including directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The Yue Yuen Share Option Scheme is valid and effective for a period of ten years commencing from May 31, 2019 to May 30, 2029, after which no further options may be offered or granted.

The exercise price is to be determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

As at December 31, 2019, the number of shares available for issue under the Yue Yuen Share Option Scheme is 161,449,998 shares, representing 10.01% of the issued share capital of the Company as at that date.

No share option has been granted, exercised nor lapsed under the Yue Yuen Share Option Scheme since its adoption.

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company

A share award scheme (the "Yue Yuen Share Award Scheme") was adopted on January 28, 2014 and amended on March 23, 2016 and September 28, 2018 by the Company to recognize the contributions by certain personnel of the Group and/or any company in which the Group may have an investment and any company which is a controlling shareholder of the Company including subsidiaries of such controlling shareholder (the "Associated Entities") and to attract suitable personnel for further development of the Group. Under the Yue Yuen Share Award Scheme, the board of directors of the Company may at its discretion grant any eligible participants awarded shares, provided that the total number of awarded shares shall not exceed 2% of the issued share capital of the Company as at the date of grant. 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. Subject to early termination determined by the board of directors of the Company, the Yue Yuen Share Award Scheme is valid and effective for a period of ten years commencing on January 28, 2014, after which no further contribution to the trust fund of the Yue Yuen Share Award Scheme will be made by the Company.

The Yue Yuen Share Award Scheme is operated through a trustee which is independent of the Group. After the notification and instruction by the Company, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the period at which the directors of the Company are prohibited from dealing in shares by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. The directors would notify the trustee of the Yue Yuen Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the selected participant. Vesting of the award shares will be conditional on the selected participant remaining as an employee of the Group and/or Associated Entity on a vesting date and the board has not determined to vary or cancel such an award for any reason (including but not limited to exceptionally poor performance, misconduct or material breach of the terms of employment or rules or policies of the Company). An award shall automatically lapse forthwith when a selected participant is on unpaid leave of absence on the vesting date, or ceases to be an employee of the Group or an Associated Entity, or the company by which a selected participant is employed ceases to be a subsidiary of the Company or an Associated Entity, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, or selected participant's employment is terminated for cause if the award has not been vested.

The Company did not acquire any ordinary shares during the two years ended December 31, 2019 and 2018. A total of 2,017,000 ordinary shares (2018: 2,092,000 ordinary shares) of the Company were held by the trustee of the Yue Yuen Share Award Scheme as at December 31, 2019. The awarded shares shall be vested in the grantees pursuant to the terms as provided in their respective grant letters.

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company (continued)

Details of the awards, including the number of shares which were awarded according to the terms of the Yue Yuen Share Award Scheme during the two years ended December 31, 2019 and 2018 were as follows:

			Number of awarded shares								
	Date of grant	Vesting date	Outstanding at January 1, 2018	Granted during the year	Lapsed/ cancelled during the year	Vested during the year	Outstanding at December 31, 2018	Granted during the year	Lapsed/ cancelled during the year	Vested during the year	Outstanding at December 31, 2019
Directors of the Company											
Liu George Hong-Chih	10.03.2016	10.02.2018	33,000	–	–	(33,000)	–	–	–	–	–
	10.02.2018	05.31.2021	–	40,000	–	–	40,000	–	–	–	40,000
Hu Chia-Ho	10.03.2016	10.02.2018	33,000	–	–	(33,000)	–	–	–	–	–
	10.02.2018	05.31.2021	–	40,000	–	–	40,000	–	–	–	40,000
Tsai Ming-Lun, Ming	10.03.2016	10.02.2018	33,000	–	–	(33,000)	–	–	–	–	–
	10.02.2018	05.31.2021	–	40,000	–	–	40,000	–	–	–	40,000
Hu Dien Chien	06.01.2018	05.29.2020	–	35,000	–	–	35,000	–	–	–	35,000
	10.02.2018	05.31.2021	–	40,000	–	–	40,000	–	–	–	40,000
	11.21.2018	11.21.2018	–	36,500	–	(36,500)	–	–	–	–	–
	11.21.2019	11.21.2019	–	–	–	–	–	60,000	–	(60,000)	–
Sub-total			99,000	231,500	–	(135,500)	195,000	60,000	–	(60,000)	195,000
Employees of the Group and/or its Associated Entities	10.03.2016	10.02.2018	953,500	–	(99,000)	(838,000)	16,500	–	–	–	16,500#
	10.02.2018	05.31.2021	–	1,140,000	–	–	1,140,000	–	(60,000)	–	1,080,000
	11.21.2018	11.21.2018	–	10,000	–	(10,000)	–	–	–	–	–
	11.21.2018	11.06.2019	–	15,000	–	–	15,000	–	–	(15,000)	–
	11.21.2018	11.06.2020	–	20,000	–	–	20,000	–	–	–	20,000
Sub-total			953,500	1,185,000	(99,000)	(848,000)	1,191,500	–	(60,000)	(15,000)	1,116,500
Total			1,052,500	1,416,500	(99,000)	(983,500)	1,386,500	60,000	(60,000)	(75,000)	1,311,500

These 16,500 shares are pending for vest because the employee to whom these shares were awarded on October 3, 2016 had taken unpaid leave of absence on the vesting date. The employee returned to work on September 1, 2019 and the vesting period of these 16,500 shares has been extended to August 31, 2020, as approved by the board of directors of the Company.

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) Share award scheme of the Company (continued)

The closing prices of the Company's shares at the date of grant on November 21, 2019 was HK$23.10 per share (2018: on June 1, 2018 was HK$24.25 per share, on October 2, 2018 was HK$21.75 per share and on November 21, 2018 was HK$23.25 per share).

During the year ended December 31, 2019, the Group recognized a net expense of US$1,253,000 (2018: US$1,421,000) as equity-settled share-based payments in relation to the Yue Yuen Share Award Scheme.

(c) Share option scheme of Pou Sheng

Pou Sheng's share option scheme (the "Pou Sheng Share Option Scheme") was adopted pursuant to a resolution passed by Pou Sheng's shareholders on May 14, 2008 and amended on March 7, 2012 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of Pou Sheng and its shares for the benefit of Pou Sheng and its shareholders as a whole, and expired on May 13, 2018. However, the share options granted prior to the expiration of the Pou Sheng Share Option Scheme shall continue to be valid and exercisable within their respective prescribed exercisable periods. Under the Pou Sheng Share Option Scheme, the board of directors of Pou Sheng may grant options to eligible persons, including directors and employees of Pou Sheng and its subsidiaries, to subscribe for shares in Pou Sheng.

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Pou Sheng (continued)

The following tables disclose movements in the share options under the Pou Sheng Share Option Scheme during the two years ended December 31, 2019 and 2018:

				Number of share options						
	Date of grant	Exercise price HK$	Exercisable period	Outstanding at January 1, 2018	Exercised during the year	Lapsed during the year	Outstanding at December 31, 2018	Exercised during the year	Lapsed during the year	Outstanding at December 31, 2019
Director of the Company										
Hu Chia-Ho	01.21.2010	1.620	01.21.2011 – 01.20.2018	120,000	–	(120,000)	–	–	–	–
	01.21.2010	1.620	01.21.2012 – 01.20.2018	120,000	–	(120,000)	–	–	–	–
	01.21.2010	1.620	01.21.2013 – 01.20.2018	240,000	–	(240,000)	–	–	–	–
	01.21.2010	1.620	01.21.2014 – 01.20.2018	320,000	–	(320,000)	–	–	–	–
Sub-total				800,000	–	(800,000)	–	–	–	–
Current and former Employees of Pou Sheng	01.21.2010	1.620	01.21.2011 – 01.20.2018	3,402,450	–	(3,402,450)	–	–	–	–
	01.21.2010	1.620	01.21.2012 – 01.20.2018	3,407,450	–	(3,407,450)	–	–	–	–
	01.21.2010	1.620	01.21.2013 – 01.20.2018	5,885,900	–	(5,885,900)	–	–	–	–
	01.21.2010	1.620	01.21.2014 – 01.20.2018	5,251,200	–	(5,251,200)	–	–	–	–
	01.20.2011	1.230	01.20.2012 – 01.19.2019	9,487,500	(2,876,000)	–	6,611,500	(4,466,500)	(2,145,000)	–
	01.20.2011	1.230	01.20.2013 – 01.19.2019	6,137,500	(2,035,000)	–	4,102,500	(2,382,500)	(1,720,000)	–
	01.20.2011	1.230	01.20.2014 – 01.19.2019	3,964,000	(1,164,000)	–	2,800,000	(2,212,500)	(587,500)	–
	01.20.2011	1.230	01.20.2015 – 01.19.2019	3,375,000	(683,000)	–	2,692,000	(2,104,500)	(587,500)	–
	03.07.2012	1.050	03.07.2013 – 03.06.2020	375,000	–	–	375,000	–	–	375,000
	11.14.2016	2.494	09.01.2017 – 09.01.2019	1,166,320	–	–	1,166,320	–	(1,166,320)	–
	11.14.2016	2.494	09.01.2018 – 09.01.2020	1,166,320	–	–	1,166,320	–	–	1,166,320
	11.14.2016	2.494	09.01.2019 – 09.01.2021	1,166,320	–	–	1,166,320	–	–	1,166,320
	11.14.2016	2.494	09.01.2020 – 09.01.2022	2,332,640	–	–	2,332,640	–	–	2,332,640
	11.14.2016	2.494	09.01.2021 – 09.01.2023	5,831,590	–	–	5,831,590	–	–	5,831,590
Sub-total				52,949,190	(6,758,000)	(17,947,000)	28,244,190	(11,166,000)	(6,206,320)	10,871,870
Total				53,749,190	(6,758,000)	(18,747,000)	28,244,190	(11,166,000)	(6,206,320)	10,871,870
Exercisable as at January 1, 2018, December 31, 2018 and December 31, 2019				43,252,320			18,913,640			2,707,640

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(c) Share option scheme of Pou Sheng (continued)

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

During the year ended December 31, 2019, the Group recognized a net expense of US$262,000 (2018: US$320,000) as equity-settled share-based payments in the consolidated income statement under the Pou Sheng Share Option Scheme with reference to the share options' respective vesting periods and the share options lapsed prior to their vesting dates after recognizing share option expenses.

(d) Share award scheme of Pou Sheng

Pou Sheng's share award scheme (the "Pou Sheng Share Award Scheme") was adopted pursuant to a board resolution passed on May 9, 2014 and amended on November 11, 2016. The objective of the Pou Sheng Share Award Scheme is to recognize the contributions by certain persons, including directors of Pou Sheng and employees of the Pou Sheng Group (the "Selected Participants") and to provide incentives to retain them for the continual operation and development of the Pou Sheng Group, and to attract suitable personnel for further development of the Pou Sheng Group. The Pou Sheng Share Award Scheme became effective on May 9, 2014 and, unless otherwise terminated or amended, will remain in force for 10 years.

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

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) Share award scheme of Pou Sheng (continued)

The following table discloses movements in Pou Sheng's share awards under the Pou Sheng Share Award Scheme during the two years ended December 31, 2019 and 2018:

			Number of share awards								
	Date of grant	Vesting date	Outstanding at January 1, 2018	Granted during the year	Lapsed/ cancelled during the year	Vested during the year	Outstanding at December 31, 2018	Granted during the year	Lapsed/ cancelled during the year	Vested during the year	Outstanding at December 31, 2019
Directors of Pou Sheng											
Lee Shao Wu	03.25.2017	03.25.2018	300,000	–	–	(300,000)	–	–	–	–	–
	03.25.2017	03.25.2019	300,000	–	–	–	300,000	–	–	(300,000)	–
	03.25.2017	03.25.2020	400,000	–	–	–	400,000	–	–	–	400,000
	08.11.2018	09.11.2019	–	200,000	–	–	200,000	–	–	(200,000)	–
	08.11.2018	09.11.2020	–	300,000	–	–	300,000	–	–	–	300,000
	08.11.2018	03.11.2021	–	500,000	–	–	500,000	–	–	–	500,000
	03.23.2019	09.23.2020	–	–	–	–	–	200,000	–	–	200,000
	03.23.2019	09.23.2021	–	–	–	–	–	300,000	–	–	300,000
	03.23.2019	03.23.2022	–	–	–	–	–	500,000	–	–	500,000
Sub-total			1,000,000	1,000,000	–	(300,000)	1,700,000	1,000,000	–	(500,000)	2,200,000
Employees of Pou Sheng	03.21.2015	03.21.2018	5,358,000	–	(723,000)	(4,635,000)	–	–	–	–	–
	08.14.2015	08.14.2018	8,110,000	–	(340,000)	(7,770,000)	–	–	–	–	–
	03.24.2016	03.24.2019	3,220,000	–	(344,000)	–	2,876,000	–	(80,000)	(2,796,000)	–
	08.13.2016	08.13.2019	5,460,000	–	(510,000)	–	4,950,000	–	(150,000)	(4,800,000)	–
	11.12.2016	08.31.2019	600,000	–	–	–	600,000	–	–	(600,000)	–
	11.14.2016	09.01.2018	833,680	–	–	(833,680)	–	–	–	–	–
	11.14.2016	09.01.2019	833,680	–	–	–	833,680	–	–	(833,680)	–
	11.14.2016	09.01.2020	1,667,360	–	–	–	1,667,360	–	–	–	1,667,360
	11.14.2016	09.01.2021	4,168,410	–	–	–	4,168,410	–	–	–	4,168,410
	03.25.2017	03.25.2020	4,528,000	–	(374,000)	–	4,154,000	–	(123,000)	–	4,031,000
	07.03.2017	07.03.2020	300,000	–	–	–	300,000	–	–	–	300,000
	11.14.2017	03.01.2018	270,000	–	(270,000)	–	–	–	–	–	–
	11.14.2017	03.01.2019	315,000	–	(315,000)	–	–	–	–	–	–
	11.14.2017	03.01.2020	315,000	–	(315,000)	–	–	–	–	–	–
	11.14.2017	12.12.2019	300,000	–	–	–	300,000	–	–	(300,000)	–
	11.14.2017	11.14.2020	3,800,000	–	(600,000)	–	3,200,000	–	–	–	3,200,000
	08.11.2018	07.01.2019	–	140,000	–	–	140,000	–	–	(140,000)	–
	08.11.2018	07.01.2020	–	210,000	–	–	210,000	–	–	–	210,000
	08.11.2018	01.01.2021	–	350,000	–	–	350,000	–	–	–	350,000
	08.11.2018	09.11.2019	–	3,695,800	(17,000)	–	3,678,800	–	(361,200)	(3,317,600)	–
	08.11.2018	09.11.2020	–	5,543,700	(25,500)	–	5,518,200	–	(541,800)	–	4,976,400
	08.11.2018	03.11.2021	–	9,239,500	(42,500)	–	9,197,000	–	(903,000)	–	8,294,000
	03.23.2019	09.23.2020	–	–	–	–	–	2,453,200	(46,000)	–	2,407,200
	03.23.2019	09.23.2021	–	–	–	–	–	3,679,800	(69,000)	–	3,610,800
	03.23.2019	03.23.2022	–	–	–	–	–	6,133,000	(115,000)	–	6,018,000
	03.23.2019	10.01.2020	–	–	–	–	–	112,000	–	–	112,000
	03.23.2019	10.01.2021	–	–	–	–	–	168,000	–	–	168,000
	03.23.2019	04.01.2022	–	–	–	–	–	280,000	–	–	280,000
	11.15.2019	12.15.2020	–	–	–	–	–	750,000	–	–	750,000
Sub-total			40,079,130	19,179,000	(3,876,000)	(13,238,680)	42,143,450	13,576,000	(2,389,000)	(12,787,280)	40,543,170
Total			41,079,130	20,179,000	(3,876,000)	(13,538,680)	43,843,450	14,576,000	(2,389,000)	(13,287,280)	42,743,170

37. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(d) Share award scheme of Pou Sheng (continued)

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

During the year ended December 31, 2019, the Group recognized a net expense of US$2,604,000 (2018: US$1,851,000) as equity-settled share-based payments in the consolidated income statement under the Pou Sheng Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed prior to their vesting dates after recognizing shares award expenses.

(e) Stock option plan of TCHC (as defined in Note 40)

The amended stock option plan of TCHC was approved by shareholders of the Company at a special general meeting held on November 30, 2017 (the "Amended TCHC Stock Option Plan"). The terms of The Amended TCHC Stock Option Plan are detailed in Directors' Report. The Amended TCHC Stock Option Plan was terminated and all outstanding options (including both vested and unvested options) under the Amended TCHC Stock Option Plan were cancelled as of the disposal of the TCHC and its subsidiaries on May 31, 2019. For details of the disposal, please refer to Note 40.

No stock options had been granted nor exercised under The Amended TCHC Stock Option Plan during the period from January 1, 2019 to May 31, 2019.

During the year ended December 31, 2019, the Group recognized an expense of US$887,000 (2018: US$710,000) as equity-settled share-based payments in the consolidated income statement.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a quarterly basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share repurchases as well as the issue of new debt or the redemption of existing debt.

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 US$'000	2018 US$'000
Financial assets		
Financial assets at FVTPL	55,952	40,183
Financial assets at amortized cost	2,251,730	2,233,729
Equity instruments at fair value through other comprehensive income	31,889	19,741
Financial liabilities		
Financial liabilities at amortized cost	2,911,151	2,997,615
Lease liabilities	402,732	–
Financial liabilities at FVTPL	10,287	20,048

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, financial assets/liabilities at FVTPL trade and other receivables, bank balances and cash, trade and other payables, lease liabilities and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the policies on how to mitigate these risks.

39. FINANCIAL INSTRUMENTS (continued)

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

Market risk

(i) Currency risk

Majority of the Group's revenue is denominated in USD and RMB. However, the Group has certain trade and other receivables, trade and other payables, bank balances and debt obligations that are denominated in foreign currencies relative to functional currencies of the respective group entities. As a result, the Group is exposed to fluctuations in foreign exchange rates. In order to mitigate the currency risk, the Group has entered into forward and other foreign currency contracts to partially hedge USD against RMB and IDR. Details of the contracts are set out in Note 24. The Group regularly reviews the effectiveness of these instruments and the underlying strategies in monitoring currency risk.

The carrying amounts of the Group's monetary assets and liabilities that are denominated in currencies other than the functional currency of the relevant group entities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000
USD	**3,062**	4,803	**2,650**	31,571
RMB	**277,183**	285,556	**90,218**	128,016
New Taiwan dollars ("NTD")	**54,630**	26,537	**51,406**	32,151
Vietnamese Dong ("VND")	**12,456**	7,960	**74,655**	76,370
IDR	**13,834**	32,698	**23,649**	26,987
Hong Kong dollars ("HKD")	**12,102**	10,989	**2,949**	3,267

Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of USD, RMB, NTD, VND, IDR and HKD against the functional currencies of the respective group entities. Since HKD is pegged to USD, the Group does not expect any significant movements in USD/HKD exchange rate.

39. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 5% (2018: 5%) decrease in the functional currency of the relevant group entities against the relevant foreign currencies. The following sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the year end for a 5% change in foreign currency exchange rates, which are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in currencies exchange rates. A positive (negative) number below indicates an increase (decrease) in profit before taxation when the currency below strengthen 5% against the functional currency of the relevant group entities. For a 5% (2018: 5%) weakening of these currencies against the functional currency of the relevant group entities, there would be an equal and opposite impact on the profit before taxation.

	notes	2019 US$'000	2018 US$'000
Gain (loss) in relation to:			
– USD	(i)	**21**	(1,338)
– RMB	(ii)	**9,348**	7,877
– NTD	(iii)	**161**	(281)
– VND	(ii)	**(3,110)**	(3,421)
– IDR	(ii)	**(491)**	286

notes:

(i) This is mainly attributable to the exposure on bank and loan balances, receivables and payables.

(ii) This is mainly attributable to the exposure on bank balances, receivables and payables.

(iii) This is mainly attributable to the exposure on bank and loan balances, receivables and payables and equity instruments.

39. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to amount due from a joint venture (Note 21), bank balances (Note 27) and bank borrowings (Note 31) due to the fluctuation of the prevailing market interest rate. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

The Group is also exposed to fair value interest rate risk in relation to other financial assets at amortized cost (Note 23), amount due from a non-controlling interest of a subsidiary (Note 26), bank and other borrowings (Note 31) and lease liabilities (Note 33).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR, HIBOR, TAIBOR and rates quoted by PBOC.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the carrying amount of assets and liabilities which carried floating interest rates and outstanding at the end of the reporting period were outstanding for the whole year and the stipulated change taking place at the beginning of the financial year and held constant throughout the financial year. A 100 basis points (2018: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on variable-rate bank borrowings had been 100 basis points (2018: 100 basis points) higher and all other variables were held constant, the Group's profit before taxation for the year would decrease by US$19,668,000 (2018: decrease by US$19,552,000). If interest rates were lower by 100 basis points (2018: 100 basis points), there would be an equal and opposite impact on the profit before taxation for the year.

This is mainly attributable to the Group's exposure to its variable-rate borrowings.

39. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(iii) Other price risk

The Group's investments in equity securities measured at FVTOCI and foreign currency derivatives at the end of the reporting period exposed the Group to other price risk. Details of those are set out in Notes 22 and 24.

Sensitivity analysis

(a) Equity instruments at fair value through other comprehensive income

The Group is exposed to equity price risk through its equity instruments at fair value through other comprehensive income. If the market price of the listed investment had increased/decreased by 10% (2018: 10%), the Group's reserve would increase/decrease by US$3,156,000 (2018: US$1,942,000) at December 31, 2019.

(b) Foreign currency derivatives

For the outstanding foreign currency derivatives contracts, if the market exchange rate of USD had strengthened/weakened against IDR by 5% (2018: IDR by 5%), profit before taxation for the year ended December 31, 2019 would decrease/increase by US$283,000 (2018: decrease/increase by US$405,000) as a result of the changes in the market foreign currency exchange rate of USD against IDR (2018: IDR).

In management's opinion, the sensitivity analyses are not necessarily representative of the inherent market risk as the pricing model used in determining the fair value of the derivatives and financial liabilities are interdependent.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position and the guarantee given as set out in Note 44.

39. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

The Group has concentration of credit risk on certain individual customers. At the end of the reporting period, the five largest trade receivable balances accounted for approximately 65% (2018: 57%) of the trade receivables and the largest trade receivable balance was approximately 36% (2018: 26%) of the Group's total trade receivables. For both years, the five largest customers, which are internationally well known companies engaging in sports footwear and sportswear business with good financial position by reference to their respective published financial statements, have good repayment history and credit quality with reference to the track records of these customers under internal assessment by the Group. The Group seeks to minimize its risk by dealing with counterparties which have good credit history.

In order to minimize the credit risk, the management of the Group has delegated different teams responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix.

In addition to the credit risk on trade debts, the Group is also exposed to credit risk through its advances to, and guarantees granted to banks in respect of banking facilities utilized by its associates, joint ventures and connected and related parties. Because of the Group's involvement, the Group is in a position to monitor their financial performance and can take timely actions to safeguard its assets and/or to minimize its losses. Accordingly, management believes that the Group's exposure in this regard is significantly reduced.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and good credit ratings by reference to published information or good repayment records	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence that the debtor has been placed under liquidation or has entered into bankruptcy proceedings and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

39. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

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

	Notes	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amount US$'000	2018 Gross carrying amount US$'000
Financial assets at amortized cost					
Amounts due from associates	26	Low risk (Note 4)	12m ECL	5,719	6,334
Amounts due from joint ventures	26	Low risk (Note 4)	12m ECL	3,206	4,933
Amounts due from connected and related parties	26	Low risk (Note 4)	12m ECL	8,455	2,069
Amount due from a joint venture	21	Low risk (Note 4)	12m ECL	–	437
Deferred consideration receivable	40	Low risk	12m ECL	8,500	–
Bank balances and cash	27	Low risk (Note 2)	12m ECL	982,079	851,420
Restricted bank deposit		Low risk (Note 2)	12m ECL	1,150	–
Other financial assets at amortized cost	23	N/A (Note 3)	12m ECL	6,036	8,546
Other receivables*	26	Low risk/ Watch list	12m ECL	94,799	91,464
		Loss (Note 5)	Credit-impaired	7,027	8,156
				101,826	99,620
Trade receivables	26	(Note 1)	Lifetime ECL (provision matrix)	1,141,786	1,268,526
		Loss	Credit-impaired	9,605	18,622
				1,151,391	1,287,148

* The gross carrying amounts disclosed above include the relevant interest receivables which presented in other receivables.

39. FINANCIAL INSTRUMENTS (continued)

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

Credit risk and impairment assessment (continued)

Notes:

1. The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors that are credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating/aging status. No loss allowance at lifetime ECL (not credit-impaired) on trade receivables has been provided as the directors of the Company considered the amount is insignificant.

2. The credit risk on bank balances is low because the counterparties are banks with good reputation.

3. The credit risk on other financial assets at amortized cost is low because the counterparties are bank or financial institutions with good reputation of external credit rating ranging from BB to A+.

4. The credit risk on amounts due from associates, amounts due from joint ventures and amounts due from connected and related parties is low because these balances have good repayment records.

5. During the year ended December 31, 2019, impairment losses of US$651,000 (2018: US$4,041,000) arising from other receivables (which are credit-impaired) were recognized based on the impairment assessment under ECL model with regard to (i) the Group's past experience of collecting payment and (ii) an actual or expected significant deterioration in the operating results of the receivables that decrease the counterparties' ability to meet their debt obligations.

As part of the Group's credit risk management, the Group applies internal credit rating and debtors' aging status to assess the impairment for its customers in relation to its Manufacturing Business and Retailing Business respectively. The following tables provide information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired). Debtors that are credit-impaired with gross carrying amounts of US$9,605,000 as at December 31, 2019 (2018: US$18,622,000) were assessed individually.

39. FINANCIAL INSTRUMENTS (continued)

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

Gross carrying amount assessed based on provision matrix

Manufacturing Business

Internal credit rating	Average loss rate	Trade receivables 2019 US$'000	Trade receivables 2018 US$'000
Low risk	0.1%	**890,029**	920,284
Watch list	1.0%	**44,760**	59,368
Doubtful	5.0%	**4,877**	35,743
		939,666	1,015,395

Retailing Business

Debtors' aging	Trade receivables Average loss rate (2019)	2019 US$'000	Average loss rate (2018)	2018 US$'000
Current (not past due)	**–**	**188,150**	–	220,831
1–120 days past due	**0.8%**	**13,970**	0.6%	32,300
		202,120		253,131

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

39. FINANCIAL INSTRUMENTS (continued)

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

Gross carrying amount assessed based on provision matrix (continued)

The following table shows the movement in loss allowance at lifetime ECL (credit-impaired) that has been recognized for trade receivables under the simplified approach.

	Trade receivables US$'000
As at January 1, 2018	18,470
Impairment losses recognized	2,150
Write-offs	(1,284)
Exchange realignment	(714)
As at December 31, 2018	18,622
Impairment losses recognized	1,601
Write-offs	(7,490)
Disposal of subsidiaries	(3,148)
Exchange realignment	20
As at December 31, 2019	**9,605**

The Group writes off a trade receivable when there is information indicating that the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

The Group's concentration of credit risk by geographical locations of customers are mainly in the US, Europe and Asia which accounted for 23%, 24% and 45% (2018: 27%, 23% and 43%), respectively, of the trade receivables at December 31, 2019.

39. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cashflows from operations. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	1 - 3 months US$'000	3 months to 1 year US$'000	1 - 5 years US$'000	Over 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 12.31.2019 US$'000
As at December 31, 2019								
Non-derivative financial liabilities								
Trade and other payables	–	722,700	82,045	16,527	–	–	821,272	821,272
Bank borrowings								
– fixed rate	1.6	–	173	521	44,970	–	45,664	43,407
– variable rate	2.36	221,597	190,416	279,696	1,374,815	–	2,066,524	1,966,774
Other borrowings	3.95	–	786	81,279	–	–	82,065	79,698
Lease liabilities	4.48	4,161	28,534	111,673	258,391	42,515	445,274	402,732
Financial guarantee contracts	–	38,220	–	–	–	–	38,220	–
		986,678	301,954	489,696	1,678,176	42,515	3,499,019	3,313,883
Derivatives - net settlement								
Interest rate swap	–	–	448	1,635	9,045	–	11,128	10,287

39. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	On demand or less than 1 month US$'000	1 - 3 months US$'000	3 months to 1 year US$'000	1 - 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 12.31.2018 US$'000
As at December 31, 2018							
Non-derivative financial liabilities							
Trade and other payables	–	785,017	71,636	17,039	–	873,692	873,692
Bank borrowings							
– fixed rate	1.6	–	170	510	44,721	45,401	42,510
– variable rate	3.42	556,720	41,644	118,485	1,408,876	2,125,725	1,955,614
Other borrowings	4.35	–	–	131,696	–	131,696	125,799
Financial guarantee contracts	–	52,280	–	–	–	52,280	–
		1,394,017	113,450	267,730	1,453,597	3,228,794	2,997,615
Derivatives - net settlement							
Currency structured and forward contracts	–	2,387	3,970	13,691	–	20,048	20,048

The amounts included above for financial guarantee contracts are the maximum amounts the Group can be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

39. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3 as set out in Note 3) based on the degree to which the inputs to the fair value measurements is observable.

	2019 US$'000	2018 US$'000	**Fair value hierarchy**
Financial assets at FVTPL			
Credit linked notes (note iii)	**19,956**	19,310	Level 2
Foreign currency derivatives (note i)	**5,651**	8,129	Level 2
Interest rate swap (note ii)	**379**	678	Level 2
Unlisted overseas funds (note iii)	**17,651**	12,066	Level 2
Contingent consideration (note v)	**12,315**	–	Level 3
Equity instruments at FVTOCI			
Listed equity securities (note iv)	**31,555**	19,416	Level 1
Financial liabilities at FVTPL			
Foreign currency derivatives (note i)	**–**	20,048	Level 2
Interest rate swap (note ii)	**10,287**	–	Level 2

notes:

(i) Foreign currency derivatives mainly represent foreign currency forward contracts and currency structured forward contracts. These financial assets and liabilities are measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(ii) The interest rate swap is measured at fair value with reference to discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and yield curve of relevant interest rates and contracted interest rates, discounted at a rate that reflects the credit risk of the counterparties.

39. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

notes: (continued)

(iii) The fair values of credit linked notes and unlisted overseas funds are determined with reference to prices provided by the respective issuing financial institutions.

(iv) Listed equity securities are traded on active markets and their fair values are determined with reference to quoted market bid prices in active market.

(v) Contingent consideration represents the receivables from the purchaser in relation to the disposal of TCHC Group (as defined in Note 40). It is measured at fair value based on the forecasted gross sales of certain products of TCHC Group from January 1, 2021 to December 31, 2023 using the discounted cash flow method. Future cash flows to be settled by the purchaser in relation to the contingent consideration is discounted at a rate that reflects the credit risk of the counterparty. Significant unobservable inputs included discount rate of 14% and revenue growth rate from 2021 to 2023 of 4.54%.

Except as described above, the directors consider the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

40. DISPOSAL OF SUBSIDIARIES

For the year ended December 31, 2019

On May 31, 2019, the Group disposed of its entire interest in Texas Clothing Holding Corp. ("TCHC") and its subsidiaries (the "TCHC Group") to a third party at an aggregate consideration of US$145,516,000. TCHC Group is principally engaged in the design, imports and sales of apparels the US.

The aggregate amounts of assets and liabilities attributable to TCHC Group on the date of disposal were as follows:

	US$'000
Net assets disposed of:	
Property, plant and equipment	14,049
Right-of-use assets	23,615
Intangible assets	48,512
Goodwill	11,176
Deferred tax assets	13,146
Inventories	132,885
Trade and other receivables	61,403
Tax recoverable	3,111
Bank balances and cash	8,809
Trade and other payables	(42,772)
Lease liabilities	(23,828)
Bank borrowings	(109,055)
Taxation payable	(1,116)
Deferred tax liabilities	(12,683)
	127,252
Gain on disposal of subsidiaries:	
Consideration received and receivable:	
Cash consideration	115,957
Deferred cash consideration (note a)	16,000
Restricted bank deposits (note b)	2,150
Contingent consideration (note c)	11,409
	145,516
Release of translation reserve	380
Net assets disposed of	(127,252)
Gain on disposal	18,644
Net cash inflow arising on disposal:	
Cash consideration received, net of transaction costs paid	106,023
Less: bank balances and cash disposed of	(8,809)
	97,214

40. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended December 31, 2019 (continued)

Notes:

(a) The deferred cash consideration will be settled in cash by the purchaser out of which US$15 million will be paid over 3 years after the date of disposal and US$1 million will be paid on the third anniversary of the date of disposal.

(b) The restricted bank deposits for the purpose of covering any expenses, claims or losses incurred by the seller, purchaser and other permitted indemnified parties and will be released on the first anniversary of the date of disposal.

(c) The contingent consideration is measured at fair value based on the forecasted gross sales of certain products of TCHC Group with respect to the period from January 1, 2021 to December 31, 2023 using the discounted cash flow method. Future cash flows in relation to contingent consideration is discounted at a rate that reflects the credit risk of the counterparty. In addition, in no event shall the contingent consideration paid by the purchaser exceed US$24,150,000.

The subsidiaries disposed of during the year ended December 31, 2019 did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

For the year ended December 31, 2018

During the year ended December 31, 2018, the Group disposed of its entire interest in the Faith Year Investments Limited and its subsidiaries and Year Fortune Group Limited (the "Faith Year and Year Fortune Group") to an associate at an aggregate consideration of US$31,618,000, of which US$10,546,000 would be used to set off against the amount due to the Faith Year and Year Fortune Group. The Faith Year and Year Fortune Group is principally engaged in manufacturing and sales of sportswear products.

40. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended December 31, 2018 (continued)

The aggregate amounts of assets and liabilities attributable to the Faith Year and Year Fortune Group on the date of disposal were as follows:

	US$'000
Net assets disposed of:	
Property, plant and equipment	915
Deposits paid for acquisition of property, plant and equipment	39
Inventories	9,951
Trade and other receivables	3,838
Amounts due from immediate holding company	10,546
Bank balances and cash	6,863
Trade and other payables	(4,131)
Taxation payable	(436)
Amounts due to group companies	(747)
	26,838
Gain on disposal of subsidiaries:	
Consideration	31,618
Net assets disposed of	(26,838)
Gain on disposal	4,780
Net cash inflow arising on disposal:	
Cash consideration received from an associate	21,072
Less: bank balances and cash disposed of	(6,863)
	14,209

The subsidiaries disposed of during the year ended December 31, 2018 did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

41. OPERATING LEASES

The Group as lessor

All of the Group's investment properties held have committed tenants for the next one to fifteen years and rentals are fixed.

At the end of the reporting period, minimum lease payments receivable on leases are as follows (2018: had contracted with tenants for the following future minimum lease payments):

	2019 US$'000
Within one year	11,671
In the second year	9,667
In the third year	9,367
In the fourth year	8,591
In the fifth year	7,293
After five years	20,141
	66,730

	2018 US$'000
Within one year	12,732
In the second to fifth year inclusive	43,669
After five years	40,685
	97,086

41. OPERATING LEASES (continued)

The Group as lessee

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

	2018 US$'000
Operating leases rentals in respect of:	
Minimum leases payments:	
– leasehold land and buildings	31,052
– retail shops	136,199
– plant and machinery	323
	167,574
Contingent rentals:	
– retail shops	268,086
	435,660

At December 31, 2018, the Group had commitments for non-cancellable future minimum lease payments in respect of leasehold land and buildings and retail shops under non-cancellable operating leases, which fall due as follows:

	2018 US$'000
Within one year	141,560
In the second to fifth year inclusive	192,033
After five years	44,951
	378,544

The above lease commitments represent basic rents only and do not include contingent rents payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' revenue using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents payable.

Majority of the leases are negotiated for lease terms of 2 to 5 years.

Included in the above are commitments under non-cancellable operating leases of approximately US$5.2 million as at December 31, 2018 which expire in 2020, payable to related companies, Godalming (as defined in Note 47) and its subsidiaries, details of which are set out in Note 47(e).

42. CAPITAL COMMITMENTS

	2019 US$'000	2018 US$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– construction of buildings	**80,516**	48,806
– acquisition of property, plant and equipment	**5,882**	2,699
	86,398	51,505

43. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2019, the Group recognized US$250,550,000 of right-of-use asset and US$250,550,000 of lease liabilities.

44. CONTINGENCIES

At the end of the reporting period, the Group had contingent liabilities as follows:

	2019 US$'000	2018 US$'000
Guarantees given to banks in respect of banking facilities granted to		
(i) joint ventures		
– amount guaranteed	**36,000**	36,425
– amount utilized	**17,000**	16,104
(ii) associates		
– amount guaranteed	**2,220**	15,855
– amount utilized	**798**	6,014

In the opinion of the directors, the fair value of the financial guarantees given to the banks by the Group are insignificant at initial recognition. Also, after taking into consideration the probability of default by the joint ventures and associates, the management of the Company is of the opinion that no provision is required to be recognized in the consolidated statement of financial position as at December 31, 2019 and 2018.

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable (included in other payables) US$'000	Bank and other borrowings US$'000	Lease liabilities US$'000
At January 1, 2018	1,653	1,963,340	–
Amortization of upfront fee of bank borrowings	–	4,513	–
Financing cash flows	(76,038)	178,225	–
Interest expenses	76,038	–	–
Payment of upfront fee of bank borrowings	–	(3,010)	–
Exchange realignment	–	(19,145)	–
At December 31, 2018	1,653	2,123,923	–
Adjustment upon application of HKFRS 16	–	–	309,875
At January 1, 2019 (restated)	1,653	2,123,923	309,875
Amortization of upfront fee of bank borrowings	–	2,546	–
Financing cash flows	(72,311)	76,287	(144,805)
New leases/lease modified/lease terminated	–	–	250,550
Interest expenses	74,068	–	15,508
Payment of upfront fee of bank borrowings	–	(120)	–
Disposal of subsidiaries	–	(109,055)	(23,828)
Exchange realignment	–	(3,702)	(4,568)
At December 31, 2019	**3,410**	**2,089,879**	**402,732**

46. RETIREMENT BENEFITS PLANS

a) Defined contribution plans

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The workers under subcontracting agreements and employees of the Company's subsidiaries in the PRC are subject to retirement benefit schemes established in the PRC. Specified percentages of their payroll are contributed to retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the contributions at rate specified under the schemes. No forfeited contributions are available to reduce the contribution payable in the future years.

The employees employed in Vietnam are members of the state-managed retirement benefit schemes operated by the Vietnamese government. The subsidiaries incorporated in Vietnam are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The Group has no further payment obligations once the contributions have been paid.

b) Defined benefit plan – Indonesia

The Group provides defined benefit plan for the employees in Indonesia as required under Indonesian Labor Law.

The plan exposes the Group to the following actuarial risks:

Interest rate risk	A decrease in the bond interest rate will increase the present value of the defined benefit obligation.
Longevity risk	The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the present value of the defined benefit obligation.
Salary risk	The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

No other post-retirement benefits are provided to these employees in Indonesia.

46. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan – Indonesia (continued)

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at December 31, 2019 by PT. Padma Radya Aktuaria and PT. Konsul Penata Manfaat Sejahtera, Fellows of the Institute of Actuaries in Indonesia. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at December 31, 2019	Valuation at December 31, 2018
Normal pension age	55 – 56	55 – 56
Discount rates	8.00% – 8.25%	8.50% – 9.25%
Expected rates of salary increase	6% – 8%	5% – 8%
Mortality rates	100% Tabel Mortality Indonesia ("TMI")3/TMI4	100% TMI3
Disability rate	5% TMI3/TMI4	5% TMI3
Resignation rates	2.5% – 15% until age 25 – 40 then decreasing linearly into 0% at age 51 – 56	5% – 15% until age 25 – 35 then decreasing linearly into 0% at age 55 – 56

46. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan – Indonesia (continued)

Amounts recognized in comprehensive income in respect of the defined benefit plan are as follows:

	2019 US$'000	2018 US$'000
Service cost:		
Current service cost	7,473	8,514
Past service cost and loss (gain) from settlements	487	(1,918)
Net interest expense	7,612	6,154
Others	154	(2)
Components of defined benefit costs recognized in profit or loss	15,726	12,748
Remeasurement of the net defined benefit liabilities:		
Actuarial losses arising from experience adjustments	2,023	8,631
Actuarial losses (gains) arising from changes in financial assumptions	6,606	(13,603)
Actuarial losses arising from changes in demographic assumptions	266	–
Foreign exchange losses (gains)	794	(182)
Components of defined benefit costs recognized in other comprehensive income	9,689	(5,154)
Total	25,415	7,594

The service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss.

The remeasurement of the net defined benefit liabilities is included in other comprehensive income.

46. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan – Indonesia (continued)

Movements in the present value of the defined benefit obligation in the current year were as follows:

	2019 US$'000	2018 US$'000
Balance at January 1	**82,943**	85,068
Current service cost	**7,473**	8,514
Interest cost	**7,612**	6,154
Others	**154**	(2)
Past service cost and loss (gains) from settlements	**487**	(1,918)
Remeasurement:		
Actuarial losses arising from experience adjustments	**2,023**	8,631
Actuarial losses (gains) arising from changes in financial assumptions	**6,606**	(13,603)
Actuarial losses arising from changes in demographic assumptions	**266**	–
Exchange differences on foreign plans	**5,615**	(5,540)
Benefits paid	**(5,743)**	(4,361)
Balance at December 31	**107,436**	82,943

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rates and expected salary growth. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rates increase (decrease) by 1%, the defined benefit obligation would decrease by US$11,873,000 (increase by US$14,109,000) (2018: decrease by US$8,163,000 (increase by US$9,152,000)).

- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by US$14,909,000 (decrease by US$12,728,000) (2018: increase by US$ US$9,888,000 (decrease by US$8,884,000)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

46. RETIREMENT BENEFITS PLANS (continued)

b) Defined benefit plan – Indonesia (continued)

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position.

The average duration of the benefit obligation at December 31, 2019 ranges from 15.14 to 31.92 years (2018: from 16.20 to 23.75 years).

The Group expects to make a contribution of US$3,921,000 (2018: US$4,485,000) to the defined benefit plan during the next financial year.

c) Defined benefit plan – Taiwan

The defined benefit plan adopted by the Group for the employees in Taiwan in accordance with the Labor Standards Law is operated by the government of the Republic of China. Pension benefits are calculated based on the years of service and average monthly salaries of the 6 months before retirement. The Group contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau") and the Group has no right to influence the investment policy and strategy.

The plan exposes the Group to the following actuarial risks:

Interest rate risk	A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
Investment risk	The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
Salary risk	The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

46. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

The most recent actuarial valuations of the plan assets and present value of the defined benefit obligation were carried out at December 31, 2019 by Professional Actuary Management Consulting Co., Ltd, a qualified actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The principle assumptions used for the purposes of the actuarial valuations were as follows:

	2019	2018
Discount rate	**0.75%**	1.00%
Expected rate of salary increase	**2.00% – 3.25%**	2.00%

The net amounts included in the consolidated statement of financial position in respect of the Group's net defined benefit liabilities and fair value of plan assets are as follows:

	2019 US$'000	2018 US$'000
Present value of defined benefit obligation	**26,284**	23,856
Fair value of plan assets	**(16,127)**	(14,893)
Net defined benefit liabilities	**10,157**	8,963

46. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

Amounts recognized in comprehensive income in respect of the defined benefit plan are as follows:

	2019 US$'000	2018 US$'000
Service cost:		
Current service cost	364	151
Past service cost	–	330
Net interest expense	108	242
Other	(953)	–
Components of defined benefit costs recognized in profit or loss	(481)	723
Remeasurement of the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest)	(496)	(29)
Actuarial losses arising from changes in demographic assumptions	20	400
Actuarial losses arising from changes in financial assumptions	1,165	1,337
Actuarial losses (gains) arising from experience adjustments	192	(288)
Exchange differences on foreign plans	5	–
Components of defined benefit costs recognized in other comprehensive income	886	1,420
Total	405	2,143

The service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss.

The remeasurement of the net defined benefit liabilities is included in other comprehensive income.

46. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

Movements in net defined benefit liabilities (assets) are as follows:

	Present value of defined benefit obligation US$'000	Fair value of plan assets US$'000	Net defined benefit liability US$'000
Balance at January 1, 2018 (included in other payables)	26,407	(4,612)	21,795
Current service cost	151	–	151
Net interest expense	296	(54)	242
Past service cost	330	–	330
Remeasurement:			
Return on plan assets (excluding amounts included in net interest)	–	(29)	(29)
Actuarial loss arising from changes in demographic assumptions	400	–	400
Actuarial loss arising from changes in financial assumptions	1,337	–	1,337
Actuarial gain arising from experience adjustments	(288)	–	(288)
Contributions from the employer	–	(13,316)	(13,316)
Benefits paid	(2,833)	2,566	(267)
Exchange differences on foreign plans	(1,944)	552	(1,392)
Balance at December 31, 2018	23,856	(14,893)	8,963
Current service cost	364	–	364
Net interest expense	274	(166)	108
Other	(953)	–	(953)
Remeasurement:			
Return on plan assets (excluding amounts included in net interest)	–	(496)	(496)
Actuarial loss arising from changes in demographic assumptions	20	–	20
Actuarial loss arising from changes in financial assumptions	1,165	–	1,165
Actuarial gain arising from experience adjustments	192	–	192
Contributions from the employer	–	(264)	(264)
Benefits paid	(1,804)	1,804	–
Exchange differences on foreign plans	3,170	(2,112)	1,058
Balance at December 31, 2019	**26,284**	**(16,127)**	**10,157**

46. RETIREMENT BENEFITS PLANS (continued)

c) Defined benefit plan – Taiwan (continued)

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rates and expected salary growth. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rates increase (decrease) by 0.25%, the defined benefit obligation would decrease by US$701,000 (increase by US$728,000) (2018: decrease by US$617,000 (increase by US$641,000)).

- If the expected salary growth increases (decreases) by 0.25%, the defined benefit obligation would increase by US$706,000 (decrease by US$684,000) (2018: increase by US$623,000 (decrease by US$603,000)).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statement of financial position.

The average duration of the benefit obligation at December 31, 2019 is 10.3 to 12.3 years (2018: 10.5 years).

The Group expects to make a contribution of US$775,000 (2018: US$363,000) to the defined benefit plan during the next financial year.

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules.

The transactions with these parties during the year, and balances with them at the end of the reporting period, are as follows:

(I) CONNECTED AND RELATED PARTIES

Name of connected and related party	Nature of transactions/balances	2019 US$'000	2018 US$'000
Substantial shareholder of the Company:			
PCC and its subsidiaries, other than members of the Group (collectively the "PCC Group")	Purchase of raw materials, shoe-related products and manufacturing equipment and tools by the Group (note a)	**1,139**	1,150
	Merchandise costs reimbursed to the PCC Group under the Services Agreements by the Group (note b)	**218,456**	245,801
	Expenses reimbursed to the PCC Group under the Services Agreements by the Group (note b)	**126,373**	125,576
	Service fees paid to the PCC Group under the Services Agreements by the Group (note b)	**16,475**	17,510
	Rental expenses under the Tenancy Agreements paid by the Group (note c)	**–**	1,017
	Repayment of lease liabilities including related interests under the Tenancy Agreements by the Group (note c)	**986**	–
	Interest expenses paid by the Group	**3,067**	2,822
	Rental income received by the Group	**–**	115
	Sales of leather, moulds, production tools, finished and semi-finished shoe products by the Group (note a)	**3,627**	3,449
	Management services income received by the Group	**2,311**	–
	Balance due from/to as at year end and included in:		
	– trade receivables	**545**	377
	– trade payables	**40,932**	39,993
	– other receivables (note f)	**8,429**	1,992
	– other payables (note f)	**14,913**	20,724
	– other borrowings (note g)	**79,698**	125,799
	– lease liabilities	**982**	–

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(I) CONNECTED AND RELATED PARTIES (continued)

Name of connected and related party	Nature of transactions/balances	2019 US$'000	2018 US$'000
Companies owned by trust set up by family member of a director of the Company and of which trust a director of the Company is among one of the ultimate beneficiaries:			
Golden Brands Developments Limited ("Golden Brands") and its subsidiaries (collectively the "Golden Brands Group")	Management services income received by the Group (note d)	–	4
	Balance due from/to as at year end and included in:		
	– other receivables (note f)	2	23
Godalming Industries Limited ("Godalming")	Repayment of lease liabilities including related interests and variable lease on land and buildings by the Group (note e)	1,930	–
	Rental charges on land and buildings by the Group (note e)	–	1,921
	Balance due from/to as at year end and included in:		
	– other receivables (note f)	24	54
	– other payables (note f)	149	115
	– lease liabilities	338	–

note: All the transactions on the table above falls under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) under the Listing Rules.

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(II) OTHER RELATED PARTIES

Name of related party	Nature of transactions/balances	2019 US$'000	2018 US$'000
Joint ventures	Purchase of raw materials by the Group	148,666	137,313
	Sales of shoe-related products by the Group	14,842	14,359
	Sales of sportswear products by the Group	–	401
	Management service income received by the Group	1,335	4,124
	Interest income received by the Group	–	60
	Rental income received by the Group	1,150	1,058
	Balance due from/to as at year end and included in:		
	– trade receivables	450	613
	– trade payables	33,950	34,987
	– other receivables (note f)	3,206	4,933
	– other payables (note f)	13,759	8,820
Associates	Purchase of raw materials by the Group	97,221	55,620
	Sales of shoe-related products by the Group	3,628	3,214
	Management service income received by the Group	539	2,954
	Rental income received by the Group	1,385	998
	Service fee charged by the Group	1,972	1,833
	Balance due from/to as at year end and included in:		
	– trade receivables	471	628
	– trade payables	23,784	11,892
	– other receivables (note f)	5,719	6,334
	– other payables (note f)	292	330

(III) COMPENSATION OF KEY MANAGEMENT PERSONNEL

	2019 US$'000	2018 US$'000
Short term benefits	3,487	3,462
Post-employment benefits	5	5
	3,492	3,467

The remuneration of key management personnel is determined having regard to the performance of the individuals.

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

notes:

(a) During the year, the Group sold leather, moulds, production tools, finished and semi-finished shoe products to the PCC Group. In addition, the Group purchased raw materials, shoe-related products and manufacturing equipment and tools from the PCC Group. The extent of these connected sales and purchases did not exceed the limit approved by the shareholders of the Company on November 30, 2017. PCC is a substantial shareholder of the Company owning 824,143,835 ordinary shares of the Company of which 773,156,303 ordinary shares were held by Wealthplus Holdings Limited and 50,987,532 ordinary shares were held by Win Fortune Investments Limited. Both Wealthplus Holdings Limited and Win Fortune Investments Limited are wholly-owned subsidiaries of PCC.

(b) Pursuant to services agreement dated February 22, 1997, first supplemental services agreement dated January 9, 2007, second supplemental services agreement dated November 20, 2008, third supplemental services agreement dated August 25, 2011, fourth supplemental services agreement dated September 15, 2014, fifth supplemental services agreement dated October 21, 2014 and sixth supplemental services agreement dated October 13, 2017 for a term of 3 years commencing from January 1, 2018 entered into between the Company and PCC (collectively the "Services Agreements"), the Company has engaged PCC to provide research and development, know-how, technical and marketing services and to source raw materials, materials, components, machinery and other goods and to recruit staff in relation to the production and sale of the Group's products and to provide administrative support and ancillary services in relation to the development, establishment, implementation, operation and maintenance of an enterprise resource planning software. The services to be provided by PCC may be provided by or through members of the PCC Group, but PCC will remain fully liable for the provision of these services. In consideration of the services provided by the PCC Group under the Services Agreements, the Company is obligated to reimburse the costs and expenses incurred by PCC.

In addition, the Company shall also pay to PCC the following service fees:

(i) in respect of the products developed by the PCC Group and sold by the Group, 0.5% of the net invoiced amount of such products;

(ii) in respect of raw materials, material, components, machinery and other goods purchased by shipment arranged for and inspected by the PCC Group on behalf of the Group from within Taiwan, 1% of the merchandise cost invoiced to the PCC Group; and

(iii) in respect of raw materials, material, components, machinery and other goods sourced by the PCC Group on behalf of the Group in Taiwan or overseas whereby purchases are directly handled by the Group, 0.5% of the cost of merchandise invoiced to the Group.

(c) Members of the PCC Group as landlords entered into tenancy agreements with members of the Group (other than Pou Sheng International (Holdings) Limited (a listed subsidiary of the Company) and its subsidiaries (the "Pou Sheng Group")) and members of the Pou Sheng Group as tenants respectively on October 13, 2017 for leasing of premises of the PCC Group for a term of 3 years commencing from January 1, 2018 (collectively the "Tenancy Agreements").

The premises under the Tenancy Agreements are all located in Taiwan.

The rentals on premises were based on agreed monthly rental under the Tenancy Agreements equivalent to the open market rates at the date of entering the Tenancy Agreements, as certified by an independent valuer in Taiwan.

47. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

notes: (continued)

(d) Highmark Services Limited ("Highmark"), a wholly-owned subsidiary of the Company, entered into management service agreement with Golden Brands on December 13, 2001 and certain supplemental management service agreements dated August 25, 2011, September 15, 2014, October 21, 2014 and October 13, 2017 for a term of 3 years commencing from January 1, 2018 for the provision of management services to members of the Golden Brands Group.

Based on information available to the Company, Golden Brands is owned as to approximately 94.12% by a discretionary trust and its sub-funds for the benefits of certain family members and/or relatives of Mr. Tsai Ming-Lun, Ming (being a director of the Company), among others.

In consideration of the management services provided by Highmark, under the above agreements, Highmark charged Golden Brands all the costs incurred by Highmark in the provision of common services and adding a margin of 10% or higher for the aggregate costs incurred as management fees.

(e) Based on information available to the Company, Godalming is owned as to approximately 85.45% by a discretionary trust and its sub-funds for the benefits of Ms. Tsai Pei Chun, Patty (being a director of the Company), among others. The rentals on premises paid to Godalming were based on a tenancy agreement dated June 8, 1992, together with supplemental tenancy agreements dated August 25, 2011, September 15, 2014, October 21, 2014 and October 13, 2017 for a term of 3 years commencing from January 1, 2018 entered into between members of the Group and a joint venture of the Company as tenants and wholly-owned subsidiaries of Godalming as landlords.

The rentals were based on the open market rates which are referenced to valuation performed by an independent professional valuer.

(f) The amounts due from/to are unsecured and repayable on demand. Except for an aggregate amount of US$435,000 due from an associate as at December 31, 2018 which carried fixed interest rate at 3.91% per annum, the remaining amounts are interest-free.

(g) The amounts due are unsecured, repayable within one year and carry fixed interest rates of ranging from 3.90% to 4.00% (2018: 4.35%) per annum.

48. NON-CONTROLLING INTERESTS

	Interests attributable to shares held in subsidiaries US$'000	Share options reserve of subsidiaries US$'000	Shares held under share award scheme of a listed subsidiary US$'000	Share award reserve of a listed subsidiary US$'000	Total US$'000
At January 1, 2018	395,566	13,648	(20,291)	2,463	391,386
Profit for the year	34,000	–	–	–	34,000
Remeasurement of defined benefit obligations, net of tax	78	–	–	–	78
Exchange difference arising on the translation of foreign operations	(17,932)	–	–	–	(17,932)
Share of other comprehensive expenses of associates and joint ventures	(355)	–	–	–	(355)
Reserve released upon disposal of subsidiaries	41	–	–	–	41
Total comprehensive income for the year	15,832	–	–	–	15,832
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	–	1,030	–	1,851	2,881
Share award vested under share award scheme of a listed subsidiary	(1,001)	–	2,205	(1,204)	–
Share option lapsed under share option scheme of a listed subsidiary	771	(2,047)	–	–	(1,276)
Exercise of a listed subsidiary's share options	2,039	(580)	–	–	1,459
Acquisition of additional interests in subsidiaries	(582)	–	–	–	(582)
Disposal of subsidiaries	(11)	–	–	–	(11)
Capital contribution from non-controlling interests of subsidiaries	14,337	–	–	–	14,337
Dividends paid to non-controlling interests of subsidiaries	(5,490)	–	–	–	(5,490)
At December 31, 2018	421,461	12,051	(18,086)	3,110	418,536
Profit for the year	52,454	–	–	–	52,454
Remeasurement of defined benefit obligations, net of tax	(23)	–	–	–	(23)
Exchange difference arising on the translation of foreign operations	(5,978)	–	–	–	(5,978)
Share of other comprehensive expenses of associates and joint ventures	(123)	–	–	–	(123)
Total comprehensive income for the year	46,330	–	–	–	46,330
Recognition of equity-settled share-based payments, net of amounts forfeited relating to share options and share awards not yet vested	–	1,149	–	2,604	3,753
Share award vested under share award scheme of a listed subsidiary	76	–	2,044	(2,120)	–
Share option lapsed under share option scheme of a listed subsidiary	204	(540)	–	–	(336)
Exercise of a listed subsidiary's share options	2,120	(964)	–	–	1,156
Capital contribution from non-controlling interests of subsidiaries	14,602	–	–	–	14,602
Dividends paid to non-controlling interests of subsidiaries	(9,271)	–	–	–	(9,271)
Deemed disposal of a subsidiary	(29,774)	–	–	–	(29,774)
Acquisition of additional interests in subsidiaries	62	–	–	–	62
Cancellation of share option of a subsidiary	–	(10,673)	–	–	(10,673)
At December 31, 2019	**445,810**	**1,023**	**(16,042)**	**3,594**	**434,385**

48. NON-CONTROLLING INTERESTS (continued)

The Company's non-wholly-owned subsidiaries that have material non-controlling interests at the end of the reporting period include Pou Sheng and its subsidiaries (collectively referred to as the "Pou Sheng Group"). The table below shows details of the Pou Sheng Group that have material non-controlling interests:

Name of subsidiary	Principal place of operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Pou Sheng Group	PRC	37.81%	37.68%	45,561	30,832	405,843	368,481
Individually immaterial subsidiaries with non-controlling interests				6,893	3,168	28,542	50,055
Total				52,454	34,000	434,385	418,536

48. NON-CONTROLLING INTERESTS (continued)

Summarized financial information in respect of the Pou Sheng Group that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations and the effect of acquisition of subsidiaries using merger accounting.

	2019 US$'000	2018 US$'000
Financial information of consolidated income statement and consolidated statement of comprehensive income		
Revenue	3,932,965	3,421,657
Gross profits	1,341,685	1,146,501
Profit before taxation	177,117	124,083
Profit for the year	127,278	84,630
Profit for the year attributable to owners of Pou Sheng	120,533	81,913
Profit for the year attributable to owners of Pou Sheng, attributable to		
– owners of the Company	74,972	51,081
– non-controlling interests of Pou Sheng	45,561	30,832
	120,533	81,913
Other comprehensive expense, attributable to		
– owners of the Company	(9,078)	(28,906)
– non-controlling interests of Pou Sheng	(5,233)	(17,447)
	(14,311)	(46,353)
Total comprehensive income, attributable to		
– owners of the Company	65,894	22,175
– non-controlling interests of Pou Sheng	40,328	13,385
	106,222	35,560
Dividends paid to non-controlling interests of Pou Sheng	6,416	5,087

48. NON-CONTROLLING INTERESTS (continued)

	2019 US$'000	2018 US$'000
Financial information of consolidated statement of financial position		
Non-current assets	**822,585**	366,838
Current assets	**1,674,794**	1,560,616
Current liabilities	**(1,115,981)**	(876,113)
Non-current liabilities	**(274,739)**	(26,895)
Non-controlling interests	**(13,427)**	(24,456)
	1,093,232	999,990
Equity attributable to owners of Pou Sheng, attributable to		
– owners of the Company	**687,389**	631,509
– non-controlling interests of Pou Sheng	**405,843**	368,481
	1,093,232	999,990
Financial information of consolidated statement of cash flows		
Net cash from (used in) operating activities	**264,390**	(1,119)
Net cash used in investing activities	**(122,712)**	(76,426)
Net cash (used in) from financing activities	**(158,759)**	128,293
Effect of foreign exchange rate changes	**(1,236)**	(1,889)
Net cash (outflow) inflow	**(18,317)**	48,859

49. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/registered capital attributable to the Group 2019	2018	Principal activities
Bangladesh Pou Hung Industrial Ltd	Bangladesh	US$4,800,000	100%	100%	Manufacture and sales of footwear
Bao Sheng Dao Ji (Beijing) Trading Company Ltd.	PRC**	US$65,000,000	62.19%+	62.32%+	Retailing of sportswear
Guangzhou Baoyuen Trading Company Limited	PRC**	US$23,310,000	62.19%+	62.32%+	Retailing of sportswear
Harbin Baosheng Sports Goods Company Limited	PRC**	RMB22,000,000	62.19%+	62.32%+	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited	PRC***	RMB1,000,000	62.19%+	62.32%+	Retailing of sportswear
Idea (Macao Commercial Offshore) Limited	Macau	MOP100,000	100%	100%	Manufacture and sales of footwear
Kunshan Taisong Trading Co., Ltd	PRC****	US$26,500,000	62.19%+	62.32%+	Distribution of licensed products
Myanmar Pou Chen Company Limited	Myanmar	US$124,200,000	100%	100%	Manufacture and processing of footwear
PT. Glostar Indonesia	Indonesia	US$162,000,000	100%	100%	Manufacture and sales of footwear
PT. Nikomas Gemilang	Indonesia	IDR1,306,680,000,000	100%	100%	Manufacture and sales of footwear
PT. Pou Chen Indonesia	Indonesia	US$64,000,000	96.25%	96.25%	Manufacture and sales of footwear

49. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/registered capital attributable to the Group 2019	2018	Principal activities
PT. Pou Yuen Indonesia	Indonesia	US$122,500,000	100%	100%	Manufacture and sales of footwear
Pou Chen (Cambodia) Co., Ltd.	Cambodia	US$80,500,000	100%	100%	Manufacture and sales of footwear
Pou Chen Vietnam Enterprise Ltd.	Vietnam	US$36,389,900	100%	100%	Manufacture and sales of footwear
Pou Hung Vietnam Company Limited	Vietnam	US$100,000,000	100%	100%	Manufacture and sales of footwear
Pou Li Vietnam Company Limited	Vietnam	US$46,000,000	100%	100%	Manufacture and sales of footwear
Pou Sheng	Bermuda*	HK$53,564,726	62.19%	62.32%	Investment holding
Pou Sung Vietnam Co., Ltd	Vietnam	US$117,000,000	100%	100%	Manufacture and sales of footwear
Pau Yuen Trading Corporation	Taiwan	NTD500,000,000	62.19%+	56.09%++	Distribution of licenced products
Pouyuen Vietnam Company Limited	Vietnam	US$146,406,000	100%	100%	Manufacture and sales of footwear
Prime Asia (Vietnam) Co. Ltd.	Vietnam	US$24,400,000	100%	100%	Manufacture and sales of leather
Shanghai Pouyuen Sports Goods Company Limited	PRC**	US$50,000,000	62.19%+	62.32%+	Retailing of sportswear
Shaanxi Pousheng Trading Company Ltd	PRC**	US$66,000,000	62.19%+	62.32%+	Retailing of sportswear

49. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of issued and fully paid share capital/registered capital attributable to the Group 2019	2018	Principal activities
Shang Gao Yisen Industry Co., Ltd.	PRC**	US$20,390,000	100%	100%	Manufacture and sales of footwear
Shengdao (Chengdu) Trading Co. Ltd.	PRC**	US$22,400,000	62.19%+	62.32%+	Retailing of sportswear
Taiwan Taisong Trading Co. Ltd.	Taiwan	NTD230,000,000	62.19%+	62.32%+	Distribution of licensed products
TCHC	US	US$66,170	Nil#	99.99%	Retailing of apparel
The Look (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	100%	100%	Manufacture and sales of footwear
Wuxi Pouyuen Sports Goods Trading Company Limited	PRC***	RMB1,000,000	62.19%+	62.32%+	Retailing of sportswear
Yue De Vietnam Company Limited	Vietnam	US$44,500,000	100%	100%	Manufacture and sales of footwear
Yunnan Shengdao Sports Goods Company Limited	PRC***	RMB262,500,000	62.19%+	62.32%+	Property leasing and management
Zhejiang Yichuan Sports Goods Chain Company Limited	PRC***	RMB164,000,000	62.19%+	62.32%+	Retailing of sportswear

* Pou Sheng is a company whose shares listed on the Stock Exchange.

** These companies are wholly-foreign owned enterprises established in the PRC.

*** These companies are wholly-domestic owned enterprises established in the PRC.

**** This company is a sino-foreign owned enterprise established in the PRC.

+ These companies were wholly-owned subsidiaries of Pou Sheng as at the end of the reporting period.

++ These companies were non-wholly owned subsidiaries of Pou Sheng as at the end of the reporting period.

\# The company was disposed of during the year ended December 31, 2019.

49. PRINCIPAL SUBSIDIARIES (continued)

The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have no rights to dividends or to participate in any distributions on winding up.

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

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

50. SUBSEQUENT EVENT

The outbreak of the 2019 Novel Coronavirus ("COVID-19") in the PRC and other countries has had an impact on the Group's operations. The management of the Company considers the adverse impact of the COVID-19 on the production capacity of the Group's production lines in the PRC and other countries is temporary.

For the retail operations in the PRC, Pou Sheng closed majority of its retail stores since late January to most of February 2020 in an effort to contain the spread of the COVID-19.

The management of the Company is monitoring the financial impact that the COVID-19 will have on the Group's consolidated financial statements as at the date that these financial statements are authorized for issue.

Financial Summary

(EXTRACTED FROM RESPECTIVE ANNUAL REPORT)

	For the year ended December 31,				
	2015 US$'000	2016 US$'000	2017 US$'000	2018 US$'000	**2019** **US$'000**
RESULTS					
Revenue	8,434,915	8,480,558	9,121,426	9,695,282	**10,105,387**
Profit before taxation	484,203	652,156	635,300	439,564	**448,438**
Income tax expense	(66,330)	(76,089)	(85,967)	(98,448)	**(95,438)**
Profit for the year	417,873	576,067	549,333	341,116	**353,000**
Attributable to:					
Owners of the Company	390,183	534,560	519,226	307,116	**300,546**
Non-controlling interests	27,690	41,507	30,107	34,000	**52,454**
	417,873	576,067	549,333	341,116	**353,000**

	As at December 31,				
	2015 US$'000	2016 US$'000	2017 US$'000	2018 US$'000	**2019** **US$'000**
ASSETS AND LIABILITIES					
Total assets	7,264,486	7,611,774	8,277,039	8,315,992	**8,789,391**
Total liabilities	(2,398,277)	(2,517,778)	(3,606,993)	(3,769,956)	**(4,256,300)**
	4,866,209	5,093,996	4,670,046	4,546,036	**4,533,091**
Equity attributable to:					
Owners of the Company	4,498,565	4,741,466	4,278,660	4,127,500	**4,098,706**
Non-controlling interests	367,644	352,530	391,386	418,536	**434,385**
	4,866,209	5,093,996	4,670,046	4,546,036	**4,533,091**

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