2022

ANNUAL REPORT
年報

SPORTS

POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶勝國際(控股)有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

(Stock Code 股份代號:3813)

STORE

YY SPORTS 胜道

MAKE SPORTS YOUR LIFE

OUR VISION

Make sports your life!

OUR MISSION

Discover your persistent passion for sports by providing convenient and fun sports experiences via unique channels full of quality services and products you can access everyday.

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CORPORATE OVERVIEW


MAKE
SPORTS
YOUR
LIFE
讓運動融入你的生活
YY SPORTS
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CORPORATE OVERVIEW

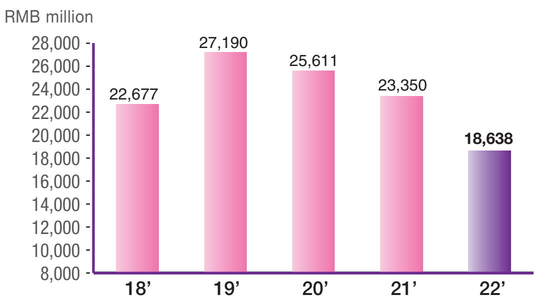
THE GROUP'S FINANCIAL HIGHLIGHTS

Financial performance	For the year ended December 31, 2022 RMB'000	2021 RMB'000	Change
Revenue	18,638,021	23,350,235	-20.2%
Gross profit	6,688,046	8,299,283	-19.4%
Operating profit	414,530	928,457	-55.4%
Profit attributable to owners of the Company	89,164	356,587	-75.0%
Gross profit margin *(%)*	35.9%	35.5%	0.4 ppt
Operating profit margin *(%)*	2.2%	4.0%	-1.8 ppt
Basic earnings per share *(RMB cents)*	1.72	6.86	-74.9%
Dividend per share			
Final dividend (proposed) *(HK$)*	–	0.016	-100.0%

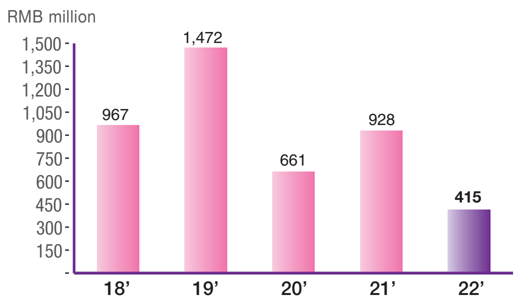
Financial position	As at December 31, 2022 RMB'000	2021 RMB'000	Change
Inventories	6,071,858	7,578,037	-19.9%
Trade and other receivables	2,149,713	2,807,379	-23.4%
Bank balances and cash	1,190,148	1,233,783	-3.5%
Bank borrowings	456,162	1,581,640	-71.2%

KEY SHAREHOLDER VALUE INDICES

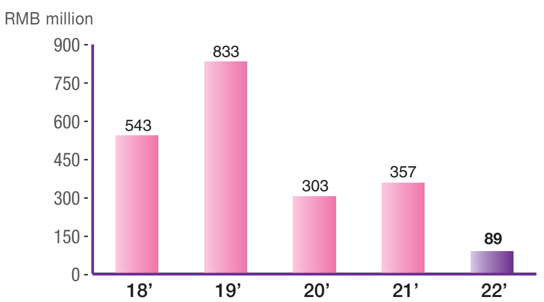
Revenue



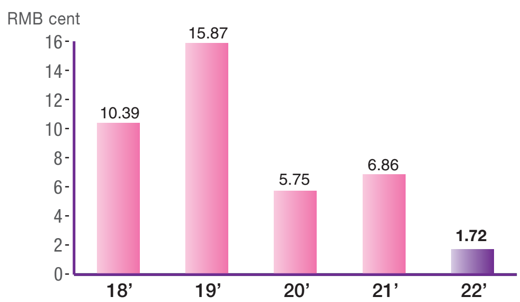
Operating Profit



Profit Attributable to Owners of the Company



Basic Earnings Per Share



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Yu Huan-Chang (Chairman) (appointed as Chairman on September 2, 2022)
Liao, Yuang-Whang (resigned as Chief Financial Officer on June 1, 2022)
Hu, Chia-Ho (appointed on July 1, 2022)
Wu, Pan-Tsu (retired as Chairman on July 1, 2022)
Lee, Shao-Wu (appointed as Chairman and resigned as Chief Executive Officer on July 1, 2022 and resigned on September 2, 2022)

Non-executive Directors

Tsai Patty, Pei Chun
Li I-nan

Independent Non-executive Directors

Chen, Huan-Chung
Feng Lei Ming
Liu, Hsi-Liang (appointed on March 25, 2022)
Hsieh, Wuei-Jung (resigned on March 25, 2022)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Liu, Hsi-Liang (Chairman)
Chen, Huan-Chung
Li I-nan

NOMINATION COMMITTEE

Feng Lei Ming (Chairman)
Chen, Huan-Chung
Hu, Chia-Ho

DISCLOSURE COMMITTEE

Yu Huan-Chang (Chairman)
Liao, Yuang-Whang
Hu, Chia-Ho

AUTHORISED REPRESENTATIVES

Yu Huan-Chang
Yip Wing Ming

CHIEF EXECUTIVE OFFICER

Wang Jun

COMPANY SECRETARY

Yip Wing Ming

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SOLICITOR

Reed Smith Richards Butler LLP

PRINCIPAL BANKERS

Australia and New Zealand Bank (China) Company Limited
Australia and New Zealand Banking Group Limited
Bank SinoPac
Citibank (China) Co., Limited
Industrial and Commercial Bank of China Limited
Jih Sun International Bank
Mizuho Bank (China), Limited
Mizuho Bank, Limited
Standard Chartered Bank (China) Limited
Standard Chartered Bank (Hong Kong) Limited
Taishin International Bank Company Limited
United Overseas Bank Limited

WEBSITE

www.pousheng.com

STOCK CODE

3813

2022

ANNUAL REPORT

CHAIRMAN'S STATEMENT


MAKE
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CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present the annual results of Pou Sheng International (Holdings) Limited (the "Company" and together with its subsidiaries, the "Group") for the financial year ended December 31, 2022, to the shareholders of the Company (the "Shareholders").

2022 was another challenging year as the impact of the COVID-19 pandemic (the "Pandemic") in China reached its peak. Despite an encouraging start to the year, our business was soon hit from all sides by escalating lockdowns in several cities and regions, which quickly impacted consumer sentiment even in corners of the country unencumbered by Pandemic control measures. This has a pronounced effect on foot traffic at our physical retail stores especially in the higher tier cities throughout much of the year.

On the digital and online side of our business, the picture was rosier. Our omni-channels proved more resilient, despite logistics and last-mile delivery being impacted in some instances under immense pressure from the Pandemic. Online channels accounted for 21% of our total sales in 2022, up from 24% in 2021, with a great bulk of it contributed by robust growth in its private domain channels, as a result of our continued commitment to digital transformation. A ratio that is supportive of our longer-term efforts to improve the quality of our sales, shorten the sales cycle, encourage more full-price in-season sales and better connect with e-commerce community ultimately contributing to our margins and profitability.

Our customised, content-rich and action-oriented Pan-WeChat Ecosphere, a private channel domain integrates our WeChat stores, Douyin live-streaming shopping events and shopping mall membership platforms, is an integral part of our efforts to engage with our customers more closely. More importantly, we further deepen cooperation with our brand customers, particularly in areas such as an impeccable and diverse shopping experience and consumer connectivity. Through the increased integration and direct connection of our membership programmes, our customers can access the same limited products, offerings and services whether they shop with us or with the brand partners directly – in other words, a seamless YYsports x brands shopping experience. It is a win-win arrangement that is already having a real impact.

Our partnerships with brands also extend to our Omni-Hub programme, through which we accelerate sales cycle, enhance our inventory mix and further optimise the service provided to our loyal customers. This expanded cooperation has helped elevate our business model and we have already seen some notable achievements. Coupled with our product-sharing platform, all of inventory integration initiatives have helped improve the mix and efficiency of sales and inventory.

WeChat, membership programme and other value-added services are integrated in our brick and mortar ("B&M") stores which, as part of our ongoing digital transformation, remain the most important point of contact for discovering new products and experiences. Through our retail refinement strategy and channel optimisation efforts, we further right-sized our physical store network to drive greater overall efficiency. We continued to optimise store formats to prioritise quality larger-format stores and embed its digital tools in B&M networks, where allow customers to enjoy a personalised and seamless shopping experience that is fully cohesive with our digital offerings, membership programmes and sports-related service offerings.

CHAIRMAN'S STATEMENT

What is beyond doubt is the immense potential of the China's sports market. According to the 2022 Research Report on Mass Fitness Behaviour and Consumption《2022年大眾健身行為與消費研究報告》released by the China Sporting Goods Industry Federation and the PBC School of Finance, Tsinghua University, sports participation rates continued to increase in 2022 compared to 2021 despite the average spending on sports-related consumption declining by 16.9% – illustrating pent-up demand and the potential for future "revenge spending". There is evidently an immense unmet desire among many consumers across the Greater China region to make more and different types of sports a part of their lives.

As China emerges from its strict policy on COVID-19 control measures, we are already seeing some signs of sound improvement in certain regions, both in terms of store traffic and purchasing intent in the first few weeks of 2023 backed by early Chinese New Year. Despite the likelihood of short-term volatility in consumer confidence, the prospect of the sports industry remains bright. We are closely monitoring the situation and are making every effort to sustain this sales recovery.

Carrying on with the collective memory of the hugely successful 2022 Beijing Winter Olympics, 2024 Paris Summer Olympics will continue to support demand in the market. And it is in the area of experiences where the future of the Group lies, both through expanded cooperation and links with our brand partners and across our well-positioned channels and touchpoints: experience-driven physical stores, private and public traffic domains and memberships to further deepen engagement with customers and generate sustainable consumer loyalty. We will fully strive to capitalise on this potential by leveraging our competitive edge.

I would like to thank our customers, business partners, financial institutions, shareholders and my dedicated colleagues for their constant support and trust. We look forward to the promising years ahead.

Yu Huan-Chang
Chairman

Hong Kong
March 15, 2023

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ANNUAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business Model and Environment

Business Environment

Outside of a short-lived spending rebound at the beginning of the year, retailers across China faced enormous challenges in 2022. Throughout most of the year, control measures aimed at avoiding the mass spread of the COVID-19 pandemic (the "Pandemic"), including an escalating number of lockdowns in specific cities and transportation controls, pushed down traffic. Low and volatile foot traffic became the "new normal" as consumers adjusted their behaviour even in areas not subject to control measures. Further, in December, when almost all Pandemic control measures in China were lifted, footfalls fell even further as COVID-19 cases in major cities rose rapidly and most consumers sheltered at home. According to the figures released by National Bureau of Statistics of China, retail value of garments, footwear, hats and knitwear fell by 6.5% year-on-year, highlighting the scale of the challenge faced by the entire footwear and apparel retail sector.

The Group could not escape these headwinds. Despite starting off the year strongly, its sales momentum was soon hit by the temporary shuttering of some of its stores in regions subject to government-imposed lockdowns, as well as by a severe drop in store traffic nationwide, especially in higher-end shopping venues in higher tier cities where the Group operates. Other challenges, such as disrupted logistics and hindered last-mile delivery, further dampened the situation, especially in the first half of 2022. Mixed and volatile retail sentiment delayed the recovery path throughout the year.

While encouragingly, sales recovered sequentially with improving store traffic in selective regions at the end of December, despite a bumpy path of re-opening during the last two months of the year 2022. As a result of the Group's relentless digital transformation, its online B2C sales were relatively resilient with its private domain channels, including its WeChat stores, Douyin live-streaming shopping events and shopping mall membership platforms, continuing to grow robustly throughout the year, partially offsetting anaemic sales in its brick and mortar ("B&M") network.

To best position itself for the coming economic recovery, the Group continued to be highly agile and flexible in its decision-making and in progressing its retail refinement strategy. This includes further streamlining and upgrading its B&M network while strengthening and diversifying its online public and private traffic domains to enhance its channel mix, deliver better conversion rates, and more in-season full-price sales. Through the course of this undertaking, it also deepened its engagement with customers and improved its operational efficiency. More importantly, the Group continued to intensify its collaboration with its brand partners to create a seamless shopping experience for its customers while prioritising healthier sales, as well as enhancing membership and inventory integration.

Hybrid Channel Management – B&M

Sales momentum within the Group's B&M network was pressured by the weak consumer sentiment caused by outbreaks and lockdowns throughout 2022. The vast surge of the Pandemic became especially pronounced following the lifting of control measures nationwide in December 2022, which further dampened foot traffic and sales. Nevertheless, recovery momentum in the late December benefited from continued in-store traffic improvement in certain regions where the outbreaks started earlier.

During the year, it continued to close or upgrade underperforming stores, while adopting a holistic view towards new store openings: optimising its investment returns as a whole by prioritising geographic regions with an outstanding operating track record and convincing potential, with stores only being opened following a thorough assessment and not only in accordance with allocations from brands. As at December 31, 2022, the Group's retail network totalled 7,293 stores, consisting of 4,093 directly operated stores and 3,200 sub-distributor stores across the Greater China region.

Movement of directly operated stores during the year ended:

	December 31, 2022	December 31, 2021
At the beginning of the year	4,631	5,240
Net decrease in the number of stores	(538)	(609)
At the end of the year	4,093	4,631

Numbers and percentages of directly operated stores by size as at:

	December 31, 2022		December 31, 2021	
	Number	%	Number	%
Selling area				
300 m^2 or smaller	3,332	81	3,879	84
Larger than 300 m^2	761	19	752	16
Total	4,093	100	4,631	100

MANAGEMENT DISCUSSION AND ANALYSIS

B&M retail channels remain a critical and irreplaceable sales touchpoint for consumers in the Greater China region who want to discover new products and experience a unique, personalised and seamless shopping experience for sports products and services. Throughout 2022, the Group continued to invest in optimising store formats and accelerated its digital transformation by integrating its WeChat stores, membership programmes and other digital services and tools into its B&M network, which, in turn, to enrich the consumer experience and stimulate more repeat purchases, higher units per transaction and higher-margin in-season sales within its offline network.

Hybrid Channel Management – Omni-channels

The Group's omni-channels include its public traffic domains, covering the operation of third-party platforms such as Tmall, JD and Vipshop, as well as its increasingly important private traffic domain – the Pan-WeChat Ecosphere – which covers its WeChat stores, Douyin live-streaming shopping events and shopping mall membership platforms. In 2022, it continued to strengthen and grow these omni-channels, further deepening and expanding its engagement with shoppers while delivering better operational efficiency.

The Group's online sales momentum was relatively resilient, with its omni-channels collectively contributing approximately 24% of total sales in 2022, despite volatile retail sentiment caused by lockdowns and control measures. Its private traffic domain channels experienced strong sales growth throughout the year as the Group further elevated its digital sales capabilities. The Pan-WeChat Ecosphere, proving to be an increasingly lucrative and effective sales channel, successfully delivering better conversion rates, shorter sales cycles and more full-price in-season sales transacted at an earlier time.

WeChat stores serve as an extension of its B&M network, providing quality and comprehensive customer services. Within the Pan-WeChat Ecosphere, the Group continued to embed Douyin livestreams conducted by designated Key Opinion Staff, as well as its more value-added services, diverse content and member-exclusive benefits stemming from its integrated membership programmes with its brand customers to achieve quality incremental sales. The Group is continuing to invest in and allocate more resources to its private traffic domain channels to generate sustainable consumer loyalty, boosted by the provision of more membership-related services.

MANAGEMENT DISCUSSION AND ANALYSIS

Enhanced Strategic Alliance with Business Partners

The Group further deepen strategic partnership with its brand customers, particularly in areas such as an impeccable and diverse shopping experience and consumer connectivity. Leveraging its YYsports WeChat Mini-Program in the Greater China region, it continued to boost its membership programmes while offering diversified sports services content, interactive features and other related services, to support in-depth membership management and to facilitate a premium and seamless online and offline customer experience. Through the increased integration and direct connection of our membership programmes with brand partners, it further supported membership growth and increased in-season sales volumes.

Moreover, Group continued to reinforce its product-sharing platform (“PSP”) and enhance its Omni-Hub programme with brand partners to efficiently share products and services across different platforms and channels to optimise its inventory mix, accelerate sales cycle and optimise its services to loyal members and consumers.

Strengthened Operational Excellence with Digital Transformation

The Group also invested further in the upgrades of its Enterprise Resource Planning (“ERP”) system, business intelligence platform, PSP and other digital tools to drive future retail excellence, particularly in areas such as real-time in-store efficiency, resource optimisation as well as membership services through digital empowerment.

The Group’s ongoing investments in its omni-channels alongside retail refinement strategy remain essential for developing its unique core competencies, maintaining its competitiveness and supporting its long-term development. It has also streamlined its operations to enhance people efficiency, cost competitiveness and to shorten sales cycles. Through these aforementioned efforts, the Group is confident that it will be more adaptable to the ever-changing operating environment while capturing long-term growth opportunities.

PERFORMANCE ANALYSIS

Financial Review

In 2022, the Group recorded revenue of RMB18,638.0 million, representing a decrease of 20.2% compared with the 2021 financial year. Gross profit was RMB6,688.0 million, representing a decrease of 19.4% when compared to the 2021 financial year. Profit attributable to owners of the Company in 2022 was RMB89.2 million.

Revenue

The Group’s total revenue in 2022 decreased 20.2% to RMB18,638.0 million, as compared with the 2021 financial year. Despite a strong start to the year and the continued resilience of the Group’s Pan-WeChat Ecosphere, the decrease in revenue was mostly attributed to weak foot traffic and soft consumer sentiment following Pandemic control measures across China.

MANAGEMENT DISCUSSION AND ANALYSIS

	For the year ended December 31,		
	2022 RMB million	2021 RMB million	Change
Revenue	18,638.0	23,350.2	-20.2%
Cost of sales	(11,950.0)	(15,050.9)	-20.6%
Gross profit	6,688.0	8,299.3	-19.4%
Gross profit margin *(%)*	35.9%	35.5%	0.4 ppt

Gross Profit

The Group's gross profit in 2022 amounted to RMB6,688.0 million with a gross profit margin of 35.9%. Its gross profit margin was resilient year-over-year, increased by 0.4 percentage points compared to the 2021 financial year, as it enhanced its channel mix within the current volatile retail environment.

Selling & Distribution Expenses and Administrative Expenses

The Group's selling and distribution expenses in 2022 were RMB5,806.8 million (2021: RMB6,962.4 million), accounting for 31.2% of the Group's revenue (2021: 29.8%). Selling and distribution expenses primarily include concessionaire fees, depreciation of right-of-use assets in relation to stores, sales personnel salaries and commissions, other depreciation and amortisation charges, and other expenses that mainly include store operation expenses, property management fees, logistic expenses and other expenses.

Administrative expenses in 2022 were RMB809.6 million (2021: RMB866.4 million), accounting for 4.3% of the Group's revenue (2021: 3.7%). Administrative expenses primarily include management and administrative personnel salaries, depreciation and amortisation charges and other expenses.

The Group's selling and distribution expenses and administrative expenses in 2022 were RMB6,616.4 million, representing a decrease of 15.5% compared to the 2021 financial year. This was equivalent to 35.5% of total revenue, an increase of 2.0 percentage points year-on-year.

Operating Profit

The Group's operating profit in 2022 was RMB414.5 million, with an operating margin of 2.2%.

Finance Income and Finance Costs

Finance income in 2022 was RMB22.2 million, compared to RMB28.1 million in the 2021 financial year. Finance costs in 2022 were RMB166.8 million, decreased by 17.8% as compared to RMB202.9 million in the 2021 financial year, primarily as a result of a decrease in interest expense on lease liabilities during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Year

The Group recorded a net profit of RMB100.2 million in 2022, representing a decline of 73.3% as compared to the 2021 financial year.

Working Capital Efficiency

The average inventory turnover period for 2022 was 208 days (2021: 163 days). The balance of inventory as at December 31, 2022 was RMB6,071.9 million, decreased from RMB7,578.0 million as at December 31, 2021, attributed to the Group's efforts to clear excess inventory and to enhance inventory efficiency. The average trade receivables turnover period was 20 days (2021: 22 days), which remained consistent with the credit terms of 30 to 60 days that the Group gave its department store counters and retail distributors. The average trade payables turnover period in 2022 was 38 days (2021: 38 days).

Liquidity and Financial Resources

As at December 31, 2022, the Group has solid cash and cash equivalents amounting to RMB1,190.1 million (December 31, 2021: RMB1,233.8 million) while working capital (current assets minus current liabilities) was RMB5,475.0 million (December 31, 2021: RMB5,105.2 million). Total bank borrowings were further reduced to RMB456.2 million (December 31, 2021: RMB1,581.6 million) and are repayable within one year. Bank borrowings and cash equivalents were mainly denominated in Renminbi. The Group's loans under a fixed rate arrangement made up approximately 92% (December 31, 2021: 99%) of its total bank borrowings.

The Group's gearing ratio as of December 31, 2022, represented by total interest-bearing borrowings (excluding lease liabilities) as a percentage of total equity, was 5.6% (December 31, 2021: 19.3%). The net debt to equity ratio turned to net cash (December 31, 2021: 4.2%).

The net cash generated from operating activities in 2022 was RMB2,666.4 million. The Group believes its liquidity requirements will be satisfied with the combination of capital generated from operating activities and future bank borrowings. The net cash used in investing activities in 2022 was RMB219.8 million, while the net cash used in financing activities was RMB2,488.1 million.

Capital Expenditure

The Group continued its selective and prudent approach of capital expenditure planning in the areas of strategic new store openings, ongoing upgrades and the expansion of experience-driven B&M stores that offer a better shopping experience and store productivity improvements, as well as further optimising its online and B&M networks to capture growth opportunities. Total capital expenditure in 2022 declined to RMB311.6 million (2021: RMB452.4 million). As at December 31, 2022, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

As at December 31, 2022, capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements was RMB62.7 million (December 31, 2021: RMB70.5 million). The Group also entered into new leases for several retail stores that have not yet commenced, with an average non-cancellable period ranging from 1 to 3 years (2021: 1 to 5 years), with the total future undiscounted cash flows over the non-cancellable period amounting to RMB21.4 million (December 31, 2021: RMB15.3 million).

Foreign Exchange

The Group conducts its business primarily in the Greater China region and the majority of its transactions are denominated in Renminbi. As at December 31, 2022, the Group had no significant hedging instruments for managing its foreign exchange exposure. As the exchange rate of the Renminbi against foreign currencies may fluctuate, the Group may enter into forward contracts, currency swaps or options to hedge against currency risks arising from foreign currency transactions when necessary.

The Group has a dedicated treasury division and internal treasury policies and approval guidelines to manage and control the Group's exposure to structured deposit investments. The use of derivatives and approval procedures in 2022 was in accordance with the Group's internal policies and guidelines.

PROSPECTS AND FUTURE DEVELOPMENTS

Recent surveys suggest that the first wave of Pandemic infections in many major cities and regions in China has already peaked, while near-term consumer sentiment among regions remains volatile. With disrupted logistics and last-mile delivery issues no longer challenges, plus the encouraging sentiment brought by the earlier Chinese New Year in the beginning of year 2023, improving in-store traffic and purchase intent are leading the way to a sound recovery. The Group is cautiously optimistic about an overall rebound of its business in year 2023 as footfall returns gradually across the nation and forthcoming recovery in consumption, paying the way for its sales growth.

The Group will continue to accelerate its digital transformation, in particular leveraging the outperformance of its Pan-WeChat Ecosphere to drive its profitable growth and margin improvement in 2023. It will further grow and promote its integrated membership programmes with brand partners, connecting these membership services with its growing number of digitally enabled stores and allowing customers to access premium member-exclusive products, offers and experiences that are consistent with that available at the directly operated stores of these brands in the Greater China region.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will also push forward its other innovative strategies developed and rolled out with its brand partners, including its rapidly expanding Omni-Hub programme that focuses on inventory sharing. The Group will continue to optimise its omni-channels, aiming to become less reliant on promotions and improving its inventory management efficiency to achieve better margin profile and operational efficiency. It will also further upgrade its ERP system, business intelligence platforms and invest in other digital empowerment tools, such as smart product allocation artificial intelligence, dashboard and E-POS to better support its operations, optimise its inventory management and improve its working capital efficiency. It will also continue to drive its offline and online sales growth, and reinforce its in-season sell-through, off-season clearance and margin growth through its PSP with a more agile procurement strategy, and more effective inventory management.

Regarding offline channel, the Group remains focused on its retail refinement strategy-upgrading and refining its B&M network to offer a digitally-enabled, superior customer experience, while exploring new cooperation opportunities with business partners that will ultimately drive sustainable growth. The pace of store adjustments in 2023 is poised to be more normalised under a more stabilised retail environment.

Although the current external environment remains challenging, the prospects for the sports industry in the Greater China region remain bright. The authorities remain committed to high-quality sports development, with the industry set to grow to RMB5 trillion in value by 2025. This will enable the Group to return to and exceed its previous growth momentum while strengthening its long-term financial performance and profitability.

HUMAN RESOURCES

As at December 31, 2022, the Group had approximately 25,800 employees in total. The Group provides competitive remuneration packages that are determined with reference to prevailing salary levels in the market and individual performance. The Company offers share awards to eligible employees in order to provide them with incentives and to recognise their contributions and ongoing efforts. In addition, the Group provides other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programmes for employees based on their respective personal career development.

BIOGRAPHICAL DATA OF DIRECTORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS

Mr. YU Huan-Chang

YU Huan-Chang, aged 58, has been an Executive Director of the Company since September 2022. He is also the Chairman of the Company, the chairman of Disclosure Committee of the Board and a director of various subsidiaries of the Company. He holds an Executive Master Degree of Business Administration from China Europe International Business School (CEIBS) in Shanghai and a Master Degree of Business Administration from Fu Jen Catholic University. Mr. Yu was an executive director, the chief financial officer and a director of certain subsidiaries of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a controlling shareholder of the Company from April 2020 to early September 2022; and was the head of strategy and investment department of Pou Chen Corporation ("PCC"), a company listed on the Taiwan Stock Exchange Corporation (the "TWSE") and a controlling shareholder of Yue Yuen, during November 2020 to early September 2022. In addition, he was a director of Elitegroup Computer Systems Co., Ltd. (a company listed on the TWSE) from April to July 2022. Before joining Yue Yuen, Mr. Yu was the chief executive officer of Castle Snack International (HK) Limited from 2015 to 2019. He also served as the head of the finance department of beverage division and the head of the investment management department of Tingyi (Cayman Islands) Holding Corp., a company listed on the Stock Exchange, from 2010 to 2015. From 2012 to 2013, Mr. Yu concurrently served as the chief executive officer and vice president of Pepsi (China) Investment Co., Ltd. From 2004 to 2010, he served as the chief executive officer, head of general administrative division and head of the global administrative center of ATEN International Co., Ltd., a company listed on the TWSE.

Mr. LIAO, Yuang-Whang

LIAO, Yuang-Whang, aged 53, has been an Executive Director of the Company since June 2021. He is also a member of the Disclosure Committee of the Board and a director of certain subsidiaries of the Company. Mr. Liao joined the Group as the Acting Chief Financial Officer in March 2020 and served as the Chief Financial Officer of the Company from August 2020 to May 2022. Mr. Liao obtained a Bachelor Degree in Management Science from National Chiao Tung University in Taiwan in 1991 and a Master of Philosophy Degree from University of Cambridge in the United Kingdom in 2000. He is an executive assistant vice president of PCC, previously worked at CEO office and now serves as the head of global supply chain department. Moreover, he is a director of certain subsidiaries, joint ventures and associates of Yue Yuen. PCC and Yue Yuen is deemed to be interested in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"). In addition, Mr. Liao has become a director of San Fang Chemical Industry Co., Ltd and Nan Pao Resins Chemical Co., Ltd., companies listed on the TWSE, since August 2022 and October 2022 respectively. He has become a non-executive director of Prosperous Industrial (Holdings) Limited, a company listed on the Stock Exchange, since December 2022. Before joining the Company, Mr. Liao was the head of management accounting department of PCC and held executive/management positions, including chief financial officer, senior vice president of finance and chief executive officer, as well as executive director and non-executive director of board of directors in several listed companies in Hong Kong. He also was an investment director in private equity for Asia region of Citibank Hong Kong and vice president in corporate finance of Citibank Taiwan. Mr. Liao has more than twenty five years of experience in banking, finance, corporate governance and business operation.

BIOGRAPHICAL DATA OF DIRECTORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS (Continued)

Mr. HU, Chia-Ho

HU, Chia-Ho, aged 54, has been an Executive Director of the Company and a member of the Nomination Committee and Disclosure Committee of the Board since July 2022. He graduated from the University of Wisconsin, Madison, the United States of America with a Master's Degree of Science. Mr. Hu was an executive director of Yue Yuen during the period from March 2015 to June 2022. He is also a director of certain subsidiaries of Yue Yuen. He joined PCC in 1997. He is a vice president of PCC and was the head of the human resources department of PCC and became the head of CEO office of PCC in April 2020. Mr. Hu has extensive experience in human resources management and business development. Yue Yuen and PCC, through its interest in Yue Yuen, are deemed to be interested in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO. He has been an executive director of Eagle Nice (International) Holdings Limited, a company listed on the Stock Exchange, since December 2020. Prior to joining PCC, Mr. Hu had worked with Citibank Taiwan and was responsible for corporate financing and the related businesses.

Ms. TSAI Patty, Pei Chun

TSAI Patty, Pei Chun, aged 43, has been a Non-executive Director of the Company since April 2008. She is also a member of the Audit Committee of the Board. Ms. Tsai graduated from the Wharton School of the University of Pennsylvania in 2002 with a Bachelor of Science in Economics Degree with major in Finance and minor in Psychology. Ms. Tsai joined Yue Yuen group in 2002. She has served as an executive director and the managing director of Yue Yuen since January 2005 and June 2013 respectively. She is responsible for the strategic planning and enterprise developments of Yue Yuen group. Ms. Tsai is also the chief executive officer of Pou Chen group, a director of PCC and Wealthplus Holdings Limited ("Wealthplus"). PCC, Wealthplus and Yue Yuen are deemed to have interests in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO. She was previously a director of Mega Financial Holding Company Limited (shares of which are listed on the TWSE).

Mr. LI I-nan

LI I-nan, aged 81, has been a Non-executive Director of the Company since March 2013. He is also a member of the Remuneration Committee of the Board. Mr. Li holds a Bachelor and a Master of Arts Degree from National Chengchi University in Taiwan and a Master of Arts Degree from the University of Southern California in the United States, respectively. He is currently the chairman of the board of directors of Yue Yuen Education Foundation in which he has been involving in the planning and execution of various projects of the Foundation. Mr. Li has many years of experience in footwear business. He joined Yue Yuen group in 1992 and was responsible for the financial operations of Yue Yuen group, and was an executive director of Yue Yuen. Previously, Mr. Li was a non-executive director of Symphony Holdings Limited ("Symphony Holdings"), a publicly listed company in Hong Kong.

BIOGRAPHICAL DATA OF DIRECTORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS (Continued)

Mr. CHEN, Huan-Chung

CHEN, Huan-Chung, aged 67, has been an Independent Non-executive Director of the Company since April 2008. He is also the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Board. He received a Bachelor Degree from the Department of Industrial Management of National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) in 1983. Mr. Chen is a partner of Wong Tong & Co., CPAs (萬通聯合會計師事務所), a certified public accountant in Taiwan and a certified securities investment analyst in Taiwan. Mr. Chen has been an independent director of PCC since June 2018. He is now also the convener of the audit committee, and a member of the nomination committee and the remuneration committee of PCC. He once was a supervisor of PCC. PCC is a controlling shareholder of Yue Yuen and through Yue Yuen, is deemed to have interests in the shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of part XV of the SFO. Mr. Chen worked as a deputy manager in E. Sun Bills Finance Corporation of Taiwan (台灣玉山票券金融(股)公司).

Mr. FENG Lei Ming

FENG Lei Ming, aged 65, has been an Independent Non-executive Director of the Company, a member of the Audit Committee since September 2018 and the chairman of the Nomination Committee of the Board since July 2022. He holds a Master of Business Administration Degree granted by the University of Memphis in Tennessee of the United States. Mr. Feng has extensive experience in the Hong Kong securities industry. He is currently a vice-president of Beijing Association of Taiwan Investment Enterprises. He was a responsible officer of Ablelink Capital Limited, the managing director of Pro-Health (China) Co., Ltd., a director and the legal representative of Pro-Health (Beijing) Biotech Co., Ltd., and an independent non-executive director of Symphony Holdings.

Mr. LIU, Hsi-Liang

LIU, Hsi-Liang, also known as Freddie LIU, aged 58, has been an Independent Non-executive Director of the Company and the chairman of the Remuneration Committee of the Board since March 2022. He holds a Bachelor's Degree in Diplomacy from the National Chengchi University in Taiwan and a Master's Degree in Business Administration from the University of Michigan in the United States. He is currently a director, a senior vice president and the chief strategy officer of TPK Holding Co., Ltd. ("TPK", shares of which are listed on the TWSE), an independent director and a member of the audit committee and remuneration committee of EDOM Technology Co., Ltd. (shares of which are listed on the TWSE), a director and a member of the audit committee of Just Kitchen Holdings Corp. (shares of which are listed on the Toronto Stock Exchange), a partner of Purestone Capital Group and an independent director and a member of the audit committee and remuneration committee of Sino Horizon Holdings Limited (shares of which are listed on the TWSE). He was the chief executive officer of TPK and led TPK to be listed successfully on the TWSE in 2010. In addition, Mr. Liu was the vice president of finance of Advanced Semiconductor Engineering Inc., the chief executive officer of ASE Test Limited and a vice president in corporate finance of Citibank Taiwan.

BIOGRAPHICAL DATA OF DIRECTORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF CHIEF EXECUTIVE AND SENIOR MANAGEMENT

Mr. WANG Jun

WANG Jun, aged 54, is currently the Chief Executive Officer of the Company (the "CEO") and directly in charge of the Merchandise & Retail Business Unit. He once was the Acting CEO during the period from July 2022 to March 2023. Mr. Wang is also a director of various subsidiaries of the Company. He joined the Group as a Vice President, in charge of Brand and Merchandising Management Department in April 2014. Mr. Wang graduated from the Department of Marketing of the Capital University of Economics and Business in Beijing. He has extensive experience and achievements in strategic planning, sales marketing, product branding and retail operation.

Ms. CHANG, Su-Ching

CHANG, Su-Ching, aged 58, is currently a Vice President of the Group, in charge of the Omni Channel Platform and Operation & Business Management Department. She is also a director of various subsidiaries of the Company, and a supervisor of certain subsidiaries of the Company. She was appointed as the Vice President of Finance Department of the Group in September 2011. Ms. Chang graduated with a Master Degree in Finance from National Taiwan University. She has more than twenty years' working experience in treasury, cash management and financial planning.

Mr. SONG Hua

SONG Hua, aged 48, is currently a Vice President of the Group, in charge of the Second Division of the Merchandise & Retail Business Unit. He is also a director of various subsidiaries of the Company. He joined the Group in December 2008, and was promoted to be a Vice President in March 2018. Mr. Song graduated from the Department of Industrial Electrical Automation of North University of China. He has extensive experience and achievements in strategic planning, sales marketing, product branding and retail operation.

BIOGRAPHICAL DATA OF DIRECTORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF CHIEF EXECUTIVE AND SENIOR MANAGEMENT (Continued)

Mr. CHEN, Li-Chieh

CHEN, Li-Chieh, aged 47, is currently the Chief Financial Officer of the Company. He is also a director of various subsidiaries and a supervisor of certain subsidiaries of the Company. Mr. Chen joined the Group and in charge of the finance and taxation of Retail Business Unit in May 2020. He graduated from Tamkang University, Taiwan with a Bachelor Degree in Accounting. Prior to joining the Group, Mr. Chen worked at an international audit firm. In addition, Mr. Chen worked for PCC from February 2007 to February 2020 as the head of taxation department and head of financial department of Southern China Region. He has over twenty years of extensive experience in auditing, taxation and financial management.

Mr. YIP Wing Ming

YIP Wing Ming, aged 36, is currently the Company Secretary and the Financial Controller of the Company. He is also a director of various subsidiaries of the Company. Mr. Yip joined the Company in February 2017. He holds a first class honours degree of Bachelor of Business Administration in Finance and Economics from The Hong Kong University of Science and Technology. Mr. Yip is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, he worked for an international audit firm. Mr. Yip has over ten years of extensive experience in accounting, auditing and financial management.

DIRECTORS' REPORT

The directors of Pou Sheng International (Holdings) Limited (the "Company" and the "Director(s)" or the "Board", respectively) are pleased to present this annual report (the "Annual Report") together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended December 31, 2022.

All references made below to other sections, reports or notes in the Annual Report and the 2022 Environmental, Social and Governance Report (the "ESG Report") shall form an integral part of this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To reduce paper usage, the ESG Report of the Group is published separately and is available in electronic form only. The ESG Report is available on the Company's website at www.pousheng.com and Hong Kong Exchanges and Clearing Limited's website at www.hkexnews.hk.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2022 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 77 and 78.

The appropriations of profits of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 81 to 82.

DIVIDENDS

No dividends were paid, declared or proposed for the ordinary shares of the Company (the "Shares") in respect of the year ended December 31, 2022 (2021: HK$0.016 per Share), nor has any dividend been proposed since the end of the reporting period.

The final dividend of HK$0.016 per Share for the year ended December 31, 2021 was paid to the shareholders of the Company (the "Shareholders") on June 23, 2022.

DIRECTORS' REPORT

FIVE YEAR FINANCIAL SUMMARY

A financial summary of the Group for the past five financial years is set out on page 176.

BUSINESS REVIEW

A review of the business of the Group during the year as required pursuant to Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is covered in different sections, reports or notes in the Annual Report and the ESG Report, which shall form an integral part of this review.

Fair Review of Business

The information is provided in the Chairman's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 10 to 19.

Principal Risks and Uncertainties

The Board, chief executive and senior management of the Group continue to devote time and resources in screening for specific risks in the Group, and in developing a mindset of balanced risk minimisation. The Group has specific policies and management system in place to ensure that risks are properly evaluated and managed at the appropriate level within the Group.

The principal risks and uncertainties that could impact the Group's performance and its mitigating activities are discussed below. Details about the Group's financial risk management are set out in Note 34(b) to the consolidated financial statements.

Description and Impact of Risk and Uncertainty	Mitigation
Information Technology and Data Security	
The reliance of the Group's operation on information technology ("IT") system is heavy. Any failure could cause adverse effects to the business operation.	The Group makes significant investment in technology infrastructure. The system is regularly backed-up. Contingency and disaster recovery plans are in place to deal with any system failures.
The IT system might be subject to security breaches resulting in theft, leakage or corruption of key information, trade secrets and sensitive customer and personal data, which could have a severe impact on the Group's reputation.	An information security regime is established and constantly improved. Confidential files are encrypted and/or password protected. Only relevant employees with authority are allowed to have access to sensitive data, especially financial data. Extensive and resilient controls and vulnerability assessments are undertaken before updates are released to reduce risk of security breaches. Anti-virus software is upgraded with endpoint detection and response to better defend against cyber attacks, such as ransomware.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
Human Resources	
Loss of key management personnel could cause disruption in delivery of strategic objectives.	Effective retention system, succession plan, career development plan and systematic training are established to develop and train talents, and ensure effective continuation of leadership and expertise without any interruption respectively.
The Group needs to attract talents and retain employees with relevant experience and knowledge in order to take advantage of all growth opportunities to achieve its strategic objectives and maintain its high quality services.	The Group continues to widen its talent pool. The performance management system is designed to provide reward, competitive remuneration structures and challenging development opportunities to attract talents and retain employees.
Market	
The Group operates in a highly competitive market with a wide variety of retailers, which makes it difficult for the Group to stand out and build long-term relationships with customers.	The Group strives to improve customer satisfaction continuously. Member exclusive and tailor-made offers, and attentive and sincere customer services are introduced to increase customers' loyalty. Innovative sports product-and-service experience-rich brick-and-mortar retail stores are launched to arouse consumer sentiments. 365-day interaction with customers is one of our customer relationship commitments.
Location of brick-and-mortar retail stores plays a vital role in the Group's success as most of the Group's revenue is derived from sales of brick-and-mortar retail stores. Wrong store location could cause waste of upfront investments and disruption to the marketing strategies.	Objective scientific methods are employed in the evaluation process of store location selection. Close and win-win relationships are built with nationwide landlords. The Group continues to close or upgrade underperforming stores and adopts holistic view towards new store openings.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
Public Health and Natural Environment Severe outbreak of infectious diseases (e.g. novel coronavirus (COVID-19) pandemic) might lead to city lockdown and negative growth of global economy. Therefore, the operation of the brick-and-mortar retail stores of the Group might be suspended, and consumption sentiment including brick-and-mortar retail store traffic might significantly decline. These all might seriously affect the performance of the Group as majority of the revenue of the Group is derived from sales of the brick-and-mortar retail stores.	Online public and private traffic domains, particularly the Pan-WeChat Ecosphere, are strengthened and diversified to enhance channel mix. Operational performance is reviewed frequently and proactively as to make prompt strategic decisions in a timely manner. Membership loyalty program and online-offline integration are reinforced. IT infrastructure (e.g. business intelligence platform) is well developed to support digital transformation and retail excellence.
More frequent and intense catastrophic weather events (e.g. floods in the Pearl River Basin and prolonged dry and hot weather worldwide, including the People's Republic of China (the "PRC")) pose a very serious potential threat to the safety of employees and properties of the Group. Such critical events could also cause operational disruption, such as disruption to supply chains or distribution channels.	Sustainable development panel is established to manage the environmental related risks. Properties of the Group are well insured. Employee emergency aid program is established to provide comprehensive supports to employees and their families. Inventory is stored in various locations and the logistic network is well designed to support flexible delivery rearrangement.
The regulatory authorities and investment market attach greater and greater importance to eco- or climate-related management and disclosures, particularly in the aspect of corresponding measures to lower carbon emission. Fail to cope with the trend of low-carbon economy could harm the prestige of the Group and in turn affect the business opportunities, profitability and competitiveness of the Group. Tighten regulatory requirements would incur extra operational cost and risk of non-compliance.	Climate change policy is established. The climate-related risks are reviewed annually. The Group actively seeks to observe the relevant upcoming regulatory changes. Various measures have been implemented to lower the carbon emission of the Group, details of which are set out in the ESG Report.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
Strategy and Operation Majority of the revenue of the Group is derived from products of a small number of top brands. Any strain in relationship with or loss of charisma of these top brands could have an adverse effect on the Group's business and financial condition.	The Group endeavors to strengthen its omni-sales channel capabilities and differentiate itself from other competitors by integrated sports product-and-service offerings and experience-rich brick-and-mortar retail stores in order to impress the top brands with its dedication and sincerity in being their most valuable partner. The brand mix of the Group is diversified.
Along with the expansion of the Group's digital sales, logistics and courier supports have become important. Inefficient logistics and courier could cause a very high operation cost and loss of customers.	The Group makes significant investment in logistics and courier infrastructure. For effective cost control, warehouses and inventories are shared with other strategic partners and part of logistics and courier supports are out-sourced.
Inventory management is very crucial to the success of the Group's business. Poor inventory management could affect the Group's ability to meet its customers' needs and jeopardise the profitability of the Group.	Rigor procurement and inventory management policies and practices are established. Mutually compatible online-offline sales strategies are adopted to reinforce in-season sales and effective off-season clearance. In order to meet customers' needs timely and precisely, real-time data analysis system is employed.
The Group's experience and commitment in market development of emerging brands are limited. Wrong brand positioning could have a material adverse effect on the sales performance of those emerging brands and dampen the overall profitability of the Group.	Systematic and specialised talent nurturing programme is established. An integrated online-offline multi-brands hatching platform is developed.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Principal Risks and Uncertainties (Continued)

Description and Impact of Risk and Uncertainty	Mitigation
Legal Compliance The Group has to comply with different laws, rules, regulations and accounting standards, which are subject to continuing changes. Any breach and non-compliance could damage the Group's image and reputation and affect its business operations.	The Group actively seeks to identify and meet its regulatory obligations and to respond to new requirements. Corporate governance policy is established to ensure good governance and ethical practices. Proper controls are also in place.
The Group enters into a variety of agreements with various parties. Any breach of such agreements could cause the Group to incur significant monetary liabilities and loss of future business opportunities.	All agreements are repeatedly reviewed by different departments before signing and are well documented. Independent external advice is sought when required.
Economic and Social Environment The Group's business operations are mainly conducted in the PRC. Thus the Group's business and prospects are significantly affected by the economic and social environment in the PRC. If there is a prolonged downturn in the economy in the PRC, consumer spending could be significantly weakened.	The Group keeps paying attention to the economic and social developments in the PRC on a proactive continuous basis to enable the Group to cope with changes effectively. To arouse consumer sentiments, the Group keeps exploring and strengthening its brand and product portfolios, and sales strategies continuously.

Events after the Reporting Period

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

Future Development in Business

The information is provided in the Chairman's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 10 to 19.

Financial Key Performance Indicators

The financial key performance indicators are provided in the Corporate Overview on page 4 and the relevant analysis is provided in the Chairman's Statement on pages 6 to 9 and Management Discussion and Analysis on pages 10 to 19.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Environmental Policies and Performance

In order to be a sustainable and joyful enterprise and to realise its aspirations for better environmental, social and governance ("ESG"), the Group has established several specialised units, such as sustainable development panel, ESG working task force and ESG liaison.

The noticeable deterioration of environment and frequent extreme weather events arising from climate change have prompted us to reduce our energy and resource consumption. To combat climate change effectively, the Group has established climate change policy to assess, identify and manage the climate-related risks and opportunities.

The Group follows the local laws concerning environmental protection and, where there are no conflicts, the relevant environmental policies of the various brands distributed by the Group. Owing to the nature of retail business, the Group's operations do not directly lead to any emission of hazardous pollutants, the pollution emission standards that the Group must comply with are relatively straightforward. We use our materials and resources as efficiently as possible. Standardised methods and tools are applied to ensure waste-optimised and low-emission processes covered the entire value chain.

For further details, please refer to the ESG Report of the Company which is published separately.

Compliance with Laws and Regulations

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

Relationships with Employees, Customers and Suppliers

Our relationship with employees

Our employees are the foundation of our success. Respect, appreciation and fairness are the tenets of our relationship with employees. When structuring our work environment, we have let all the tenets incorporated in it. We do not tolerate any behaviour of discrimination, harassment, vilification and victimisation under any circumstances in the workplace. We do not discriminate against any employees or candidates for employment because of their race, ethnic origin, religion, political affiliation, disability or age. We expect professional competence, exemplary management practices at all levels and effective team work. We demand our staff to be honest, responsible, trustworthy and willing to adopt our principles of corporate responsibility, and to be paragon and to make their best contribution towards the Company's success in every aspect through applying the principles.

DIRECTORS' REPORT

BUSINESS REVIEW (Continued)

Relationships with Employees, Customers and Suppliers (Continued)

Our relationship with customers and suppliers

We aim to be a leading and innovative company in our industry. Sustainable customer and supplier relationships could only be built on the basis of honesty and trust. We believe that these principles will defend and bolster our success and our suppliers' success. The compliance guidelines and responsible supply chain management principles we adhere to will help us to achieve this aim. We consider our suppliers as partners who are able to make an important contribution to our business success. Our customers could choose to shop in-store or online, whichever they prefer. Best practices are adopted by the Group for ensuring that customers are treated fairly and will receive good customer service throughout their time with us. Regarding the wholesale business, the Group abides by the following: (1) usually transact on "cash on delivery" basis; (2) short term credits are provided to those retailers the Group deems creditworthy; and (3) endeavor to secure timely delivery as promised.

More information is provided in the ESG Report which is published separately.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "2023 AGM") will be held on Thursday, May 25, 2023 at 10:00 a.m. at 22nd Floor, C-Bons International Center, 108 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining entitlement to attend and vote at the 2023 AGM (the "Entitlement to 2023 AGM"), the register of members of the Company will be closed from Monday, May 22, 2023 to Thursday, May 25, 2023, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the 2023 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, May 19, 2023. The record date for Entitlement to 2023 AGM will be Thursday, May 25, 2023.

DONATIONS

During the year, the Group made donations totalling approximately RMB0.5 million (2021: RMB0.2 million).

PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Group as at December 31, 2022 are set out in Note 36 to the consolidated financial statements.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL/ISSUE OF EQUITY SECURITIES

Details of the movement in share capital of the Company during the year are set out in Note 26 to the consolidated financial statements.

EQUITY-LINKED AGREEMENT

No equity-linked agreements that will or may result in the Company issuing Shares nor require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year or subsisted at the end of the year.

DISTRIBUTABLE RESERVES

As at December 31, 2022, the Company's reserves available for distribution consisted of contributed surplus of approximately RMB1,136.5 million (December 31, 2021: RMB1,136.5 million) plus accumulated profits of approximately RMB481.2 million (December 31, 2021: RMB213.2 million).

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

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

(b) the realisable value of the Company's assets would thereby be less than its liabilities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company (2021: 30,668,000 Shares).

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

DIRECTORS

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

Executive Directors ("EDs")

Yu Huan-Chang (Chairman) (appointed on September 2, 2022)
Liao, Yuang-Whang (resigned as Chief Financial Officer on June 1, 2022)
Hu, Chia-Ho (appointed on July 1, 2022)
Wu, Pan-Tsu (retired on July 1, 2022)
Lee, Shao-Wu (resigned on September 2, 2022)

Non-executive Directors ("NEDs")

Tsai Patty, Pei Chun
Li I-nan

Independent Non-executive Directors ("INEDs")

Chen, Huan-Chung
Feng Lei Ming
Liu, Hsi-Liang (appointed on March 25, 2022)
Hsieh, Wuei-Jung (resigned on March 25, 2022)

In accordance with the Bye-laws, Ms. Tsai Patty, Pei Chun and Mr. Feng Lei Ming will retire by rotation at the 2023 AGM and, being eligible, will offer themselves for re-election. Moreover, Mr. Hu, Chia-Ho and Mr. Yu Huan-Chang, who have been appointed by the Directors to fill casual vacancies as EDs with effect from July 1, 2022 and September 2, 2022 respectively, hold offices until the 2023 AGM and, being eligible, will offer themselves for re-election.

In respect of their resignation or retirement, Mr. Hsieh, Wuei-Jung, Mr. Wu, Pan-Tsu and Mr. Lee, Shao-Wu have confirmed that they had no disagreement with the Board and there was no matter in relation thereto that needed to be brought to the attention of the Shareholders and The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' REPORT

BIOGRAPHICAL DATA OF DIRECTORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

Biographical data of the Directors, chief executive and senior management of the Group are set out on pages 20 to 24.

DIRECTORS' SERVICE CONTRACTS

The terms of office of all Directors are three years and subject to retirement by rotation in accordance with the provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Bye-laws.

None of the Directors being proposed for re-election at the 2023 AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, subject to the applicable laws and regulations, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or about the execution of their duties in their respective offices provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty.

The permitted indemnity provision has been in force throughout the year ended December 31, 2022 and remained in force as of the date of this report. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the sections "Discloseable and Connected Transaction" and "Continuing Connected Transactions", and Note 9(d) to the consolidated financial statements, no transaction, arrangement or contract of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director, or a controlling Shareholder or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

In addition, no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries subsisted at any time during the year or at the end of the year.

DIRECTORS' REPORT

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

As at December 31, 2022, the interests or short positions of the Directors and chief executive of the Company (the "Chief Executive") in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which (a) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long Positions in shares and underlying shares

(a) The Company

Ordinary shares of HK$0.01 each of the Company

		Number of Shares/underlying Shares held					
Name of Directors/ Chief Executive	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total	Percentage of the issued Shares[1]
Tsai Patty, Pei Chun	Beneficial owner	19,523,000	–	–	–	19,523,000	0.37%
Yu Huan-Chang[2]	Beneficial owner	1,200,000[3]	–	–	–	1,200,000	0.02%
Liao, Yuang-Whang[4]	Beneficial owner	1,307,000	–	–	–	1,307,000	0.02%
Wang Jun[5]	Beneficial owner	3,759,974[6]	–	–	–	3,759,974	0.07%

notes:

1. The total number of issued Shares as at December 31, 2022 was 5,326,179,615.
2. Mr. Yu Huan-Chang was appointed as the chairman of the Company (the "Chairman") and an ED on September 2, 2022.
3. 1,200,000 awarded Shares granted under the share award scheme of the Company (the "Share Award Scheme"), which are subject to certain vesting conditions and remain unvested as at December 31, 2022. Details of the awarded Shares are set out in the section "Share Award Scheme".
4. Mr. Liao, Yuang-Whang resigned as the chief financial officer of the Company (the "CFO") on June 1, 2022.
5. Mr. Wang Jun was appointed as the acting chief executive officer of the Company (the "Acting CEO") on July 1, 2022 and was re-designated as the chief executive officer of the Company (the "CEO") on March 15, 2023.
6. Included interests in 384,000 awarded Shares granted under the Share Award Scheme, which are subject to certain vesting conditions and remain unvested as at December 31, 2022. Details of the awarded Shares are set out in the section "Share Award Scheme".

DIRECTORS' REPORT

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

Long Positions in shares and underlying shares (Continued)

(b) Associated Corporation – Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")

Ordinary shares of HK$0.25 each of Yue Yuen

Name of Directors/ Chief Executive	Capacity	Number of shares/underlying shares held					Percentage of the issued shares of Yue Yuen[1]
		Personal interests	Family interests	Corporate interests	Other interests	Total	
Yu Huan-Chang[2]	Beneficial owner	30,000[3]	–	–	–	30,000	0.00%
Liao, Yuang-Whang[4]	Beneficial owner	30,000[3]	–	–	–	30,000	0.00%
Hu, Chia-Ho[5]	Beneficial owner	273,000[6]	–	–	–	273,000	0.02%

notes:

1 The total number of issued shares of Yue Yuen as at December 31, 2022 was 1,612,183,986.

2 Mr. Yu Huan-Chang was appointed as the Chairman and an ED on September 2, 2022.

3 30,000 awarded shares granted by Yue Yuen under the share award scheme of Yue Yuen (the "YY Share Award Scheme"), which are subject to certain vesting conditions and remain unvested as at December 31, 2022. Details of the awarded shares are set out in the section "Arrangement to Acquire Shares or Debentures".

4 Mr. Liao, Yuang-Whang resigned as the CFO on June 1, 2022.

5 Mr. Hu, Chia-Ho was appointed as an ED on July 1, 2022.

6 Included interests in 60,000 awarded shares granted by Yue Yuen under the YY Share Award Scheme, which are subject to certain vesting conditions and remain unvested as at December 31, 2022. Details of the awarded Shares are set out in the section "Arrangement to Acquire Shares or Debentures".

Save as disclosed above, as at December 31, 2022, none of the Directors nor Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the reporting period and up to the date of this report, in accordance with the register of interests in Shares and short positions of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO, Yue Yuen was a controlling Shareholder holding approximately 62.55% indirect equity interests in the Company. Yue Yuen's principal business was original equipment manufacturer/original design manufacturer footwear manufacturing. While being a Director of the Company, Ms. Tsai Patty, Pei Chun was a director and the managing director of Yue Yuen, and Mr. Liao, Yuang-Whang, Mr. Hu, Chia-Ho (appointed on July 1, 2022) and Mr. Wu, Pan-Tsu (retired on July 1, 2022) were directors of certain subsidiaries of Yue Yuen. Mr. Yu Huan-Chang (appointed on September 2,2022), Mr. Liao, Yuang-Whang, Mr. Hu, Chia-Ho, Mr. Wu, Pan-Tsu and Mr. Lee, Shao-Wu (resigned on September 2, 2022) also had interests in the shares and underlying shares in Yue Yuen during the reporting period, the details of which are set out in the sections "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Arrangement to Acquire Shares or Debentures". Therefore, the Directors aforementioned were considered as having interests in Yue Yuen.

Notwithstanding the above, since the Company and Yue Yuen are separately listed entities and are mainly run by separate and independent management teams, the Directors believe that the Company is capable of carrying on its business independently of, and at arm's length from Yue Yuen. As the Company no longer has any footwear manufacturing business, it is expected that there will not be any competition between the Company and Yue Yuen in the field of footwear manufacturing business.

Save as disclosed above, during the reporting period and up to the date of this report, none of the Directors had any interest in any business which competes or is likely to compete with that of the Group and which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

UPDATE ON DIRECTORS' AND CHIEF EXECUTIVE'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors and Chief Executive since the date of publication of the Company's 2022 interim report are set out below:

1. In August 2022, Mr. Wang Jun was assigned to be in charge of the merchandise & retail business unit of the Company.

2. On August 12, 2022, Mr. Chen, Huan-Chung was re-appointed as a member of the nomination committee of Pou Chen Corporation ("PCC"). PCC, a company listed on Taiwan Stock Exchange Corporation ("TWSE"), is a controlling shareholder of Yue Yuen, a controlling Shareholder, and through its interests in Yue Yuen, is deemed to be interested in the Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. On August 30, 2022, Mr. Liao, Yuang-Whang was appointed as a director of San Fang Chemical Industry Co., Ltd., the shares of which are listed on TWSE.

DIRECTORS' REPORT

UPDATE ON DIRECTORS' AND CHIEF EXECUTIVE'S INFORMATION (Continued)

4. On September 2, 2022, Mr. Lee, Shao-Wu resigned from all his positions with the Company, including the Chairman, an ED, the chairman of the disclosure committee of the Board (the "Disclosure Committee") and an authorised representative of the Company as required under Rule 3.05 of the Listing Rules ("Authorised Representative").

5. On September 2, 2022, Mr. Yu Huan-Chang was appointed as the Chairman, an ED, the chairman of the Disclosure Committee and an Authorised Representative. He holds the office until the 2023 AGM and be eligible for re-election thereafter pursuant to the Bye-laws. A service agreement as the Chairman and an ED for a term of three years commencing on September 2, 2022 and ending on September 1, 2025 was entered into between the Company and Mr. Yu on the same date.

6. In September 2022, Mr. Yu Huan-Chang was appointed as a director of various subsidiaries of the Company.

7. On October 6, 2022, Mr. Liao, Yuang-Whang was appointed as a director of Nan Pao Resins Chemical Co., Ltd, the shares of which are listed on TWSE.

8. In November 2022, Mr. Wang Jun ceased to be in charge of the brand & channel development headquarters of the Company.

9. From July to November 2022, Mr. Liao, Yuang-Whang was appointed as a director of certain subsidiaries, joint ventures and associates of Yue Yuen.

10. On December 29, 2022, Mr. Liao, Yuang-Whang was appointed as a non-executive director of Prosperous Industrial (Holdings) Limited, the shares of which are listed on the Stock Exchange.

11. On March 15, 2023, Mr. Wang Jun was re-designated as the CEO of the Company.

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

DIRECTORS' REPORT

SHARE AWARD SCHEME

The Share Award Scheme was adopted on May 9, 2014 and duly amended on November 11, 2016 for recognising the contributions by certain persons, including Directors and employees of the Group, providing incentives to retain them for continual operation and development of the Group, and to attract suitable personnel for further development of the Group. All personnel of the Group are entitled to participate. It is funded by the existing Shares of the Company and not involving issue of new Shares. The Share Award Scheme is valid and effective for a term of 10 years commencing on May 9, 2014 and ending on May 8, 2024. No further share awards should be granted upon termination or expiry of the term of the Share Award Scheme.

Any proposed award should be determined on the basis of individual performance and must be recommended by the remuneration committee of the Board (the "Remuneration Committee") and approved by the Board. All the share awards granted under the Share Award Scheme should be vested in accordance with the conditions (such as employment status, individual performance and common key performance indicators) and timetable (i.e. vesting period) as determined by the Board. In the case of a Director or an employee of the Group, the grantee must remain at all times a Director or an employee of the Group. The most common performance target set under the Share Award Scheme is "attaining "good" or better performance rating for all appraisals conducted during the vesting period".

According to the letter of award, the amount payable on acceptance of the grant of awarded Shares is HK$1.00 with no deadline specified. No monetary payment has to be made by grantee to acquire share awards under the Share Award Scheme.

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

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

DIRECTORS' REPORT

SHARE AWARD SCHEME (Continued)

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

			Number of awarded Shares					
	Date of grant	Vesting period	Balance as at January 1, 2022	Granted during the year[4]	Vested during the year	Lapsed/ cancelled during the year	Reclassified[5] during the year	Balance as at December 31, 2022
Directors/Chief Executive								
Yu Huan-Chang[1]	11.11.2022	11.11.2022-10.11.2023	–	360,000	–	–	–	360,000
	11.11.2022	11.11.2022-10.11.2024	–	360,000	–	–	–	360,000
	11.11.2022	11.11.2022-10.11.2025	–	480,000	–	–	–	480,000
Wang Jun[2]	24.03.2021	24.03.2021-23.09.2022	–	–	(96,000)	–	96,000	–
	24.03.2021	24.03.2021-23.09.2023	–	–	–	–	144,000	144,000
	24.03.2021	24.03.2021-23.03.2024	–	–	–	–	240,000	240,000
Lee, Shao-Wu[3]	23.03.2019	23.03.2019-22.03.2022	500,000	–	(500,000)	–	–	–
	31.03.2020	31.03.2020-30.03.2022	500,000	–	(500,000)	–	–	–
	31.03.2020	31.03.2020-30.03.2023	500,000	–	–	(500,000)	–	–
	24.03.2021	24.03.2021-23.09.2022	100,000	–	–	(100,000)	–	–
	24.03.2021	24.03.2021-23.09.2023	150,000	–	–	(150,000)	–	–
	24.03.2021	24.03.2021-23.03.2024	250,000	–	–	(250,000)	–	–
Sub-total			2,000,000	1,200,000	(1,096,000)	(1,000,000)	480,000	1,584,000
Employees in aggregate								
	23.03.2019	23.03.2019-22.03.2022	4,520,500	–	(4,464,000)	(56,500)	–	–
	24.03.2021	24.03.2021-23.09.2022	1,441,400	–	(1,216,800)	(128,600)	(96,000)	–
	24.03.2021	24.03.2021-23.09.2023	2,162,100	–	–	(258,600)	(144,000)	1,759,500
	24.03.2021	24.03.2021-23.03.2024	3,603,500	–	–	(431,000)	(240,000)	2,932,500
	13.08.2021	13.08.2021-12.02.2023	448,000	–	–	(70,600)	–	377,400
	13.08.2021	13.08.2021-12.02.2024	672,000	–	–	(105,900)	–	566,100
	13.08.2021	13.08.2021-12.08.2024	1,120,000	–	–	(176,500)	–	943,500
Sub-total			13,967,500	–	(5,680,800)	(1,227,700)	(480,000)	6,579,000
Grand total			15,967,500	1,200,000	(6,776,800)	(2,227,700)	–	8,163,000
Five highest paid individuals in aggregate	23.03.2019	23.03.2019-22.03.2022	1,105,500	–	(1,105,500)	–	N/A	–
	24.03.2021	24.03.2021-23.09.2022	357,000	–	(357,000)	–	N/A	–
	24.03.2021	24.03.2021-23.09.2023	535,500	–	–	–	N/A	535,500
	24.03.2021	24.03.2021-23.03.2024	892,500	–	–	–	N/A	892,500
Total			2,890,500	–	(1,462,500)	–	N/A	1,428,000

DIRECTORS' REPORT

SHARE AWARD SCHEME (Continued)

notes:

1 Mr. Yu Huan-Chang was appointed as the Chairman and an ED on September 2, 2022.

2 Mr. Wang Jun was appointed as the Acting CEO on July 1, 2022 and was re-designated as the CEO on March 15, 2023.

3 Mr. Lee, Shao-Wu resigned from all his positions with the Company on September 2, 2022.

4 For the awarded Shares granted during the year, the performance target is "attaining "good" or better performance rating for all appraisals conducted during the vesting period" and the clawback mechanism is that all awarded Shares granted which are unvested shall automatically lapse and awarded Shares shall not vest if the awardee retires, resigns or has been suspended or dismissed prior to the vesting date.

5 Since Mr. Wang Jun was appointed as the Acting CEO on July 1, 2022, 480,000 awarded Shares owned by Mr. Wang Jun were reclassified from the category of 'Employees in aggregate' to the category of 'Directors/Chief Executive' as at July 1, 2022.

The closing price of the Shares immediately before the grant of awarded Shares on November 11, 2022 was HK$0.45 per Share.

The weighted average closing price of the Shares immediately before the dates on which the awards that were vested during the year was HK$0.80 per Share.

The fair value of the share awards at the date of grant on November 11, 2022 was HK$558,000, which was calculated based on the closing price of the Shares on the date of grant (i.e. HK$0.465 per Share).

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

DIRECTORS' REPORT

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Under the YY Share Award Scheme and subject to certain vesting conditions, the following Directors have been awarded with ordinary shares of Yue Yuen, details of which are as follows:

Name of Directors	Date of award	Number of shares awarded	Date of vesting	Number of shares vested	Number of shares lapsed	Number of shares unvested
Yu Huan-Chang[1]	01.06.2021	30,000	31.05.2023	–	–	30,000
Liao, Yuang-Whang	01.06.2021	30,000	31.05.2023	–	–	30,000
Hu, Chia-Ho[2]	01.06.2021	60,000	31.05.2023	–	–	60,000
Wu, Pan-Tsu[3]	23.03.2022	73,000	01.06.2022	73,000	–	–
Lee, Shao-Wu[4]	01.06.2021	60,000	31.05.2023	–	60,000	–
	23.03.2022	88,000	01.06.2022	88,000	–	–

notes:

1 Mr. Yu Huan-Chang was appointed as the Chairman and an ED on September 2, 2022.

2 Mr. Hu, Chia-Ho was appointed as an ED on July 1, 2022.

3 Mr. Wu, Pan-Tsu retired from all his positions with the Company on July 1, 2022.

4 Mr. Lee, Shao-Wu resigned from all his positions with the Company on September 2, 2022.

Save as disclosed herein and as stated in the section "Share Award Scheme" above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

DIRECTORS' REPORT

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

As at December 31, 2022, the register of interests in Shares and short positions of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO showed that other than the interests disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures", the following Shareholders had notified the Company of their relevant interests in the issued Shares:

Long Positions in the Shares

Name of Shareholders	*notes*	Capacity/ Nature of interest	Number of Shares held	Percentage of the issued Shares
Major Focus Management Limited ("Major Focus")	(a)	Beneficial owner	3,331,551,560	62.55%
Yue Yuen	(a), (b)	Interest of a controlled corporation/ Beneficial owner	3,331,551,560	62.55%
Wealthplus Holdings Limited ("Wealthplus")	(b)	Interest of a controlled corporation	3,331,551,560	62.55%
PCC	(b)	Interest of a controlled corporation	3,331,551,560	62.55%

notes:

The total number of issued Shares as at December 31, 2022 was 5,326,179,615.

(a) 3,331,551,560 Shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.

(b) The entire issued shares of Major Focus is held by Yue Yuen, in which Wealthplus and Win Fortune Investments Limited ("Win Fortune") respectively hold 47.95% and 3.16% voting shares. Wealthplus and Win Fortune are in turn wholly-owned by PCC. Accordingly, Yue Yuen, Wealthplus and PCC are all deemed to be interested in these Shares under the SFO.

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

DIRECTORS' REPORT

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

Save as disclosed above, as at December 31, 2022, the Directors were not aware of any other person (other than the Directors or Chief Executive) who had or was deemed to have an interest or short position in the Shares or underlying Shares which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

DISCLOSEABLE AND CONNECTED TRANSACTION

Completion of Acquisition of 45% Equity Interest in a Joint Venture

On December 31, 2021, (i) the Company's indirect wholly-owned subsidiary, Yue Cheng (Kunshan) Sports Co., Ltd ("Yue Cheng"), (ii) Vipshop (China) Co., Ltd. ("Vipshop") and (iii) Kunshan Baowei Information Technology Co., Ltd. ("Baowei", together with its subsidiaries, collectively referred to as the "BW Group")entered into an equity interest transfer agreement, pursuant to which, Yue Cheng has conditionally agreed to purchase and Vipshop has conditionally agreed to sell the 45% equity interest in Baowei owned by Vipshop as at the date (the "Acquisition").

The consideration of the Acquisition (the "Consideration") was agreed to be equal to an amount equivalent to 45% of the audited consolidated net asset value of the BW Group as at December 31, 2021 and in no event exceeds RMB300,000,000; and to be settled by Yue Cheng by way of transfer of inventories. Completion of the Acquisition (the "Completion") was agreed to be subject to and conditional upon satisfaction or waiver (as appropriate) of certain conditions, and to take place on or before March 31, 2022. The Completion finally took place on March 29, 2022 and the final Consideration was determined at approximately RMB177.5 million.

As Vipshop was a substantial shareholder of Baowei holding 45% of its equity interest, Vipshop was a connected person of the Company at the subsidiary level as at December 31, 2021.

Details of the Acquisition were set out in the announcements issued jointly by the Company and Yue Yuen dated December 31, 2021 and March 31, 2022.

CONTINUING CONNECTED TRANSACTIONS

Purchase of Footwear Products from Yue Yuen

On November 11, 2021, the Company entered into a framework agreement with Yue Yuen (the "2021 YY Footwear Agreement"), pursuant to which the Company might, through its subsidiaries, jointly controlled entities and associates, purchase from Yue Yuen's subsidiaries, jointly controlled entities and associates (the "YY Sub Group") and/or any factories operated and/or appointed by members of the YY Sub Group footwear products on a cost-plus basis taking into account the raw material and labour costs, factory management and sales expenses and profit margin for the period from January 1, 2022 to December 31, 2024 subject to the following annual caps:

Year	Annual Cap (exclusive of value-added tax ("VAT"))
January 1, 2022 to December 31, 2022	RMB12,100,000
January 1, 2023 to December 31, 2023	RMB13,000,000
January 1, 2024 to December 31, 2024	RMB15,600,000

Since Yue Yuen was a controlling Shareholder holding 3,311,090,560 Shares (being approximately 61.81% of the then issued Shares), it was a connected person of the Company as at November 11, 2021.

Details of the 2021 YY Footwear Agreement and the transactions contemplated thereunder were set out in the announcement of the Company dated November 11, 2021.

The total transaction amount of the 2021 YY Footwear Agreement and the transactions contemplated thereunder for the year ended December 31, 2022 was approximately RMB3.3 million (exclusive of VAT).

Distribution Sales of a Subsidiary to Shandong Liwei Trading Company Limited ("Shandong Liwei")

On October 28, 2022, Qingdao Pou Sheng International Sporting Goods Company Limited ("Qingdao Pou Sheng"), an indirect non wholly-owned subsidiary of the Company, entered into a supplemental distribution agreement with Shandong Liwei (the "2022 Supplemental Distribution Agreement"), pursuant to which the parties agreed to increase the annual cap initially set under the master distribution agreement dated February 8, 2022 (together with the 2022 Supplemental Distribution Agreement, the "2022 Distribution Agreements") in respect of supply of sportswear and footwear products from Qingdao Pou Sheng to Shandong Liwei on non-exclusive basis for the period commencing on January 1, 2022 and ending on December 31, 2022. By the 2022 Supplemental Distribution Agreement, the annual cap increased from RMB45.0 million to RMB65.0 million.

The sportswear and footwear products should be supplied on a cost-plus basis with an average gross profit margin (net of discounts) of between 10% to 15% taking into account the general gross profit margin for distribution of similar products in the PRC.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS (Continued)

Distribution Sales of a Subsidiary to Shandong Liwei Trading Company Limited ("Shandong Liwei") (Continued)

Details of the 2022 Distribution Agreements and the transactions contemplated thereunder were set out in the announcement of the Company dated October 28, 2022.

The total transaction amount of the 2022 Distribution Agreements and the transactions contemplated thereunder was approximately RMB45.6 million.

Since the 2022 Distribution Agreements were due to expire on December 31, 2022, on December 19, 2022, Qingdao Pou Sheng entered into a new master distribution agreement with Shandong Liwei (the "2023 Distribution Agreement"), pursuant to which Qingdao Pou Sheng agreed to supply sportswear and footwear products to Shandong Liwei on non-exclusive basis from January 1, 2023 to December 31, 2023 subject to the annual cap of RMB50.0 million.

The sportswear and footwear products should be supplied on the same pricing basis as the 2022 Distribution Agreements.

Details of the 2023 Distribution Agreement and the transactions contemplated thereunder were set out in the announcement of the Company dated December 19, 2022.

Since Shandong Liwei was a substantial shareholder of Qingdao Pou Sheng and was owned as to 70% by one of the directors of Qingdao Pou Sheng, Mr. Liu Guozhong, it was a connected person of the Company at the subsidiary level as at the dates on which the 2022 Distribution Agreements and 2023 Distribution Agreement being entered into.

Lease of a Branch of a Subsidiary with Hung Tak Investment Limited ("Hung Tak")

On December 19, 2022, Yue-Shen (Taicang) Footwear Co., Ltd. Dongguan Branch ("Yue-Shen Taicang"), a branch of an indirect wholly-owned subsidiary of the Company, entered into a lease agreement with Hung Tak (the "Lease Agreement"), pursuant to which Hung Tak Investment agreed to lease the factory building of Block F, Yue Yuen Industrial Estate, Gaobu Town, Dongguan, Guangdong Province, PRC to Yue-Shen Taicang for logistics and storage purposes from January 1, 2023 to December 31, 2023. The monthly rental and lease premium payable under the Lease Agreement are approximately RMB296,000 (inclusive of 5% VAT) and approximately RMB900,000, subject to the annual cap of approximately RMB4,444,000.

The monthly rental was based on the open market rates, which were referenced to valuations performed by Cushman & Wakefield Limited, an independent professional valuer, and was not higher than the monthly rental appraised by such independent valuer.

As at December 19, 2022, Hung Tak was a wholly-owned subsidiary of Godalming Industries Limited, a company owned as to approximately 85.45% by a discretionary trust and its sub-funds for the benefits of Tsai's family members (including Ms. Tsai Patty, Pei-Chun, a NED). Therefore, Hung Tak was an associate of Ms. Tsai and a connected person of the Company.

Details of the Lease Agreement and the transactions contemplated thereunder were set out in the announcement of the Company dated December 19, 2022.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS (Continued)

Annual Review of Continuing Connected Transactions

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

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company's independent auditor was engaged to report on the 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 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has issued an unqualified report containing its findings and conclusions in respect of the continuing connected transactions (1) Purchase of Footwear Products from Yue Yuen and (2) Distribution Sales of a Subsidiary to Shandong Liwei, and confirmed that nothing has come to their attention in relation to the above continuing connected transactions of the matters set out in Rule 14A.56 of the Listing Rules.

RELATED AND CONNECTED PARTY TRANSACTIONS

Details of related and connected party transactions for the year are set out in Note 32 to the consolidated financial statements.

Save as disclosed herein and above in the sections "Discloseable and Connected Transaction" and "Continuing Connected Transactions", the Company did not have other transactions with its connected parties which are required to be disclosed in the Annual Report in accordance with Chapter 14A of the Listing Rules during the year.

With regard to the related party transactions which also constitute connected transactions or continuing connected transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in so far as they are applicable.

REVIEW OF ACCOUNTS

The audit committee of the Board has reviewed, with management and Messrs. Deloitte Touche Tohmatsu, the independent auditor of the Company, the Group's consolidated financial statements for the year ended December 31, 2022, the accounting principles and practices adopted by the Group and has discussed auditing, risk management and internal controls, and financial reporting matters.

MANAGEMENT CONTRACTS

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

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate amounts of purchases attributable to the Group's largest and five largest suppliers were 60% and 91% of the Group's total purchases for the year, respectively.

None of the Directors or the close associates of the Directors or the Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued Shares) have an interest in any of the Group's five largest customers or suppliers at any time during the year.

EMOLUMENT POLICY

The Group's emolument policy for employees is set up by the Board. The emoluments of the employees are determined on the basis of their merit, qualifications and competence, with reference to prevailing salary levels in the market. In addition, the Group provides other fringe benefits, such as social insurance, mandatory provident funds, medical coverage and training programs to employees based on their respective personal career development.

The emoluments of the Directors are reviewed and recommended by the Remuneration Committee and are decided by the Board, as authorised by the Shareholders at the annual general meeting, having regard to, inter alia, the Group's performance and financial position, individual performance and comparable market statistics. Further details are set out in the section "Remuneration Committee" of the Corporate Governance Report on page 58.

The Company has adopted the Share Award Scheme to provide incentives to its Directors and eligible employees of the Group and to recognise their contributions and ongoing efforts. Details of which are set out in the section "Share Award Scheme" and Note 27(b) to the consolidated financial statements.

DIRECTORS' REPORT

PENSION SCHEME

The Group is committed to comply with all applicable laws and regulations relating to workplace pensions in all the jurisdictions in which the Group operates.

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries of the Group are required to contribute to the retirement benefit schemes to fund the benefits at a defined percentage of employees' payroll. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group has also enrolled all its qualifying employees in Hong Kong into the Mandatory Provident Fund Scheme (the "MPF Scheme"). The assets of the MPF Scheme enrolled are held separately from those of the Group in trust under the management of independent trustees. In accordance with the relevant ordinances and regulations of the MPF Scheme, the employer and its employees both are required to make contributions to the scheme at rate specified.

The Group contributed approximately RMB381.7 million to the abovementioned schemes for the year ended December 31, 2022.

Further information is provided in Note 30 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules throughout the year ended December 31, 2022 and up to the date of this report.

INDEPENDENT AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2022 have been audited by Messrs. Deloitte Touche Tohmatsu, certified public accountants, who will retire and, being eligible, offer themselves for re-appointment as independent auditor of the Company at the 2023 AGM.

On behalf of the Board

Yu Huan-Chang
Chairman
Hong Kong
March 15, 2023

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of Pou Sheng International (Holdings) Limited (the "Company" and together with its subsidiaries, the "Group") and the management of the Company recognise the importance of maintaining good corporate governance practices and procedures, hence corporate transparency and accountability can be practised. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and thereby enhancing the value of shareholders of the Company (the "Shareholders"). The Board is committed to achieving a high standard of corporate governance and to leading the Group to grow in an efficient manner directed by the Group's vision and mission.

CORPORATE GOVERNANCE PRACTICES

During the year ended December 31, 2022, the Company has applied the principles of, and has complied with all applicable code provisions set out in Part 2 of the Corporate Governance Code (the "CG Code") Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange" and the "Listing Rules", respectively).

BOARD OF DIRECTORS

The Board

The Company is committed to the view that the Board should include a balanced composition between executive, non-executive and independent non-executive directors (the "Directors") so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

Currently, the Board comprises the following eight Directors:

Executive Directors ("ED(s)")
Mr. Yu Huan-Chang (Chairman)[1]
Mr. Liao, Yuang-Whang
Mr. Hu, Chia-Ho[2]

Non-executive Directors ("NED(s)")
Ms. Tsai Patty, Pei Chun
Mr. Li I-nan

Independent Non-executive Directors ("INED(s)")
Mr. Chen, Huan-Chung
Mr. Feng Lei Ming
Mr. Liu, Hsi-Liang[3]

notes:

1 Mr. Yu Huan-Chang was appointed as an ED and the Chairman of the Company with effect from September 2, 2022.

2 Mr. Hu, Chia-Ho was appointed as an ED with effect from July 1, 2022.

3 Mr. Liu, Hsi-Liang was appointed as an INED with effect from March 25, 2022.

As at the date of this report, none of the members of the Board have any relationship with each other.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The Board (Continued)

The biographical data of the Directors are set out in "Biographical Data of Directors, Chief Executive and Senior Management" section on pages 20 to 24. Save as disclosed in that section, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Board has overall responsibility in formulating the strategic development of the Group, monitoring and controlling the Group's operation and financial performance, and performing the corporate governance duties.

The management is delegated with the authority and responsibility for the day-to-day operations of the Group under the leadership and supervision of the chief executive officer of the Company (the "CEO"). The CEO, working with the management team, is responsible for overseeing and managing the businesses of the Group, including the implementation of policies and strategies delegated and adopted by the Board and assuming full accountability to the Board for the operations of the Group.

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs to discuss and review the overall strategy as well as the operation and financial performance of the Group and other duties of the Board. Seven Board meetings and a Shareholders' meeting were held during the year. The chairman of the Company (the "Chairman") also during the year held a meeting with the INEDs without the presence of other Directors. The attendance record of Directors are set out in the table herein. The annual meetings schedule is made available to Directors before the commencement of 2022 so that the Directors are given the opportunity to arrange their schedules to attend the meetings. For regular board meetings, notice of at least 14 days is given to all Directors to ensure that all Directors are given an opportunity to attend and to include matters for discussion in the agenda. Agenda and Board papers are normally sent to all Directors at least 3 days before each regular Board meeting to enable them to make informed decisions with adequate data. All Directors have full access to information of the Group and are able to obtain independent professional advice in performing their duties at the expense of the Company in appropriate circumstances or upon their request.

Minutes of all Board and committees meetings are kept by the company secretary of the Company (the "Company Secretary"). Draft minutes are circulated to all Directors or committee members for review and comment in a timely manner and final version for their records. Minutes are recorded in sufficient detail of the matters considered by the Board and decisions reached. The final versions of minutes/resolutions of the Board and the committees are available for inspection by Directors. Any matters which are material and/or substantial Shareholder(s) or Directors and their close associates (as defined in the Listing Rules) with a material interest in or may cause potential conflicts of interests are discussed at physical Board meetings (instead of by circulating written resolutions of Directors) and relevant Directors will abstain from voting on the resolutions approving such transactions and are not counted in the quorum of the meetings.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

The Board (Continued)

The table below sets out the number of meetings of the Board and its committees, individual attendance by the Board and committee members at these meetings and the general meeting during the year:

Name of Directors	Board Meetings	Audit Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings	Disclosure Committee Meeting[7]	Chairman and INEDs Meeting	General Meeting
	Number of meeting(s) attended/held						
Executive Directors							
Yu Huan-Chang[1]	2/2	N/A	N/A	N/A	N/A	1/1	N/A
Liao, Yuang-Whang	7/7	N/A	N/A	N/A	N/A	N/A	1/1
Hu, Chia-Ho[2]	4/4	N/A	1/1	N/A	N/A	N/A	N/A
Wu, Pan-Tsu[3]	3/3	N/A	2/2	N/A	N/A	N/A	1/1
Lee, Shao-Wu[4]	5/5	N/A	N/A	N/A	N/A	N/A	1/1
Non-executive Directors							
Tsai Patty, Pei Chun	7/7	4/4	N/A	N/A	N/A	N/A	1/1
Li I-nan	7/7	N/A	N/A	5/5	N/A	N/A	1/1
Independent Non-executive Directors							
Chen, Huan-Chung	7/7	4/4	3/3	5/5	N/A	1/1	1/1
Feng Lei Ming	7/7	4/4	3/3	N/A	N/A	1/1	1/1
Liu, Hsi-Liang[5]	6/6	N/A	N/A	4/4	N/A	1/1	1/1
Hsieh, Wuei-Jung[6]	1/1	N/A	N/A	1/1	N/A	N/A	N/A

notes:

1 Mr. Yu Huan-Chang was appointed as an ED with effect from September 2, 2022.

2 Mr. Hu, Chia-Ho was appointed as an ED with effect from July 1, 2022.

3 Mr. Wu, Pan-Tsu retired as an ED with effect from July 1, 2022.

4 Mr. Lee, Shao-Wu resigned as an ED with effect from September 2, 2022.

5 Mr. Liu, Hsi-Liang was appointed as an INED with effect from March 25, 2022.

6 Mr. Hsieh, Wuei-Jung resigned as an INED with effect from March 25, 2022.

7 According to the terms of reference of the disclosure committee of the Company (the "Disclosure Committee"), the Disclosure Committee shall meet as and when circumstances require, and can discuss and deal with matters by electronic mail or telephone conference instead of convening meetings. No Disclosure Committee meeting was held during the year ended December 31, 2022 as the committee members performed their duties and functions via electronic mail and/or telephone conversation instead of convening meetings.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Yu Huan-Chang and the CEO is Mr. Wang Jun.

The roles and responsibilities of the Chairman and the CEO are separate and are not preformed by the same individual during the year and set out in writing in our Statement of Policy on Corporate Governance (the "Statement of Policy on Corporate Governance"). The Chairman provides leadership and governance to the Board and ensure that all key and appropriate issues are discussed by the Board in a timely manner. He 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 Chief Executive Officer leads the management in the day-to-day operations of the Group's business in accordance with the business plans, develop and propose the Group's strategic plans and formulate the organisational structure, control systems and internal procedures and processes for the Board's approval.

Non-executive Directors and Independent Non-executive Directors

All NEDs (including INEDs) are appointed for a specific term of three years. All Directors including INEDs are subject to retirement by rotation and re-election at least once every three years in accordance with the provisions of the Listing Rules and the bye-laws of the Company (the "Bye-laws").

At all times during the year ended December 31, 2022, the Company has complied with the requirements under Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three INEDs, representing at least one-third of the Board and with at least one of them possessing appropriate professional accounting and financial management expertise.

The Company has received from each of the INEDs, namely Mr. Chen, Huan-Chung, Mr. Feng Lei Ming and Mr. Liu, Hsi-Liang, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Although Mr. Chen, Huan-Chung has been serving the Company as an INED for over 9 years, he remained capable of providing independent, constructive and objective views on the Company's affairs and bringing fresh perspectives to the Board during his tenure of office over the years. The Board, through the assessment and recommendation by the Nomination Committee, was satisfied that he has the required character, integrity, knowledge and experience to continue fulfilling the role of an INED and was of the view that his long service on the Board would not affect his exercise of independent judgement and view in relation the Company's affairs. The Company considers that all INEDs are independent in accordance with the independence guidelines as set out in the Listing Rules and will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Appointment and Re-election of Directors

The appointment of a new Director is made on the recommendation of the nomination committee of the Company (the "Nomination Committee") and by approval of the Board or by the Shareholders in a general meeting.

In assessing potential candidates for the Board, the Nomination Committee considers gender, age, cultural, professional and educational background, professional qualifications and experiences, skills, knowledge, reputation for integrity, length of service and independence for the Board, potential time commitment for the Board and/or Board committee responsibilities, potential contributions to the Group, Director succession plan of the Group (the "Director Succession Plan") and Board diversity policy of the Group (the "Board Diversity Policy") and any measureable objectives for achieving diversity on the Board. The recommendations of the Nomination Committee are then put to the full Board for decision. All newly appointed Directors are subject to re-election by the Shareholders at the next annual general meeting following their appointments.

Besides that, at least one-third of Directors shall retire from office every year at the Company's annual general meeting. All Directors are subject to retirement by rotation at least once every three years and re-election in accordance with the provisions of the Listing Rules and the Bye-laws. The key terms and conditions of the Directors' appointments are set out in their respective letter of appointment and/or service contract.

Directors' Induction and Training

Each newly appointed Director is provided with a tailored induction to ensure that he or she has a proper understanding of the operations and business of the Group and is fully aware of his or her responsibilities under applicable legal requirements and the business and corporate governance policies of the Group.

The Company continuously updates the Directors on the Group's business and the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

Pursuant to Code Provision C.1.4 of the CG Code, the Directors should participate in continuous professional development to develop and refresh their knowledge and skills. During the year, the Company organised two briefing sessions relating to the recent amendments to the CG Code and consultation conclusions on review of Listing Rules relating to disciplinary powers and sanctions by Reed Smith Richards Butler LLP for the Directors. If the Directors are not able to attend the briefing sessions, training handouts will be distributed to those Directors for their self-studying.

BOARD OF DIRECTORS (Continued)

Directors' Induction and Training (Continued)

According to the records provided by the Directors, the Directors had participated in the following trainings during the year:

Name of Directors	Attending briefings/ seminars/ conferences/forums	Reading/studying training or other materials
Executive Directors		
Yu Huan-Chang[1]	–	✓
Liao, Yuang-Whang	✓	–
Hu, Chia-Ho[2]	✓	–
Wu, Pan-Tsu[3]	✓	–
Lee, Shao-Wu[4]	✓	–
Non-executive Directors		
Tsai Patty, Pei Chun	✓	–
Li I-nan	✓	–
Independent Non-executive Directors		
Chen, Huan-Chung	✓	–
Feng Lei Ming	✓	–
Liu, Hsi-Liang[5]	–	✓
Hsieh, Wuei-Jung[6]	–	–

notes:

1 Mr. Yu Huan-Chang was appointed as an ED with effect from September 2, 2022.

2 Mr. Hu, Chia-Ho was appointed as an ED with effect from July 1, 2022.

3 Mr. Wu, Pan-Tsu retired as an ED with effect from July 1, 2022.

4 Mr. Lee, Shao-Wu resigned as an ED with effect from September 2, 2022.

5 Mr. Liu, Hsi-Liang was appointed as an INED with effect from March 25, 2022.

6 Mr. Hsieh, Wuei-Jung resigned as an INED with effect from March 25, 2022.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the Nomination Committee and the Disclosure Committee (collectively the "Board Committees") to oversee various aspects of the Group's affairs.

Audit Committee

The Audit Committee has been in place since May 2008 with specific written terms of reference, which are available for viewing on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of one NED and two INEDs: Mr. Chen, Huan-Chung (Chairman), Ms. Tsai Patty, Pei Chun and Mr. Feng Lei Ming. Mr. Chen, Huan-Chung is an INED possessing the appropriate professional accounting and financial management expertise as required under the Listing Rules.

The primary functions of the Audit Committee are, inter alia, to assist the Board in fulfilling its responsibilities, to maintain appropriate relationship with external auditors, to review the Group's financial control, risk management and internal control, to review the annual and interim reports and other financial information provided by the Company to its Shareholders, the public and others, and to deal with other matters within the scope of its terms of reference.

The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Group.

The following is the summary of work performed by the Audit Committee during the year:

- reviewed and recommended the quarterly results, and interim and annual reports of the Group to the Board for approval;
- reviewed and discussed the various audit issues as reported by the external auditor;
- recommended the re-election of the external auditor;
- reviewed the internal control or internal audit issues as reported by the Company's internal audit department (the "Internal Audit Department") covering the investigation findings and recommendations;
- reviewed the adequacy and effectiveness of the Company's financial controls, risk management and internal control systems;
- reviewed the ongoing connected transactions of the Group;
- reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewed the audit and non-audit services provided by the external auditor and the relevant service fees;
- reviewed and recommended the revised risk management policy and annual risk management report to the Board for approval; and

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

- adopted the whistleblowing policy.

The Audit Committee held four meetings during the year. The attendance record of the members of the Audit Committee meetings is set out in the table under "Board of Directors" section.

Remuneration Committee

The Remuneration Committee has been in place since May 2008 with specific written terms of reference, which are available for viewing on the websites of the Stock Exchange and the Company.

The Remuneration Committee currently consists of one NED and two INEDs: Mr. Liu, Hsi-Liang (Chairman), Mr. Chen, Huan-Chung and Mr. Li I-nan.

The primary functions of the Remuneration Committee include making recommendations to the Board on remuneration policy, structure and packages of the Directors, chief executive (the "Chief Executive") and senior management of the Group (the "Senior Management") and other related matters. A Remuneration Policy of the Group for the Directors and the Senior Management (the "Remuneration Policy") has been established. In recommendation of the remuneration package of Directors, the Remuneration Committee considers the qualifications and experience of each Director and also remuneration policies of other comparable listed companies of similar business and size, time commitment and responsibilities of the Directors, employment conditions of the Group and the desirability of performance-based remuneration. The Remuneration Committee also ensures that the levels of remuneration should be sufficient to attract and retain the Directors to run the Company successfully but would avoid paying more than necessary for this purpose. No Directors or any of their respective associates are involved in determining their own remunerations.

The following is the summary of work performed by the Remuneration Committee during the year:

- reviewed and recommended the remuneration of Directors, Chief Executive and Senior Management to the Board for approval;
- reviewed and recommended the remuneration packages of three EDs, an INED, the Chief Financial Officer and the acting CEO to the Board for approval;
- reviewed and recommended the remuneration package of a NED for renewal of his appointment letter to the Board for approval;
- evaluated and assessed the effectiveness of the Remuneration Committee and the adequacy of its terms of reference;
- recommended the grant, vest and cancellation of share awards of the Group to the Board for approval;
- reviewed the status of the share options under the Share Options Scheme and the share awards under the Share Award Scheme; and
- reviewed and recommended the revised terms of reference to the Board for approval.

The Remuneration Committee held five meetings during the year. The attendance record of the members of the Remuneration Committee meetings is set out in the table under "Board of Directors" section.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Nomination Committee

The Nomination Committee has been in place since December 2011 with specific written terms of reference, which are available for viewing on the websites of the Stock Exchange and the Company.

The Nomination Committee currently consists of one ED and two INEDs: Mr. Feng Lei Ming (Chairman), Mr. Chen, Huan-Chung and Mr. Hu, Chia-Ho.

The primary functions of the Nomination Committee are to assist the Board in identification of suitable individuals qualified to become Board members, review the structure, size, composition and diversity of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

The following is the summary of work performed by the Nomination Committee during the year:

- recommended the appointment of three EDs, an INED, the Chief Financial Officer and the acting CEO to the Board for approval;
- assessed the independence of INEDs;
- reviewed the retirement and nominated the re-election of retiring Directors at the 2022 AGM;
- reviewed the structure, size, composition and diversity of the Board; and
- reviewed the Nomination Policy for Directors.

The Nomination Committee held three meetings during the year. The attendance record of the Nomination Committee meeting is set out in the table under "Board of Directors" section.

Board Diversity

On August 13, 2013, the Board adopted the Board Diversity Policy which was subsequently amended on March 15, 2022. The Company considers increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural, professional and educational background, professional qualifications and experiences, skills, knowledge, length of service and independence. All appointments of Directors will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The composition of the Board reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Group's strategy and business. The policy is available for viewing on the website of the Company.

During the year ended December 31, 2022, there was 1 female Director out of 8 Directors (approximately 13%). The Board is committed to avoid a single gender Board and will timely review the gender diversity at board level and across the workforce according to the business development of the Group. For gender ratio in the workforce (including senior management) of the Group, please refer to the 2022 Environmental, Social and Governance Report of the Group.

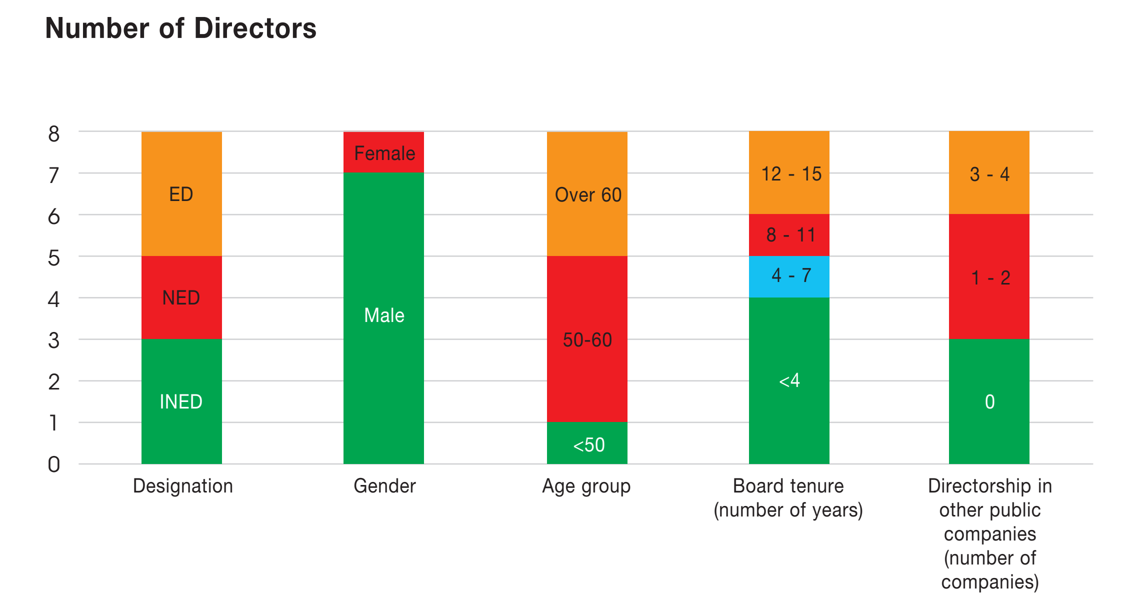
CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Board Diversity (Continued)

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

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



Academic Background

Business Administration 38%

Economics / Finance / Account 25%

Others 75%

Experience/Expertise

Sportswear Industry 63%

Accounting Expertise 13%

Equity Investment / Financial Services 88%

Human Resources 13%

Information Technology/Electronics 25%

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Nomination Policy

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

(a) to guide the Board in relation to appointment/re-election of Directors; and

(b) to devise a policy on the size and composition of the Board in order to ensure the diversity and balance of the Board in terms of skills, experience, knowledge and diversity of perspectives are appropriate to the requirements of the Company's business.

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

Director Succession Plan

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

Disclosure Committee

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

The Disclosure Committee currently consists of three EDs: Mr. Yu Huan-Chang (Chairman), Mr. Liao, Yuang-Whang and Mr. Hu, Chia-Ho.

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

The Disclosure Committee shall meet from time to time as and when circumstances require. In the ordinary course, the Disclosure Committee may discuss and deal with matters by way of communication through electronic mail and/or telephone conference. During the year, no Disclosure Committee meeting was held as the committee members performed their duties and functions via electronic mail and/or telephone conversation instead of convening meetings.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

The Board has adopted a Statement of Policy on Corporate Governance and is collectively responsible for performing the corporate governance duties, including those set out in the Code Provision A.2.1 of Appendix 14 to the Listing Rules:

(a) to develop, review and implement the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and Senior Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the Shareholders' Communication Policy to ensure its effectiveness.

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

INDEPENDENT AUDITOR'S REMUNERATION

During the year ended December 31, 2022, the remuneration paid or to be payable to Messrs. Deloitte Touche Tohmatsu ("Deloitte"), the Company's external auditor, and its affiliate in respect of audit services rendered is approximately RMB4,059,000 (2021: approximately RMB4,124,000) and in respect of non-audit services rendered is approximately RMB1,528,000 (2021: approximately RMB1,683,000). The non-audit services include review of interim financial statements, professional services rendered in connection with tax filing in Hong Kong and other tax consultancy, and advisory on environmental, social and governance reporting requirements.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities with respect to the financial statements of the Group and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group in a timely manner.

A statement made by the external auditor of the Company, Deloitte with regard to their responsibilities for the audit of the Group's consolidated financial statements is set out in the Independent Auditor's Report on pages 71 to 76.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. Following specific enquiry by the Company to all Directors, each of them has confirmed that he/she has complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year ended December 31, 2022.

The Company has also established and adopted internal guidelines for securities transactions by relevant employees (the "Employees Guidelines") which are on no less exacting terms than the Model Code. Specified employees who are likely to be in possession of unpublished inside information related to the Company and its securities must comply with the Employees Guidelines. All of them are reminded to comply with the Employees Guidelines quarterly.

DIVIDEND POLICY

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

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

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

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Yip Wing Ming, the Company Secretary, who is also the Financial Controller of the Company, confirmed that he has complied with all the required qualifications, experience and training requirements as specified under the Listing Rules during the year under review.

SHAREHOLDERS' RIGHTS

1. Procedures for Shareholders to convene a special general meeting

1.1 Shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company as at the date of the deposit of the requisition are entitled to require the Board to convene a special general meeting by depositing a requisition at the registered office of the Company for the attention of the Board or the Company Secretary.

1.2 The requisition must specify the purposes of the meeting, signed by the requisitionists and may consist of several documents in like form each signed by one or more of those requisitionists.

1.3 The signatures and the requisition will be verified by the Company's share registrar. The Board will proceed to convene a special general meeting for the transaction of any business or resolution specified in the requisition within 21 days from the date of deposit of such requisition if it has been validly raised.

1.4 If the Board does not within 21 days from the date of the deposit of a valid requisition, proceed duly to convene such meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

2. Procedures for Shareholders to put forward enquiries to the Board

Shareholders may put forward enquiries to the Board through the Company Secretary, whose contact details are as follows:

The Company Secretary
Pou Sheng International (Holdings) Limited
22nd Floor, C-Bons International Center
108 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

Tel. No.: +852 3182 5800
Fax No.: +852 3182 5808

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (Continued)

3. Procedures for Shareholders to put forward proposals at Shareholders' meeting

3.1 In general, subject to paragraph 3.2 below, no resolution may be proposed at a Shareholders' meeting (whether it is a special general meeting or an annual general meeting) if such resolution is not included in the notice convening the general meeting. However, if the proposal is to amend an existing ordinary resolution set out in the notice convening the general meeting and such amendment is within the scope of the notice, such amendment may be made if approved by the Shareholders by ordinary resolution.

3.2 On the requisition in writing of either (i) any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates, or (ii) not less than 100 Shareholders, the Company shall be under a duty to:

(a) give to Shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and/or

(b) circulate to Shareholders entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

3.3 Notice of any such intended resolution under paragraph 3.2 shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholders by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company.

3.4 The requisition under paragraph 3.2 must be signed by the requisitions and deposited at the registered office of the Company (i) in the case of a requisition requiring notice of a resolution, not less than 6 weeks before the meeting; and (ii) in the case of any other requisition, not less than 1 week before the meeting.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS AND COMMUNICATION

The Company endeavors to maintain good relationship with the Shareholders and potential investors. To ensure effective ongoing dialogue with the Shareholders, the Board has adopted the Shareholders Communication Policy on March 5, 2012, which was subsequently amended on March 22, 2019 and March 15, 2022, and is regularly reviewed to ensure its effectiveness.

Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of communication channels including interim and annual reports, announcements and circulars published in accordance with the Listing Rules. Such published documents, together with the latest corporate information and news, are also available for viewing on the Company's website.

Shareholders are encouraged to attend the Company's general meetings, at which the Chairman of the Board, the chairmen of the Board Committees (or in their absence, another member of the Board Committees), appropriate management executives and/or external auditors are available to answer the Shareholders' questions.

In addition, the Shareholders can contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar of the Company, if they have any enquiries about their shareholdings or entitlement to dividend. To promote effective communication during the year, the Company maintains its website at www.pousheng.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are promptly updated and available for public access.

CONSTITUTIONAL DOCUMENTS

During the year, the Company's bye-laws were amended. The new bye-laws were adopted by the Shareholders at the annual general meeting held on May 27, 2022. The amendments were to (i) provide for flexibility for the Company to convene and hold hybrid meetings; and (ii) comply with the Core Shareholder Protection Standards as set out in Appendix 3 of the Listing Rules; and (iii) incorporate housekeeping amendments.

An up-to-date consolidated version of the Company's constitutional documents is available on the websites of each of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT

Responsibility

The Board has the overall responsibility to evaluate and determine the nature and extent of risks the Group is willing to take in achieving the Group's objectives. It is also responsible for the introduction and the on-going maintenance and review of appropriate and effective risk management and internal control systems of the Group. The Board has delegated to the management with defined structure and scope of authority, to conduct reviews on and maintenance of all material controls to ensure compliance with relevant legislations and regulations.

The Company has established its own Internal Audit Department which is independent of the Company's management in assessing and monitoring the control on the risk management and internal control systems of the Company. On quarterly basis, Head of Internal Audit reports on reviews of the business processes and activities, including action plans to address any identified control weaknesses to the Audit Committee. If the Internal Audit Department suspects the weakness will materially affect the Group, they will report to the Audit Committee when necessary on a timely basis. Regular follow up actions will be carried out until the condition is improved.

The Board has entrusted the Audit Committee with the responsibility to review the financial controls, risk management and internal control systems of the Group. The Audit Committee, on behalf of the Board, reviews the Internal Audit Department's work and findings through internal audit reports on a quarterly basis. It reports to the Board especially on any material matters including but not limited to financial, operational and compliance controls that have arisen from the Audit Committee's review on the risk management and internal control processes on a quarterly basis. The Board has also conducted an annual review of the effectiveness of the Group's risk management and internal control systems, including changes in the nature and severity of principal risks for the year, the Group's ability to cope with external environmental changes, the ability to monitor the scope and quality of the risk management and internal control systems, internal audit work, the major weaknesses detected and their related impacts, the Group's financial reports and compliance with the relevant regulations, etc.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Risk Management Framework

The Company has put in place the policy and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risks. The procedures are designed to identify, evaluate, manage and minimise risks that could adversely impact the achievement of the Group's business objectives but do not provide absolute assurance against material misstatement, errors, losses, fraud or non-compliance.

The Group's risk management and internal control systems are characterised by a clear governance structure, policy procedures and reporting mechanism to facilitate the management of the Group's business risks.

Responsible Unit	Function
Board	• Has overall responsibility for the Group's risk management system • Formulate final decision, guidance and instruction on the risk management system and its mitigation
Audit Committee	• Oversee the implementation of the control on risk management • Report the results of risk management to the Board
Internal Audit Department	• Co-ordinate the operation of risk management mechanism • Conduct independent review on the mechanism • Oversee the control and follow up of the risk and report the result to the Audit Committee
Internal risk management committee	• Establish and continuously modify the risk management system • Execute identification and estimation of risks • Manage, monitor and control risks • Report on risk management
Risk management unit	• Implement risk management system • Co-ordinate and assist the internal risk management committee • Implement mitigation of risks • Arrange training for and introduce risk management
Functional and operation unit	• Facilitate communication between risk management unit and departments • Guide, structure and co-ordinate risk management work • Identify risks, assess and review mitigation, and investigate risk management work and its improvement

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Process

The Group's methodology for its risk assessment comprises four core stages:

(a) Risk Identification
Department/functional heads identify risks in the operations they are responsible for as well as risks they believe are relevant to the Group as a whole. All the identified risks are consolidated into a risk inventory.

(b) Risk Assessment
Risks in the risk inventory are evaluated by assessment participants from the Group using predefined risk assessment criteria associated with two risk dimensions – (i) impact of each risk; and (ii) the Group's vulnerability to each risk. The risk scoring and prioritisation process is then performed.

(c) Risk Response
The prioritised risk ranking is then submitted to the internal risk management committee for review. Risk owners are assigned for each selected risk, with more significant risks being assigned to more senior individuals. Risk owners also formulate risk mitigation plans for the significant risks identified and relating to their areas of responsibility.

(d) Risk Monitoring and Reporting
Risk monitoring and reporting are key components of the enterprise risk management system as they enable the Board, the Audit Committee, the internal risk management committee and department/functional heads to determine whether the system is functioning effectively. This includes ensuring that risks are identified, prioritised and communicated to those responsible for taking actions to address them, and that such actions have been taken and are being operated effectively.

Risk owners are responsible for monitoring the implementation and effectiveness of risk mitigation plans. They provide periodic updates to the internal risk management committee regarding the progress of the implementation of their risk mitigation plans and on the performance of these plans, according to the frequency specified in each plan. Risk management monitoring activities and the effectiveness of the implementation of risk mitigation plans are made subject to review by the Internal Audit Department and are included in its internal audit plans.

Control Effectiveness

In respect of the year ended December 31, 2022, after reviewing the effectiveness of the risk management and internal control systems as reported by the Audit Committee, the Board considers the risk management and internal control systems to be effective and adequate.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

Inside Information

The Company has adopted an Inside Information Policy in compliance with the SFO under which procedures are established for handling and disseminating inside information and to guard against possible mishandling of inside information within the Group.

The Board has delegated to its Disclosure Committee the authority to consider matters associated with compliance with the Company's continuous disclosure obligations. The Disclosure Committee members review the materiality of the relevant information and assess any possible impact on the Group in order to determine the appropriate course of actions and, if considered appropriate, a Board meeting may be convened to consider and decide whether or not the information constitutes inside information and disclosure shall be made immediately. The Board may seek independent professional advice, if and when appropriate, to ensure that the Company can timely comply with the disclosure requirements.

Whistleblowing Policy

The "Whistleblowing Policy" was established on March 14, 2022 to (i) encourage and assist any employee(s) or external parties to raise the Concern and disclose related information confidentially; (ii) provide reporting channels and guidance on whistleblowing to Employees or External Parties to raise the Concern rather than neglecting it; and (iii) reveal suspected fraud, malpractice or misconduct before these activities cause disruption or loss to the Group. The Audit Committee has the overall responsibility for this Policy, but has delegated the day-to-day responsibility for overseeing and implementing this Policy to the Head of Internal Audit. The Audit Committee is responsible for monitoring and reviewing the effectiveness of this Policy and the actions resulting from the investigation.

During the year, no whistleblowing cases were reported to the Board.

Anti-bribery and Anti-corruption

The Board had adopted the "Prevention of Bribery Policy" on March 15, 2022 to promote and support anti-corruption laws and regulations. The Company is committed to promoting the highest standards of business ethics and complying with all applicable laws, including the prevention of bribery legislations in the jurisdictions in which the Company operates and conducts business activities. The Company adopts a zero-tolerance attitude towards briberies in any form in any country in which the Company operates or conducts business activities.

For anti-corruption system, the head of Human Resources and General Administration Department of the Company shall from time to time identify and assess the risks of corruption in the context of the Company and develop mitigation measures accordingly (including the provision of appropriate training and explanations).

During the year, no substantiated court cases or complaints relating to the Company and corruption, bribery or conflict of interest occurred.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF
POU SHENG INTERNATIONAL (HOLDINGS) LIMITED
寶勝國際(控股)有限公司
(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Pou Sheng International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 77 to 175, which comprise the consolidated statement of financial position as at December 31, 2022, 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, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
We identified the impairment assessment of goodwill allocated to several groups of cash generating units ("CGUs") which are engaged in the business of distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales as a key audit matter due to the complexity and significant judgments and estimates involved in the assessment process of the management of the Group. As disclosed in note 16 to the consolidated financial statements, the carrying amount of goodwill as at December 31, 2022 was RMB522,163,000. Determining whether goodwill is impaired requires the management's estimation of the recoverable amounts of the relevant groups of CGUs to which the goodwill has been allocated, which is the higher of value in use and fair value less costs of disposal. In estimating the value in use of the above groups of CGUs, key inputs used by the management included discount rates, growth rates, budgeted sales and gross margin and their related cash inflow and outflow patterns. The management also engaged an independent valuer to determine the discount rate. The above groups of CGUs containing goodwill did not suffer any impairment during the year ended December 31, 2022.	Our procedures in relation to the impairment assessment of goodwill included: • Evaluating the competence, capabilities and objectivity of the independent valuer; • Evaluating the assumptions underpinning the discounted cash flow models, including growth rates, budgeted sales and gross margin through assessing the reasonableness of forecasted future cash flows by reference to the future business plan of the Group as well as industry trend; • Involving our team of internal valuation experts to assess the discount rate applied underpinning the discounted cash flow models by performing re-calculations based on market data and certain company specific parameters, as well as evaluating the reasonableness of parameters applied by the independent valuer; • Evaluating the reasonableness of sensitivity analysis provided by the management of the Group, and performing re-calculations to assess the extent of impact on the value in use; and • Evaluating the historical accuracy of the forecasted future cash flows by comparing them to actual results in the current year and understanding the causes for any significant variances.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Assessment of net realisable value of obsolete and slow-moving inventories	
We identified the assessment of net realisable value of obsolete and slow-moving inventories as a key audit matter due to the significant judgments and estimates involved in the determination of the net realisable value of these obsolete and slow-moving inventories by the management of the Group. As disclosed in notes 19 and 8 to the consolidated financial statements, the carrying amount of inventories included in the inventories balances as at December 31, 2022 was RMB6,071,858,000 and the net changes in allowance for inventories debited to the consolidated income statement for the year ended December 31, 2022 was RMB76,018,000. Accumulated allowance made as at December 31, 2022 was RMB233,109,000. As explained in note 4(b)(ii) to the consolidated financial statements, the management of the Group reviewed the aging and saleability of the inventories at the end of the reporting period and made allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market, as well as those inventories with carrying amounts less than their respective net realisable values. The management of the Group estimated the net realisable value for those items based primarily on the inventories condition, the latest transaction prices and current market condition.	Our procedures in relation to assessment of net realisable value of obsolete and slow-moving inventories included: • Understanding the process performed by management of the Group on identification of obsolete and slow-moving inventories; • Evaluating the accuracy of aging analysis of inventories by utilising computer assisted audit techniques and checking, on a sample basis, to the invoices and other relevant supporting documents; • Based on historical sales data of inventories in different aging categories, developing a point estimate to evaluate the reasonableness of allowance for inventories due to net realisable value of potentially obsolete and slow-moving inventories; and • Performing retrospective review using data analytic on actual sales performance in 2022 for those inventories as at December 31, 2021.

INDEPENDENT AUDITOR'S REPORT

Other Information

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Wu Ka Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 15, 2023

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	5	18,638,021	23,350,235
Cost of sales		(11,949,975)	(15,050,952)
Gross profit		6,688,046	8,299,283
Other operating income and gains (losses)	6(a)	342,839	458,017
Selling and distribution expenses		(5,806,761)	(6,962,403)
Administrative expenses		(809,594)	(866,440)
Operating profit		414,530	928,457
Finance costs		(166,759)	(202,932)
Finance income		22,235	28,079
	6(b)	(144,524)	(174,853)
Share of results of joint ventures		–	(163,512)
Other losses	6(c)	(7,143)	(15,972)
Profit before taxation		262,863	574,120
Income tax expense	7	(162,625)	(198,365)
Profit for the year	8	100,238	375,755
Attributable to:			
Owners of the Company		89,164	356,587
Non-controlling interests		11,074	19,168
		100,238	375,755
		RMB cents	RMB cents
Earnings per share	11		
– Basic		1.72	6.86
– Diluted		1.72	6.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022

	2022 RMB'000	2021 RMB'000
Profit for the year	100,238	375,755
Other comprehensive expense		
An item that will not be reclassified to profit or loss		
Fair value loss on investments in equity instrument at fair value through other comprehensive income	(1,155)	(106)
An item that may be reclassified subsequently to profit or loss		
Exchange differences arising on the translation of foreign operations	(1,790)	(139)
Other comprehensive expense for the year	(2,945)	(245)
Total comprehensive income for the year	97,293	375,510
Attributable to:		
Owners of the Company	86,219	356,342
Non-controlling interests	11,074	19,168
	97,293	375,510

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2022

	NOTES	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Investment properties	12	87,700	88,900
Property, plant and equipment	13	886,396	1,122,074
Right-of-use assets	14	2,281,544	2,890,219
Deposits paid for acquisition of property, plant and equipment		36,934	44,792
Rental deposits		143,467	168,453
Intangible assets	15	61,815	70,253
Goodwill	16	522,163	522,163
Interests in joint ventures	17	–	–
Equity instrument at fair value through other comprehensive income		1,813	3,019
Deferred tax assets	18	161,321	56,145
		4,183,153	4,966,018
CURRENT ASSETS			
Inventories	19	6,071,858	7,578,037
Trade and other receivables	20	2,149,713	2,807,379
Taxation recoverable		3,989	73,763
Bank balances and cash	21	1,190,148	1,233,783
		9,415,708	11,692,962
CURRENT LIABILITIES			
Trade and other payables	22	2,190,904	3,542,079
Contract liabilities	23	447,916	445,644
Taxation payable		71,599	40,332
Bank borrowings	24	456,162	1,581,640
Lease liabilities	25	774,164	978,018
		3,940,745	6,587,713
NET CURRENT ASSETS		5,474,963	5,105,249
TOTAL ASSETS LESS CURRENT LIABILITIES		9,658,116	10,071,267

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2022

	NOTES	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	24,569	26,207
Lease liabilities	25	1,439,627	1,842,864
		1,464,196	1,869,071
NET ASSETS		8,193,920	8,202,196
CAPITAL AND RESERVES			
Share capital	26	46,438	46,438
Reserves		8,067,815	8,049,026
Equity attributable to owners of the Company		8,114,253	8,095,464
Non-controlling interests		79,667	106,732
TOTAL EQUITY		8,193,920	8,202,196

The consolidated financial statements on pages 77 to 175 were approved and authorised for issue by the board of directors of the Company on March 15, 2023 and are signed on its behalf by:

Yu Huan-Chang
CHAIRMAN AND
EXECUTIVE DIRECTOR

Hu, Chia-Ho
EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022

	Equity attributable to owners of the Company																
	Share capital RMB'000 (Note 26)	Share premium RMB'000	Special reserve RMB'000 (note (i))	Other reserve RMB'000 (note (ii))	Revaluation reserve RMB'000	Merger reserve RMB'000 (note (iii))	Property revaluation reserve RMB'000	Reserve on instruments at FVTOCI RMB'000	Shares held under share award scheme RMB'000	Share award reserve RMB'000	Share-based compensation reserve RMB'000	Non-distributable reserve RMB'000 (note (iv))	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At January 1, 2021	46,688	5,175,342	676,506	(1,486,701)	55,395	29,544	6,381	827	(233,775)	13,333	893	730,933	(11,643)	2,766,478	7,770,201	105,829	7,876,030
Fair value loss on investments in equity instrument at fair value through other comprehensive income	–	–	–	–	–	–	–	(106)	–	–	–	–	–	–	(106)	–	(106)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	–	–	–	–	(139)	–	(139)	–	(139)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	356,587	356,587	19,168	375,755
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	(106)	–	–	–	–	(139)	356,587	356,342	19,168	375,510
Repurchase of own shares (Note 26)	(250)	(30,109)	–	–	–	–	–	–	–	–	–	–	–	–	(30,359)	–	(30,359)
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards not yet vested	–	–	–	–	–	–	–	–	–	5,515	–	–	–	–	5,515	–	5,515
Transfer upon lapse of share options	–	–	–	–	–	–	–	–	–	–	(893)	–	–	893	–	–	–
Share awards vested	–	–	–	–	–	–	–	–	16,672	(10,602)	–	–	–	(6,070)	–	–	–
Dividend paid to non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(28,000)	(28,000)
Deemed disposal of partial interest in a subsidiary	–	–	–	(6,235)	–	–	–	–	–	–	–	–	–	–	(6,235)	6,235	–
Capital contribution by a non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,500	3,500
Transfer	–	–	–	–	–	–	–	–	–	–	–	86,936	–	(86,936)	–	–	–
At December 31, 2021	46,438	5,145,233	676,506	(1,492,936)	55,395	29,544	6,381	721	(217,103)	8,246	–	817,869	(11,782)	3,030,952	8,095,464	106,732	8,202,196
Fair value loss on investments in equity instrument at fair value through other comprehensive income	–	–	–	–	–	–	–	(1,155)	–	–	–	–	–	–	(1,155)	–	(1,155)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	–	–	–	–	–	(1,790)	–	(1,790)	–	(1,790)
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	89,164	89,164	11,074	100,238
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	(1,155)	–	–	–	–	(1,790)	89,164	86,219	11,074	97,293
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards not yet vested	–	–	–	–	–	–	–	–	–	3,375	–	–	–	–	3,375	–	3,375
Share award vested	–	–	–	–	–	–	–	–	9,402	(6,879)	–	–	–	(2,523)	–	–	–
Disposal of subsidiaries (Note 6(c))	–	–	–	8,182	–	–	–	–	–	–	–	–	–	(8,182)	–	(4,539)	(4,539)
Dividend paid to non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(33,600)	(33,600)
Dividends recognised as distribution (Note 10)	–	–	–	–	–	–	–	–	–	–	–	–	–	(70,805)	(70,805)	–	(70,805)
Transfer	–	–	–	–	–	–	–	–	–	–	–	255,003	–	(255,003)	–	–	–
At December 31, 2022	46,438	5,145,233	676,506	(1,484,754)	55,395	29,544	6,381	(434)	(207,701)	4,742	–	1,072,872	(13,572)	2,783,603	8,114,253	79,667	8,193,920

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022

notes:

(i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the group reorganisation in 2008.

(ii) The other reserve represents the difference between the fair value of the consideration paid or received and the relevant share of carrying value of the subsidiaries' net assets/liabilities acquired from or disposed of to the non-controlling interests, after re-attribution of relevant reserve.

(iii) The merger reserve represents the difference in the fair value of the consideration paid to Yue Yuen (as defined in Note 1) for the acquisition of subsidiaries controlled by Yue Yuen and the share capital and premium of the acquired subsidiaries.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

	2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	262,863	574,120
Adjustments for:		
Depreciation of property, plant and equipment	481,651	540,672
Depreciation of right-of-use assets	1,082,593	1,234,609
Impairment loss on property, plant and equipment and right-of-use assets	20,000	–
Loss on disposal of subsidiaries	5,943	–
Amortisation of intangible assets	8,438	99,913
Net changes in allowance for inventories	76,018	32,456
Impairment losses recognised (reversal) on trade receivables, net	5,751	(4,524)
Impairment losses (reversal) recognised on other receivables, net	(124)	1,066
Impairment losses recognised on amounts due from joint ventures	313	–
Interest expenses	166,759	202,932
Interest income	(22,235)	(28,079)
Share of results of joint ventures	–	163,512
Recognition of equity-settled share-based payments, net of amount lapsed relating to share awards not yet vested	3,375	5,515
Loss on disposal of property, plant and equipment	26,045	41,973
Impairment loss of an intangible asset	–	10,172
Fair value changes on investment properties	1,200	5,800
Operating cash flows before movements in working capital	2,118,590	2,880,137
Decrease (increase) in prepayments	260,017	(268,838)
Decrease in trade and other receivables	339,270	849,829
Decrease (increase) in inventories	1,249,410	(927,030)
Decrease in trade and other payables	(1,134,664)	(117,022)
Increase (decrease) in contract liabilities	2,272	(140,219)
Cash generated from operations	2,834,895	2,276,857
Income tax paid	(168,462)	(439,559)
NET CASH FROM OPERATING ACTIVITIES	2,666,433	1,837,298

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

	NOTES	2022 RMB'000	2021 RMB'000
INVESTING ACTIVITIES			
Payment for acquisition of property, plant and equipment		(311,635)	(452,401)
Advance to a non-controlling interest of a subsidiary		(102,000)	(136,000)
Payments for right-of-use assets		(10,066)	(22,377)
Repayments of advance to a non-controlling interest of a subsidiary		136,000	136,000
Receipt for rental deposits		30,385	23,134
Interest received		22,235	28,079
Proceeds from disposal of property, plant and equipment		11,436	5,316
Net cash inflow on disposal of subsidiaries	6(c)	3,826	–
Acquisition of a subsidiary	28	–	9,456
Proceeds received from disposal of non-current assets classified as held for sale		–	4,657
NET CASH USED IN INVESTING ACTIVITIES		(219,819)	(404,136)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

	2022 RMB'000	2021 RMB'000
FINANCING ACTIVITIES		
Repayments of bank borrowings	(3,193,321)	(2,599,877)
Repayments of lease liabilities, including related interests	(1,194,934)	(1,300,881)
Dividend paid	(70,805)	–
Interest paid on bank borrowings and amount due to a non-controlling interest of a subsidiary	(64,590)	(69,277)
Dividend paid to a non-controlling interest of a subsidiary	(33,600)	(28,000)
New bank borrowings raised	2,069,175	2,083,535
Share repurchased	–	(30,359)
Capital contribution by non-controlling interests	–	3,500
NET CASH USED IN FINANCING ACTIVITIES	(2,488,075)	(1,941,359)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(41,461)	(508,197)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,233,783	1,742,290
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(2,174)	(310)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	1,190,148	1,233,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

1. GENERAL INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company of the Company is Major Focus Management Limited, a company incorporated in the British Virgin Islands ("BVI") and the ultimate parent of the Company is Pou Chen Corporation ("PCC"), a company incorporated in Taiwan and listed on the Taiwan Stock Exchange Corporation. The shares of an intermediate holding company of the Company, Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an exempted company incorporated in Bermuda with limited liability, are also listed on the Stock Exchange.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Group are set out in Notes 5 and 36.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2022 for the preparation of consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond June 30, 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020

In addition, the Group applied the agenda decision of the International Financial Reporting Standards Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. The application of Committee's agenda decision results in change in accounting policy for inventories.

The application of amendments to HKFRSs and the Committee's agenda decision in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after January 1, 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after January 1, 2024

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 "Making Materiality Judgements" (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 "Definition of Accounting Estimates"

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty - that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 "Income Taxes" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in Note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on January 1, 2023. As at December 31, 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB2,083,268,000 and RMB2,213,791,000 respectively. The Group is still in the progress of assessing the full impact of the application of the amendments, specifically, the realisability of the deferred tax assets related to the deductible temporary differences. The cumulative effect of initially applying the amendments, if any, will be recognised as adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest comparative period presented.

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

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.1 Basis of preparation of consolidated financial statements (Continued)

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

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

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

3.2 Significant accounting policies (Continued)

Basis of consolidation (Continued)

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Business combinations

A business is an integrated set of activities and assets which include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

For business combinations in which the acquisition date is on or after January 1, 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the "Conceptual Framework for Financial Reporting 2018" issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Goodwill

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

For the purposes of impairment assessment, goodwill is allocated to each of the Group's cash-generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

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

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

Investments in joint ventures

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Investments in joint ventures (Continued)

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in a joint venture that has not been classified as held for sale shall be accounted for using the equity method. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and the comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group.

When the Group's share of losses of joint ventures exceeds the Group's interest in those joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in joint ventures), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures.

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

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

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

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

3.2 Significant accounting policies (Continued)

Investments in joint ventures (Continued)

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

Revenue from contracts with customers

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

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

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

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

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

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

Provision on customer loyalty programme

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases and leases of low-value assets

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

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

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use assets includes:

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

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

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

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

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

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

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

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

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

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

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

Lease modifications

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

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

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

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

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

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessor

Classification and measurement of leases

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

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

3.2 Significant accounting policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

Borrowing costs

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

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

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

3.2 Significant accounting policies (Continued)

Government grants

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

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

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

Employee benefits

Retirement benefit costs

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

Employee benefits

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Share-based payments

Equity-settled share-based payment transactions

Share option scheme

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

At the end of each reporting period, service and non-market performance vesting conditions are included in the estimation about the number of share options that are expected to vest, the Group revises its estimate of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based compensation reserve.

When share options are exercised, the amount previously recognised in share-based compensation reserve will be transferred to share capital and share premium. When the share options are lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based compensation reserve will be transferred to accumulated profits.

Share award scheme

When the trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under share award scheme and deducted from total equity.

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

At the end of each reporting period, service and non-market performance vesting conditions are included in the estimation about the number of share awards that are expected to vest, the Group revises its estimate of the number of share awards that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share award reserve.

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

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

3.2 Significant accounting policies (Continued)

Taxation

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

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

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

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

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

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

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

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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

For the purposes of measuring deferred tax for 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, except for freehold land, which is always presumed to be recovered entirely through sale.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Property, plant and equipment

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

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

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 classified as right-of-use assets) at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to accumulated profits.

Depreciation is recognised to write off the cost of assets less their residual values, over their estimated useful lives, using the straight-line method. The estimated useful life, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Investment properties

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

Investment properties also include leased properties which are being recognised as right-of-use assets 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 derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

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

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

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

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

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

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

3.2 Significant accounting policies (Continued)

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

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

Cash and cash equivalents

Bank balances and cash presented on the consolidated statement of financial position include cash, which comprises of cash on hand and demand deposits and cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised 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 that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised 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 (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised when the Group incurs an obligation for those costs at the directors' best estimate of the expenditure that would be required to restore the assets, estimates are regularly reviewed and adjusted as appropriate for new circumstances.

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

3.2 Significant accounting policies (Continued)

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

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

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

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

(i) Amortised cost and interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(ii) Equity instrument designated at FVTOCI

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

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

Impairment of financial assets

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

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

The Group always recognises lifetime ECL for trade receivables.

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

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

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

(ii) Definition of default

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

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

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

(b) a breach of contract, such as a default;

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

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

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Company's own equity instruments, including those through share award scheme, is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

Financial liabilities, including amounts due to related parties, amount due to a non-controlling interest of a subsidiary, bank borrowings and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Discount rates determination for lease liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

(b) Key sources of estimation uncertainty

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

(i) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amounts of several groups of CGUs which are engaged in the business of distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales to which goodwill has been allocated, which is the higher of the value in use and fair value less costs of disposal. The value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the above groups of CGUs containing goodwill using a suitable discount rate. Where actual cash flows are less than expected or changes in facts and circumstances which results in downward revision of future cash flows, or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

As at December 31, 2022, the carrying amount of goodwill is RMB522,163,000 (2021: RMB522,163,000). Details of the recoverable amount calculation are disclosed in Note 16.

(ii) Allowance for inventories

The management of the Group reviews the aging and saleability of the inventories amounting to RMB6,071,858,000 (2021: RMB7,578,037,000) at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer saleable in the market as well as those inventories with carrying amounts less than their net realisable values. The management of the Group estimates the net realisable value for such items based primarily on the inventories condition, latest transaction prices and current market conditions. The Group carries out an inventory review on aging categories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items. Where the actual transaction prices are different from expected, the provision may be subject to change. The net changes in allowance for inventories debited to the consolidated income statement for the year ended December 31, 2022 was RMB76,018,000 (2021: RMB32,456,000) upon review of saleability of the inventory balance remained at the end of the reporting period. Accumulated allowance made as at December 31, 2022 was RMB233,109,000 (2021: RMB165,546,000).

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

(b) Key sources of estimation uncertainty (Continued)

(iii) Income taxes

As at December 31, 2022, a deferred tax asset of RMB128,690,000 (2021: RMB24,203,000) in relation to unused tax losses for certain operating subsidiaries has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB1,386,587,000 (2021: RMB1,074,584,000) due to the unpredictability of future profit streams. The reliability of the deferred tax asset arising from the unused tax losses mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, a material reversal or future recognition of deferred tax asset may further arise, which would be recognised in profit or loss for the period in which such reversal or future recognition takes place.

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

(iv) Provision of ECL for trade receivables

The Group uses practical expedient in estimating ECL on the trade receivables which are not assessed individually using a provision matrix. The provision rates are based on aging status of trade receivables as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable, supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables that are credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 34(b) and Note 20.

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

(b) Key sources of estimation uncertainty (Continued)

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

Property, plant and equipment, right-of-use assets and intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) if such event or indicator exists, whether the carrying value of an asset can be supported by the recoverable amount, which is the higher of value in use and fair value less costs of disposal; (3) the appropriate key inputs to be applied in estimating the recoverable amounts. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of CGUs, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

The Group has material leasehold improvements and right-of-use assets in the retail stores which are subject to impairment test in the event of performance is below expectation. In addition, intangible assets allocated to several groups of CGUs are subject to impairment assessment test when indicator exists in any of the CGU within the groups of CGUs in which the relevant intangible assets have been allocated to. Impairment assessments were carried out against retail stores which are still underperformed after one year's operation since open and the related groups of CGUs in which the intangible assets are allocated. As at December 31, 2022, the Group performed impairment assessment on certain CGUs/groups of CGUs with impairment indicators. Impairment losses on property, plant and equipment and right-of-use assets of RMB4,403,000 and RMB15,597,000 were recognised respectively and detailed in Note 14.

5. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the distribution and retailing of sportswear and footwear products and provision of large scale commercial spaces to retailers and distributors for commissions from concessionaire sales ("the Retail Business"). The Group's results and revenue are reported as a whole on a regular basis to the chief operating decision maker, being the executive directors of the Company, for the purposes of performance assessment and resource allocation. No other discrete financial information is presented other than entity-wide disclosures.

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

	2022 RMB'000	2021 RMB'000
Sales of sportswear and footwear products	18,528,602	23,222,060
Commissions from concessionaire sales	109,419	128,175
	18,638,021	23,350,235

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods and information about its non-current assets by geographical location of the assets.

	Revenue from external customers		Non-current assets (note)	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
PRC	18,468,636	23,184,518	4,003,601	4,865,086
Other locations	169,385	165,717	16,418	41,768
	18,638,021	23,350,235	4,020,019	4,906,854

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

6. OTHER INCOME AND GAINS (LOSSES)

(a) Other operating income and gains (losses)

	2022 RMB'000	2021 RMB'000
Included in other operating income and gains (losses) are the following items:		
Net exchange (loss) gain	(334)	47
Subsidy income from government	97,734	73,896
Loss on disposal of property, plant and equipment	(26,045)	(41,973)
Impairment losses (recognised) reversal on trade receivables, net	(5,751)	4,524
Impairment losses reversal (recognised) on other receivables, net (note)	124	(1,066)
Impairment losses recognised on amounts due from joint ventures	(313)	–

note: Impairment losses provision has been recognised based on the impairment assessment under ECL model at the end of each reporting period, having considered the relevant other receivables are credit-impaired due to deteriorated operating results of relevant debtors leading to financial difficulties for repayment. During the year ended December 31, 2022, net impairment losses reversal of RMB124,000 has been recognised (2021: impairment loss of RMB1,066,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

(b) Finance income and costs

	2022 RMB'000	2021 RMB'000
Interest expense on:		
– bank borrowings	(58,431)	(67,520)
– advances from related parties	(123)	(483)
– lease liabilities	(108,205)	(134,929)
	(166,759)	(202,932)
Interest income from:		
– bank deposits	20,529	15,491
– amount due from a joint venture	–	10,727
– advance to a non-controlling interest of a subsidiary	1,706	1,861
	22,235	28,079
	(144,524)	(174,853)

(c) Other losses arising other than operating activities

	2022 RMB'000	2021 RMB'000
Loss on disposal of subsidiaries (note)	(5,943)	–
Impairment loss recognised on an intangible asset	–	(10,172)
Fair value changes on investment properties	(1,200)	(5,800)
	(7,143)	(15,972)

note: During the year ended December 31, 2022, the Group disposed, to an independent third party, its entire equity interest in a group of non-wholly owned subsidiaries which are principally engaged in retailing of sportwear business in the PRC for a consideration of RMB10,461,000. Upon the disposal, amount included in other reserve attributable to this disposed group of subsidiaries of RMB8,182,000 was transferred to accumulated profits. The proceeds from disposal, net of cash and cash equivalents disposed of, amounted to RMB3,826,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

7. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Taxation attributable to the Company and its subsidiaries:		
PRC Enterprise Income Tax ("EIT")		
– current year	224,851	229,368
– under(over)provision in prior years	9,806	(4,807)
Withholding tax on dividend	34,846	–
Current tax charge	269,503	224,561
Deferred tax credit (Note 18)	(106,878)	(26,196)
	162,625	198,365

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 for certain subsidiaries eligible for PRC EIT of 15% from local tax bureaus.

Dividend distributed from the PRC subsidiaries are subject to withholding tax of 5%.

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

	2022 RMB'000	2021 RMB'000
Profit before taxation	262,863	574,120
Tax at the applicable domestic rates to profit losses of taxable entities in the countries concerned (note)	40,591	68,399
Tax effect of share of results of joint ventures	–	40,878
Tax effect of expenses not deductible for tax purposes	40,425	56,908
Tax effect of income not taxable for tax purposes	(13,738)	(16,285)
Effect of tax losses not recognised	53,848	66,965
Utilisation of tax losses previously not recognised	(3,153)	(6,354)
Under(over)provision of tax in prior years	9,806	(4,807)
Reversal of withholding tax on undistributed earnings	–	(7,339)
Withholding tax on dividend	34,846	–
Income tax expenses for the year	162,625	198,365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

7. INCOME TAX EXPENSE (Continued)

note: Upon the commencement of operation of certain subsidiaries during the year ended December 31, 2021, the Group operates in regions with different statutory tax rates, separate reconciliations using the domestic tax rate in each individual tax jurisdiction have been aggregated.

8. PROFIT FOR THE YEAR

	2022 RMB'000	2021 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and the chief executives' emoluments (Note 9(a))	3,881	3,244
Retirement benefit scheme contributions, excluding directors and the chief executives	381,645	350,096
Equity-settled share-based payments, excluding directors and the chief executives	3,130	4,553
Other staff costs	2,036,942	2,406,214
Total staff costs	2,425,598	2,764,107
Auditor's remuneration	5,587	5,807
Depreciation of property, plant and equipment	481,651	540,672
Depreciation of right-of-use assets	1,082,593	1,234,609
Amortisation of intangible assets (included in selling and distribution expenses)	8,438	99,913
Impairment loss on property, plant and equipment and right-of-use assets (included in selling and distribution expenses) (Note 14)	20,000	–
Gross rental income from investment properties, net of direct expenses	(3,934)	(4,221)
Net changes in allowance for inventories	76,018	32,456

For the years ended December 31, 2022 and 2021, cost of inventories recognised as an expense represents cost of sales as shown in the consolidated income statement.

For the year ended December 31, 2022, the novel coronavirus (COVID-19) pandemic related government grants/assistances amounted to RMB21,329,000 (2021: RMB7,865,000) were deducted from staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

(a) Directors' and chief executives' emoluments

Details of emoluments of each of the twelve (2021: eight) directors, former directors and chief executives of the Company for the year disclosed pursuant to the applicable Listing Rules and CO, are set out as follows:

	Fees RMB'000	Salaries and other allowances RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
For the year ended December 31, 2022				
Executive directors:				
Yu Huan-Chang (note i)	–	235	41	276
Hu, Chia-Ho (note ii)	–	214	–	214
Liao, Yuang-Whang	–	542	–	542
Wu, Pan-Tsu (note iv)	–	–	–	–
Lee, Shao-Wu (note v)	–	676	101	777
Non-executive directors:				
Tsai Patty, Pei Chun	–	–	–	–
Li I-nan	129	–	–	129
Independent non-executive directors:				
Liu, Hsi-Liang (note vi)	202	–	–	202
Chen, Huan-Chung	259	–	–	259
Feng Lei Ming	259	–	–	259
Hsieh, Wuei-Jung (note vii)	56	–	–	56
Chief executive officer:				
Wang Jun (note viii)	–	1,064	103	1,167
	905	2,731	245	3,881

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

	Fees RMB'000	Salaries and other allowances RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
For the year ended December 31, 2021				
Executive directors:				
Wu, Pan-Tsu	–	–	–	–
Lee, Shao-Wu	–	997	962	1,959
Liao, Yuang-Whang (note iii)	–	414	–	414
Non-executive directors:				
Tsai Patty, Pei Chun	–	–	–	–
Li I-nan	124	–	–	124
Independent non-executive directors:				
Chen, Huan-Chung	249	–	–	249
Feng Lei Ming	249	–	–	249
Hsieh, Wuei-Jung	249	–	–	249
	871	1,411	962	3,244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

note i: Yu Huan-Chang has been appointed as the chairman and an executive director of the Company with effect from September 2, 2022.

note ii: Hu, Chia-Ho has been appointed as an executive director of the Company with effect from July 1, 2022.

note iii: Liao, Yuang-Whang had been appointed as an executive director of the Company with effect from June 1, 2021.

note iv: Wu, Pan-Tsu has retired from the chairman and executive director of the Company with effect from July 1, 2022.

note v: Lee, Shao-Wu has been appointed as the chairman and resigned as chief executive officer of the Company with effect from July 1, 2022, and resigned from the chairman and executive director of the Company with effect from September 2, 2022.

note vi: Liu, Hsi-Liang has been appointed as an independent non-executive director of the Company with effect from March 25, 2022.

note vii: Hsieh, Wuei-Jung has resigned as an independent non-executive director of the Company with effect from March 25, 2022.

note viii: Wang Jun was appointed as the acting chief executive officer of the Company with effect from July 1, 2022 and was re-designated as the chief executive officer of the Company with effect from March 15, 2023.

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

During the year ended December 31, 2022, other than Liao, Yuang-Whang (executive director) and Wang Jun (chief executive officer) to who the Group has made retirement benefit contribution of RMB6,000 (2021: RMB8,000) and RMB65,000 (2021: N/A) respectively, other executive directors or former directors either did not receive any salary from the Group or is a member of a pension scheme outside Hong Kong, for which the Group was exempted from making contribution to the pension scheme in Hong Kong or other jurisdictions for these directors and former directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

(b) Emoluments of senior management

Of the eleven (2021: seven) senior management of the Company for the year ended December 31, 2022, five (2021: three) of them were executive directors of the Company and their remuneration has been disclosed in Note 9(a). The emoluments of the remaining six (2021: four) individuals for the year are within the following bands.

	2022 Number of employees	2021 Number of employees
Less than HK$1,000,000	2	–
HK$1,000,001 to HK$1,500,000	1	1
HK$2,500,001 to HK$3,000,000	1	–
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$4,500,001 to HK$5,000,000	–	1
HK$6,000,001 to HK$6,500,000	–	1
HK$7,000,001 to HK$7,500,000	1	–
	6	4

(c) Five highest paid employees

Of the five (2021: five) employees with the highest emoluments in the Group for the year ended December 31, 2022, none of them are directors of the Company (2021: none of them). The emoluments of the five (2021: five) individuals for the year are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other allowances	9,059	9,027
Bonus	7,080	8,480
Equity-settled share-based payment	900	1,268
	17,039	18,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

(c) Five highest paid employees (Continued)

Their emoluments were within the following bands:

	2022 Number of employees	2021 Number of employees
HK$2,500,001 to HK$3,000,000	2	–
HK$3,000,001 to HK$3,500,000	1	1
HK$3,500,001 to HK$4,000,000	1	1
HK$4,000,001 to HK$4,500,000	–	1
HK$4,500,001 to HK$5,000,000	–	1
HK$6,000,001 to HK$6,500,000	–	1
HK$7,000,001 to HK$7,500,000	1	–
	5	5

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid employees (including directors and the chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors nor the chief executive has waived any emoluments during both years.

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

The Company and Yue Yuen entered into a framework agreement on November 11, 2021, pursuant to which, the Company may, through its subsidiaries, jointly controlled entities and associates purchase from Yue Yuen's subsidiaries, jointly controlled entities and associates, and/or any factories operated and/or appointed by members of the Yue Yuen's subsidiaries, jointly controlled entities and associates footwear products, for three years from January 1, 2022 to December 31, 2024, subject to the various annual caps.

Mr. Yu Huan-Chang (appointed as an executive director of the Company on September 2, 2022) was interested in 30,000 shares in Yue Yuen, and all of them were awarded shares which remained unvested and subject to certain vesting conditions as at December 31, 2022.

Mr. Hu, Chia-Ho (appointed as an executive director of the Company on July 1, 2022) was interested in 273,000 shares in Yue Yuen, and 60,000 of them were awarded shares which remained unvested and subject to certain vesting conditions as at December 31, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

Mr. Wu, Pan-Tsu (retired from executive director of the Company on July 1, 2022) had 73,000 (2021: 94,000) awarded shares in Yue Yuen being vested during the year ended December 31, 2022.

Mr. Lee, Shao-Wu (resigned from executive director of the Company on September 2, 2022) was interested in 213,000 shares in Yue Yuen, and 60,000 of them were awarded shares which remained unvested and subject to certain vesting conditions as at December 31, 2021; and 88,000 (2021: 75,000) awarded shares in Yue Yuen were vested and 60,000 awarded shares in Yue Yuen were lapsed during the year ended December 31, 2022.

Mr. Liao, Yuang-Whang was interested in 30,000 (2021: 30,000) shares in Yue Yuen, and all of them were awarded shares which remained unvested and subject to certain vesting conditions.

10. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Dividend recognised as distribution during the year:		
2021 final dividend of HK$0.016 per share (2021: nil)	70,805	–

Subsequent to the end of the reporting period, the directors of the Company resolved not to recommend payment of a final dividend in respect of the year ended December 31, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2022 RMB'000	2021 RMB'000
Earnings:		
Earnings for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	89,164	356,587

	2022	2021
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,174,290,612	5,194,816,603
Effect of dilutive potential ordinary shares: – unvested awarded shares	2,806,716	17,765,765
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,177,097,328	5,212,582,368

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company (see Note 27(b)). The computation of diluted earnings per share for the year ended December 31, 2021 did not assume the exercise of share options of the Company because the exercise price of those options was higher than the average market price of shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INVESTMENT PROPERTIES

	RMB'000
FAIR VALUE	
At January 1, 2021	94,700
Decrease in fair value recognised in profit or loss	(5,800)
At December 31, 2021	88,900
Decrease in fair value recognised in profit or loss	(1,200)
At December 31, 2022	87,700

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

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

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at December 31, 2022 and 2021, the fair value of the Group's investment properties situated in the PRC has been arrived at based on a valuation carried out by APAC Asset Valuation and Consulting Limited ("APAC Asset Valuation") which is an independent qualified professional valuer. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties. The market yield is determined by reference to the yields derived from analysing the rental and market price of similar properties in the PRC.

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

All of the Group's investment properties are commercial properties located in the PRC and classified as Level 3 fair value hierarchy. There were no transfers into or out of Level 3 during the year.

One of the key inputs used in valuing the investment properties was the market yield, which ranged from 4.3% to 6.0% (2021: 4.3% to 6.0%). A significant increase in the market yield used would result in a significant decrease in fair value measurement of the respective investment properties, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Office and shopping mall buildings RMB'000	Training buildings and warehouses RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture, fixture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST								
At January 1, 2021	58,523	74,097	359,538	40,012	2,044,098	456,095	23,608	3,055,971
Additions	–	–	–	101	363,872	49,476	1,939	415,388
Acquired on acquisition of a subsidiary	–	–	–	–	171	585	–	756
Disposals	–	–	–	(3)	(319,873)	(14,808)	(2,622)	(337,306)
Exchange realignment	–	–	–	–	(350)	(205)	(18)	(573)
At December 31, 2021	58,523	74,097	359,538	40,110	2,087,918	491,143	22,907	3,134,236
Additions	–	–	–	534	253,889	34,731	1,488	290,642
Disposals	–	–	–	–	(320,210)	(16,151)	(608)	(336,969)
Disposals of subsidiaries	–	–	–	–	(3,823)	(1,601)	–	(5,424)
Exchange realignment	–	–	–	–	(618)	(286)	(31)	(935)
At December 31, 2022	58,523	74,097	359,538	40,644	2,017,156	507,836	23,756	3,081,550
DEPRECIATION AND IMPAIRMENT								
At January 1, 2021	19,739	10,713	186,659	34,882	1,214,055	279,629	16,055	1,761,732
Provided for the year	1,249	2,019	12,235	473	455,293	67,278	2,125	540,672
Eliminated on disposals	–	–	–	(1)	(273,820)	(13,841)	(2,355)	(290,017)
Exchange realignment	–	–	–	–	(109)	(111)	(5)	(225)
At December 31, 2021	20,988	12,732	198,894	35,354	1,395,419	332,955	15,820	2,012,162
Provided for the year	1,249	2,019	12,235	483	404,173	59,639	1,853	481,651
Impairment loss (Note 14)	–	–	–	–	4,403	–	–	4,403
Eliminated on disposals	–	–	–	–	(284,277)	(14,678)	(533)	(299,488)
Disposal of subsidiaries	–	–	–	–	(2,325)	(766)	–	(3,091)
Exchange realignment	–	–	–	–	(303)	(167)	(13)	(483)
At December 31, 2022	22,237	14,751	211,129	35,837	1,517,090	376,983	17,127	2,195,154
CARRYING VALUE								
At December 31, 2022	36,286	59,346	148,409	4,807	500,066	130,853	6,629	886,396
At December 31, 2021	37,535	61,365	160,644	4,756	692,499	158,188	7,087	1,122,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

All buildings, office and shopping mall buildings and factory buildings and warehouses are erected on land with medium-term land use rights in the PRC.

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

Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements as at December 31, 2022 was RMB62,728,000 (2021: RMB70,541,000).

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings/office and shopping mall buildings/training buildings and warehouses	2% - 3% or shorter of the lease term
Plant and machinery	5% - 15%
Leasehold improvements	10% - 50% or shorter of the lease term
Furniture, fixture and equipment	20% - 30%
Motor vehicles	20% - 30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

14. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Retail stores RMB'000	Warehouses RMB'000	Office buildings RMB'000	Total RMB'000
As at December 31, 2022					
Carrying amount	99,736	2,008,344	74,163	99,301	2,281,544
As at December 31, 2021					
Carrying amount	102,943	2,614,858	79,051	93,367	2,890,219
For the year ended December 31, 2022					
Depreciation charge	3,207	1,012,539	23,981	42,866	1,082,593
For the year ended December 31, 2021					
Depreciation charge	3,207	1,158,138	28,089	45,175	1,234,609

	2022 RMB'000	2021 RMB'000
Expense relating to short-term leases	49,042	127,852
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	119	79
Variable lease payments not included in the measurement of lease liabilities	940,988	1,219,114
Total cash outflow for leases	2,195,149	2,670,303
Additions to right-of-use assets, net of early termination and modification	493,449	877,918

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

14. RIGHT-OF-USE ASSETS (Continued)

The Group leases various leasehold lands, retail stores, warehouses and office buildings for its operations. Majority of the lease contracts are entered into for lease term of 2 to 5 years (2021: 2 to 5 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for properties. As at December 31, 2022, the size of portfolio of short-term leases decreased compared to those entered in 2021. The short-term lease expense were approximately RMB49,042,000 during the year ended December 31, 2022 (2021: RMB127,852,000).

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

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

Rent concessions

The changes in lease payments due to rent concessions constitute lease modifications. During the current year, reduction of the Group's lease liabilities of RMB126,131,000 (2021: RMB49,308,000) and a corresponding adjustment of the same amount to the right-of-use assets were recognised because of lease modifications made during the year.

Lease committed

As at December 31, 2022, the Group entered into new leases for several retail stores, warehouses and office buildings that have not yet commenced, with average non-cancellable period ranging from 1 to 3 years (2021: 1 to 5 years), the total future undiscounted cash flows over the non-cancellable period amounted to RMB21,391,000 (2021: RMB15,315,000).

14. RIGHT-OF-USE ASSETS (Continued)

Impairment assessment of property, plant and equipment and the right-of-use assets

Giving the adverse performance of certain of the Group's retail stores, the management concluded there was indication for impairment and performed impairment assessment for certain retail stores in the PRC. The Group estimates the recoverable amount of the cash-generating unit to which the assets belong to when it is not possible to estimate the recoverable amount individually including allocation of corporate assets when reasonable and consistent basis can be established. Each cash-generating unit represents the Group's retail store in PRC. The recoverable amount of cash generating unit has been determined based on a value in use calculations using cash flow projections based on forecasts approved by the management of the Group covering the remaining lease terms as at December 31, 2022. The forecasted revenue and gross profit margin have been determined with reference to the expected market development and the past performance of the retail stores. The management conducted impairment assessment on recoverable amounts of the property, plant and equipment and the right-of-use assets which were impaired to their recoverable amounts as disclosed in this note and Note 13.

Based on the result of the assessment, management of the Group determined that the recoverable amounts of certain cash-generating units are lower than the corresponding carrying amounts. The impairment amount has been allocated to each category of the property, plant and equipment and the right-of-use assets such that the carrying amount of each category of asset is not reduced below the highest of its value in use, fair value less costs of disposal and zero. Based on the value in use calculations and the allocation, impairment losses of RMB4,403,000 and RMB15,597,000 have been recognised against the carrying amounts of the property, plant and equipment and the right-of-use assets, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

15. INTANGIBLE ASSETS

	Brand names RMB'000	Licensing agreements RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST				
At January 1, 2021	467,340	100,569	158,534	726,443
Exchange realignment	–	(44)	–	(44)
Write off	–	(63,200)	–	(63,200)
At December 31, 2021 and 2022	467,340	37,325	158,534	663,199
AMORTISATION AND IMPAIRMENT				
At January 1, 2021	382,973	83,277	79,842	546,092
Provided for the year	84,367	7,107	8,439	99,913
Impairment loss recognised in the year	–	10,172	–	10,172
Exchange realignment	–	(31)	–	(31)
Write off	–	(63,200)	–	(63,200)
At December 31, 2021	467,340	37,325	88,281	592,946
Provided for the year	–	–	8,438	8,438
At December 31, 2022	467,340	37,325	96,719	601,384
CARRYING VALUE				
At December 31, 2022	–	–	61,815	61,815
At December 31, 2021	–	–	70,253	70,253

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

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

During the year ended December 31, 2021, full impairment loss of RMB10,172,000 had been recognised on an intangible asset of licencing agreement as it was not expected to generate a significant future cash flow from this licencing agreement in the foreseeable future.

16. GOODWILL

	RMB'000
COST	
At January 1, 2021	533,242
Exchange realignment	(86)
At December 31, 2021	533,156
Exchange realignment	(157)
At December 31, 2022	532,999
IMPAIRMENT	
At January 1, 2021	11,079
Exchange realignment	(86)
At December 31, 2021	10,993
Exchange realignment	(157)
At December 31, 2022	10,836
CARRYING VALUE	
At December 31, 2022	522,163
At December 31, 2021	522,163

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

The basis of recoverable amount of each of the above groups of CGUs has been determined based on the higher of its value in use calculation and fair value less costs of disposal, and assessed by the management as at December 31, 2022 and 2021.

16. GOODWILL (Continued)

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period and pre-tax discount rates ranging from 20% to 22% (2021: 19% to 20%), determined by an independent qualified professional valuer, APAC Asset Valuation for the groups of CGUs. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2021: 3%) for all of the above groups of CGUs. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on above groups of CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the above groups of CGUs to fall below its carrying amount.

17. INTERESTS IN JOINT VENTURES

	2022 RMB'000	2021 RMB'000
Cost of unlisted investments in joint ventures	27,100	27,100
Share of post-acquisition losses, net of dividends received	(27,100)	(27,100)
	–	–

On December 31, 2021, the Group entered into an equity transfer agreement with another joint venture partner to acquire its equity interest of Kunshan Baowei Information Technology Co., Ltd. ("Kunshan Baowei"). During the year ended December 31, 2021, the share of loss from Kunshan Baowei amounted to RMB163,512,000 was mainly due to the clearance of the inventories with relatively low margins. The management of the Company considers that the Group has obtained control over Kunshan Baowei on December 31, 2021. Accordingly, Kunshan Baowei is accounted for as an indirect wholly-owned subsidiary of the Company on December 31, 2021 as detailed in Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

18. DEFERRED TAX ASSETS/LIABILITIES

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

	2022 RMB'000	2021 RMB'000
Deferred tax assets	(161,321)	(56,145)
Deferred tax liabilities	24,569	26,207
	(136,752)	(29,938)

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

	Undistributed earnings of PRC entities RMB'000	Fair value adjustments of intangible assets on business combination RMB'000	Right-of-use assets/ related lease liabilities RMB'000	Tax losses RMB'000	Total RMB'000
At January 1, 2021	17,085	43,357	(26,888)	(37,400)	(3,846)
(Credit) charge to profit or loss (Note 7)	(7,339)	(27,000)	(5,054)	13,197	(26,196)
Exchange realignment	–	104	–	–	104
At December 31, 2021	9,746	16,461	(31,942)	(24,203)	(29,938)
Credit to profit or loss (Note 7)	–	(1,638)	(753)	(104,487)	(106,878)
Disposal of subsidiaries	–	–	64	–	64
At December 31, 2022	9,746	14,823	(32,631)	(128,690)	(136,752)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

18. DEFERRED TAX ASSETS/LIABILITIES (Continued)

As at December 31, 2022, the Group had unused tax losses of approximately RMB1,901,345,000 (2021: approximately RMB1,171,396,000) available for offset against future profits with majority that will gradually expire in five years' time. A deferred tax asset has been recognised in respect of RMB514,758,000 (2021: RMB96,812,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately RMB1,386,587,000 (2021: approximately RMB1,074,584,000) due to unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB7,817 million (2021: approximately RMB8,489 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

19. INVENTORIES

	2022 RMB'000	2021 RMB'000
Sportswear and footwear products	6,071,858	7,578,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

20. TRADE AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	862,084	1,165,003
Deposits, prepayments and other receivables	1,287,629	1,642,376
	2,149,713	2,807,379
Deposits, prepayments and other receivables represent:		
Rental deposits and prepaid rentals	115,651	164,397
Deposits and prepayments paid to suppliers	776,814	1,001,350
Value-added tax recoverable	262,289	278,660
Amounts due from joint ventures (note i)	–	313
Amount due from a non-controlling interest of a subsidiary (note ii)	–	34,000
Other prepaid expenses	97,688	113,028
Other deposits and receivables	35,187	50,628
	1,287,629	1,642,376

notes:

(i) As at December 31, 2021, the amount represents other receivable from certain joint ventures of RMB313,000 and is unsecured, interest-free and has no fixed term of repayment. ECL allowance of RMB313,000 has been provided during the year ended December 31, 2022.

(ii) As at December 31, 2021, the amount is unsecured, carries fixed interest rate of 6.53% per annum and is repayable within three months from the date of advance. The amount has been fully settled during the year ended December 31, 2022.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

20. TRADE AND OTHER RECEIVABLES (Continued)

The Group generally allows credit periods of 30 days to 60 days which are agreed with each of its trade customers. The aged analysis of the Group's trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates, is as follows:

	2022 RMB'000	2021 RMB'000
0 – 30 days	820,300	1,105,075
31 – 90 days	41,784	59,225
Over 90 days	–	703
	862,084	1,165,003

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB163,000 (2021: RMB1,217,000) which are past due over 60 days at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. Trade receivables which are neither past due nor impaired are in good quality with satisfactory repayment history in the past.

Details of impairment assessment of trade and other receivables for the year ended December 31, 2022 and 2021 are set out in Note 34(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

21. BANK BALANCES AND CASH

Bank balances and cash include demand deposits and short-term time deposits for the purpose of meeting the Group's short-term cash commitments, which are interest-bearing at market interest rates. All deposits have an original maturity of three months or less.

During the year ended December 31, 2022, the bank deposits carried variable interest rates ranging from 0.01% to 3.00% (2021: 0.01% to 3.00%) per annum.

The Group's bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2022 RMB'000	2021 RMB'000
United States dollars ("USD")	9,449	5,731
Hong Kong dollars	569	627
RMB	4,958	43
	14,976	6,401

22. TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade and bills payables (note i)	819,396	1,655,096
Deposits from customers	298,859	308,687
Amounts due to related parties (note ii)	4,625	3,591
Accrued staff costs	337,093	485,522
Sales discount and rebate to customers	125,070	160,534
Renovation costs payables	92,552	121,403
Short-term leases, leases of low-value assets and variable lease payables	78,751	66,192
Storage fee payables	11,218	22,895
Sales received on behalf of concessionary sales customers	133,813	93,603
Other tax payables	60,453	149,186
Interest payables	1,625	7,661
Accrued operating expenses	227,449	291,581
Consideration payable for acquisition of a subsidiary (note iii)	–	176,128
	2,190,904	3,542,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

22. TRADE AND OTHER PAYABLES (Continued)

notes:

(i) As at December 31, 2022, the amount includes bills payables of RMB300,000,000 (2021: nil) relating to purchase of inventories from suppliers. As at December 31, 2021, the amount included trade payable to subsidiaries of Yue Yuen of RMB1,720,000.

(ii) The amounts represent amount due to a non-controlling interest of a subsidiary of RMB2,800,000 (2021: RMB2,800,000) which is unsecured, expected to be repaid within one year and carries fixed interest rate of 4.35% (2021: 4.35%) per annum and amount due to Yue Yuen and its subsidiaries of RMB1,801,000 (2021: RMB543,000) and PCC and its subsidiaries of RMB24,000 (2021: RMB248,000), which are unsecured, interest-free and repayable on demand.

(iii) The consideration payable (Note 28) has been settled by transfer of a portion of inventories which the Group received for settlement of amount due from Kunshan Baowei as set out in Note 37.

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

	2022 RMB'000	2021 RMB'000
0 – 30 days	518,651	1,654,102
31 – 90 days	745	10
Over 90 days	300,000	984
	819,396	1,655,096

The credit period for payment of purchases of goods is ranging from 30 days to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

23. CONTRACT LIABILITIES

Contract liabilities mainly included prepayments received from wholesale customers when they sign the sale and purchase agreements. They are expected to be recognised as revenue within one year upon receipt, and were recognised as revenue in current period upon the satisfaction of performance obligation, i.e. the delivery of goods to customers. The increase (2021: decrease) in contract liabilities in the current year was mainly due to the decreased (2021: increased) utilisation of customer deposit before the period end.

As at January 1, 2021, contract liabilities amounted to RMB585,863,000.

24. BANK BORROWINGS

The bank borrowings amounting to RMB456,162,000 (2021: RMB1,581,640,000) are unsecured, interest-bearing, and repayable within one year.

	2022 RMB'000	2021 RMB'000
Fixed rate borrowings	418,577	1,564,360
Variable rate borrowings	37,585	17,280
	456,162	1,581,640

The Group's variable rate borrowings carry interests at margins over HIBOR or Loan Prime Rate ("LPR"), as appropriate. Interest is repriced every one to twelve months.

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

	2022	2021
Effective interest rate:		
Fixed rate borrowings	1.11% - 4.40%	1.11% – 4.35%
Variable rate borrowings	1.42% - 2.44%	1.36% – 1.57%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

25. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
Lease liabilities payable:		
Within one year	774,164	978,018
Within a period of more than one year but not exceeding two years	507,835	646,073
Within a period of more than two years but not exceeding five years	683,274	855,649
Within a period of more than five years	248,518	341,142
	2,213,791	2,820,882
Less: Amount due for settlement within one year shown under current liabilities	(774,164)	(978,018)
Amount due for settlement after one year shown under non-current liabilities	1,439,627	1,842,864

The incremental borrowing rates applied to lease liabilities in the PRC, Hong Kong and Taiwan range from 2.10% to 4.60% (2021: from 1.00% to 4.65%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

26. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At January 1, 2021, December 31, 2021 and 2022	30,000,000,000	300,000
Issued and fully paid:		
At January 1, 2021	5,356,847,615	53,568
Repurchase of own shares (Note)	(30,668,000)	(307)
At December 31, 2021 and 2022	5,326,179,615	53,261

	RMB'000
Shown in the consolidated financial statements as at December 31, 2022 and 2021	46,438

Note: During the year ended December 31, 2021, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of HK$0.01 each repurchased	Price per share Highest price paid HK$	Lowest price paid HK$	Aggregate consideration paid HK$'000
December 2021	30,668,000	1.25	1.10	37,175

The aggregate consideration paid (including direct cost and cancellation cost) of HK$37,175,000 was equivalent to approximately RMB30,359,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

27. SHARE OPTION SCHEME AND SHARE AWARD SCHEME

(a) Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a shareholders' resolution passed on May 14, 2008 and amended on March 7, 2012 for the primary purpose to attract and retain personnel, to provide incentives to eligible participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole, and has expired on May 13, 2018. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible persons, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

Without prior approval from the Group's shareholders, (i) the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at date of listing; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any twelve-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non-executive directors or any of their respective associates, in the twelve-month period up to and including the date of such grant.

Options are exercisable over the vesting periods to be determined by the board of directors of the Company, but in no case after the tenth anniversary of the date of grant. The exercise price is determined by the board of directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The following tables disclose movements in the Company's share options under the Share Option Scheme during the years ended December 31, 2022 and 2021:

				Number of share options		
	Date of grant	Exercise price HK$	Exercisable period	Outstanding at January 1, 2021	Lapsed during the year	Outstanding at December 31, 2021 and 2022
Current and former employees of the Group	14.11.2016	2.494	01.09.2019 - 01.09.2021	1,166,320	(1,166,320)	–
Exercisable as at January 1, 2021, December 31, 2021 and December 31, 2022				1,166,320		–

During the year ended December 31, 2021, 1,166,320 share options were lapsed as they were not exercised within the exercisable period and nil share options were lapsed as vesting conditions were not met.

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

(b) Share Award Scheme

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a board resolution passed on May 9, 2014 and amended on November 11, 2016. The objective of the Share Award Scheme is to recognise the contributions by certain persons, including directors of the Company and employees of the Group (the "Selected Participants") and to provide incentives to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on May 9, 2014 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Share Award Scheme is operated through a trustee which is independent of the Group. After the notification and instruction by the Company, the trustee has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year at which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company.

The board of directors of the Company would notify the trustee of the Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. The relevant awarded shares shall vest in accordance with the conditions and timetable as set out in the relevant letter of award issued to the Selected Participant. Vesting of the award shares will be conditional on the Selected Participants remaining an employee of the Group on a vesting date and the board of directors has not determined to vary or cancel such an award for any reason (including but not limited to exceptionally poor performance, misconduct or material breach of the terms of employment or rules or policies of the Company). An award shall automatically lapse forthwith when a Selected Participant has taken unpaid leave of absence and does not return to work before the expiry of 24 months from the original vesting date, or ceases to be an employee of the Group, or the subsidiary employing the Selected Participant ceases to be a subsidiary of the Company, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company, or Selected Participant's employment is terminated for cause if the award has not been vested.

The Company has not purchased any share for share award scheme during the years ended December 31, 2022 and 2021. A total of 149,708,760 ordinary shares of the Company were held by the trustee of the Share Award Scheme as at December 31, 2022 (2021: 156,485,560 ordinary shares).

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FOR THE YEAR ENDED DECEMBER 31, 2022

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

(b) Share Award Scheme (Continued)

The following table discloses movements in the Company's share awards under the Share Award Scheme during the years ended December 31, 2022 and 2021:

	Date of grant	Vesting period	Number of share awards outstanding at January 1, 2021	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	Number of share awards outstanding at December 31, 2021	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	Reclassified during the year (note iv)	Number of share awards outstanding at December 31, 2022
Directors/Chief Executive												
Yu Huan-Chang (note i)	11.11.2022	11.11.2022-10.11.2023	-	-	-	-	-	360,000	-	-	-	360,000
	11.11.2022	11.11.2022-10.11.2024	-	-	-	-	-	360,000	-	-	-	360,000
	11.11.2022	11.11.2022-10.11.2025	-	-	-	-	-	480,000	-	-	-	480,000
Wang Jun (note ii)	24.03.2021	24.03.2021-23.09.2022		-	-	-	-	-	(96,000)	-	96,000	-
	24.03.2021	24.03.2021-23.09.2023		-	-	-	-	-	-	-	144,000	144,000
	24.03.2021	24.03.2021-23.03.2024	-	-	-	-	-	-	-	-	240,000	240,000
Lee, Shao-Wu (note iii)	11.08.2018	11.08.2018-10.03.2021	500,000	-	(500,000)	-	-	-	-	-	-	-
	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	-	(500,000)	-	-	-
	31.03.2020	31.03.2020-30.03.2021	500,000	-	(500,000)	-	-	-	-	-	-	-
	31.03.2020	31.03.2020-30.03.2022	500,000	-	-	-	500,000	-	(500,000)	-	-	-
	31.03.2020	31.03.2020-30.03.2023	500,000	-	-	-	500,000	-	-	(500,000)	-	-
	24.03.2021	24.03.2021-23.09.2022	-	100,000	-	-	100,000	-	-	(100,000)	-	-
	24.03.2021	24.03.2021-23.09.2023	-	150,000	-	-	150,000	-	-	(150,000)	-	-
	24.03.2021	24.03.2021-23.03.2024	-	250,000	-	-	250,000	-	-	(250,000)	-	-
Employees	11.08.2018	11.08.2018-10.03.2021	7,978,000	-	(7,888,000)	(90,000)	-	-	-	-	-	-
	23.03.2019	23.03.2019-22.09.2021	3,307,200	-	(2,829,000)	(478,200)	-	-	-	-	-	-
	23.03.2019	23.03.2019-22.03.2022	5,512,000	-	-	(991,500)	4,520,500	-	(4,464,000)	(56,500)	-	-
	24.03.2021	24.03.2021-23.09.2022	-	1,568,000	-	(126,600)	1,441,400	-	(1,216,800)	(128,600)	(96,000)	-
	24.03.2021	24.03.2021-23.09.2023	-	2,352,000	-	(189,900)	2,162,100	-	-	(258,600)	(144,000)	1,759,500
	24.03.2021	24.03.2021-23.03.2024	-	3,920,000	-	(316,500)	3,603,500	-	-	(431,000)	(240,000)	2,932,500
	13.08.2021	13.08.2021-12.02.2023	-	460,800	-	(12,800)	448,000	-	-	(70,600)	-	377,400
	13.08.2021	13.08.2021-12.02.2024	-	691,200	-	(19,200)	672,000	-	-	(105,900)	-	566,100
	13.08.2021	13.08.2021-12.08.2024	-	1,152,000	-	(32,000)	1,120,000	-	-	(176,500)	-	943,500
Total			19,597,200	10,644,000	(12,017,000)	(2,256,700)	15,967,500	1,200,000	(6,776,800)	(2,227,700)	-	8,163,000

note i: Yu Huan-Chang has been appointed as the chairman and an executive director of the Company with effect from September 2, 2022.

note ii: Wang Jun was appointed as the acting chief executive officer of the Company with effect from July 1, 2022 and was re-designated as the chief executive officer of the Company with effect from March 15, 2023.

note iii: Lee, Shao-Wu has been appointed as the chairman and resigned as chief executive officer of the Company with effect from July 1, 2022, and resigned from the chairman and executive director of the Company with effect from September 2, 2022.

note iv: Since Wang Jun was appointed as the acting chief executive officer of the Company with effect from July 1, 2022, 480,000 awarded shares that owned by him were reclassified from the category of 'Employees' to the category of 'Directors/Chief Executive' as at July 1, 2022.

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

(b) Share Award Scheme (Continued)

The closing prices of the Company's shares immediately before the grant of the share awards on November 11, 2022 was HK$0.45 per share, on August 13, 2021 was HK$1.57 per share and on March 24, 2021 was HK$1.78 per share.

During the year ended December 31, 2022, the Group recognised a net expense of RMB3,375,000 (2021: RMB5,515,000) as equity-settled share-based payments in the consolidated income statement under the Share Award Scheme with reference to the share awards' respective vesting periods and the share awards lapsed prior to their vesting dates.

28. ACQUISITION OF A SUBSIDIARY

On December 31, 2021, Yue Cheng (Kunshan) Sports Co., Ltd., an indirect wholly owned subsidiary of the Company incorporated in the PRC, (the "Purchaser"), Vipshop (China) Co., Ltd., a limited company incorporated in the PRC (the "Vendor"), and Kunshan Baowei, a joint venture of the Group incorporated in the PRC with 55% equity interest owned by the Purchaser and 45% equity interest owned by the Vendor entered into an equity transfer agreement. Pursuant to the equity transfer agreement, the Vendor agreed to sell 45% equity interest in Kunshan Baowei to the Purchaser (the "Acquisition"). The consideration of the Acquisition shall be equal to an amount which is equivalent to 45% of the consolidated net asset value of Kunshan Baowei as at December 31, 2021 (the "Consideration"), and shall be funded and settled by way of transfer of inventories from Purchaser to Vendor with fair value equivalent to the Consideration. The Group considered the settlement of Consideration through transfer of inventories did not constitute a contract with customer and the transaction was not within the ordinary activities of the Group. Accordingly, RMB176,128,000 was recorded as consideration payable as at December 31, 2021. Kunshan Baowei became an indirect wholly owned subsidiary of the Company on December 31, 2021. The Acquisition had been accounted for as acquisition of business using the acquisition method.

Details of the acquisition were set out in the announcements of the Company dated December 31, 2021.

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28. ACQUISITION OF A SUBSIDIARY (Continued)

Assets acquired and liabilities recognised at the date of acquisition

	RMB'000
Plant and equipment	756
Right-of-use assets	3,465
Inventories	549,922
Trade and other receivables	129,237
Amounts due from subsidiaries of the Company	167,068
Taxation recoverable	3,937
Bank balances and cash	9,456
Trade and other payables	(125,896)
Amounts due to subsidiaries of the Company	(192,459)
Taxation payable	(626)
Lease liabilities	(3,465)
Bank borrowings	(150,000)
	391,395

The receivables acquired (which principally comprised trade and other receivables and amounts due from subsidiaries of the Company) with a fair value of RMB296,305,000 at the date of acquisition had gross contractual amounts of RMB319,189,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB22,884,000.

Consideration transferred

	RMB'000
Consideration payable (Note 22)	176,128
Plus: interest in a joint venture upon remeasurement to fair value	215,267
Less: recognised amounts of net assets acquired	(391,395)
	–

Cash inflow

	RMB'000
Cash and cash equivalents balances acquired	9,456

29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000	Bank borrowings RMB'000	Dividend payable to a non-controlling interest of a subsidiary RMB'000	Dividend payable RMB'000	Interest payables RMB'000 (Note 22)
At January 1, 2021	3,131,287	1,948,679	–	–	8,935
Financing cash flows	(1,300,881)	(516,342)	(28,000)	–	(69,277)
New leases/lease modification/ lease termination	852,076	–	–	–	–
Foreign exchange translation	6	(697)	–	–	–
Interest expenses	134,929	–	–	–	68,003
Acquisition of a subsidiary	3,465	150,000	–	–	–
Dividend declared	–	–	28,000	–	–
At December 31, 2021	2,820,882	1,581,640	–	–	7,661
Financing cash flows	(1,194,934)	(1,124,146)	(33,600)	(70,805)	(64,590)
New leases/lease modification/ lease termination	483,383	–	–	–	–
Foreign exchange translation	121	(1,332)	–	–	–
Interest expenses	108,205	–	–	–	58,554
Disposal of subsidiaries	(3,866)	–	–	–	–
Dividend declared	–	–	33,600	70,805	–
At December 31, 2022	2,213,791	456,162	–	–	1,625

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FOR THE YEAR ENDED DECEMBER 31, 2022

30. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a MPF Schemes for all its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Schemes, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

The total cost of RMB381,716,000 (2021: RMB350,104,000) charged to profit or loss represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

During the year ended December 31, 2022 and 2021, the Group had no forfeited contributions under the retirement benefits schemes utilised to reduce future contributions.

At the end of the reporting period, the Group had no significant obligation apart from the contribution as stated above.

31. OPERATING LEASING ARRANGEMENTS

The Group as lessor

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

	2022 RMB'000	2021 RMB'000
Within one year	4,000	4,024
In the second year	4,000	4,024
In the third year	4,000	4,024
In the fourth year	4,000	4,024
In the fifth year	4,000	3,817
Over five years	14,077	17,444
	34,077	37,357

32. RELATED PARTY DISCLOSURES

(a) Transactions

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

Relationship	Nature of transactions	2022 RMB'000	2021 RMB'000
Yue Yuen and its subsidiaries	Purchase of footwear products by the Group	3,258	6,506
	Operating lease payment	1,273	1,236
	Management fees charged to the Group	5,281	3,023
PCC and its subsidiaries	Management fees charged to the Group	–	1,995
Joint venture of the Group	Sales of sportswear products by the Group (note)	–	1,623,754
	Purchase of sportswear products by the Group	–	235,481
	Logistic service income charged by the Group	–	36,553
	Other service income charged by the Group	–	180,749
	Management fees charged to the Group	–	273,033
	Interest income receivable by the Group	–	10,727
Non-controlling interest of a subsidiary	Sales of sportswear products by the Group	40,332	48,548
	Interest income charged by the Group	1,706	1,861
	Interest expense charged to the Group	123	122

note: The sales of sportswear products to a joint venture contributed over 10% of total revenue of the Group in 2021 and no customer contributed over 10% of the total revenue of the Group in 2022.

32. RELATED PARTY DISCLOSURES (Continued)

(b) Compensation of key management personnel

	2022 RMB'000	2021 RMB'000
Short term benefits	19,356	24,448
Equity-settled share-based payments	1,071	2,585
	20,427	27,033

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

(c) During the year ended December 31, 2021, amount due from a joint venture of RMB264,000,000 had been settled by transfer of inventories with fair value of RMB264,000,000 from Kunshan Baowei.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include the bank borrowings disclosed in Note 24, lease liabilities in Note 25, and equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, directors of the Company assess the annual budget prepared by the accounting, treasury and all functional departments and consider and evaluate the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares as well as the issue of new debt or the redemption of the existing debt.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Amortised cost	2,164,016	2,571,174
Equity instrument at FVTOCI	1,813	3,019
Financial liabilities		
Amortised cost	1,808,821	4,077,471
Lease liabilities	2,213,791	2,820,882

(b) Financial risk management objectives and policies

The Group's major financial instruments include an equity instrument at FVTOCI, trade and other receivables, amounts due from joint ventures, amount due from a non-controlling interest of a subsidiary, bank balances and cash, trade and other payables, amounts due to related parties, amount due to a non-controlling interest of a subsidiary, bank borrowings and lease liabilities. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no changes to the policies on how to mitigate these risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 21) and bank borrowings (Note 24). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate, bank borrowings (Note 24) and lease liabilities (Note 25).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Fluctuations of HIBOR and LPR are the major sources of the Group's cash flow interest rate risks.

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

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, amounts due from joint ventures, amount due from a non-controlling interest of a subsidiary, bank balances and other receivables. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which covered over 99% (2021: over 99%) of its total receivables as at December 31, 2022. There is no significant concentration of credit risk on trade receivables.

The Group's customer base is diverse and the trade receivables consist of a large number of customers. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals for its wholesale customers, and for other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts for both wholesale customers and shopping malls. In addition, the Group performs impairment assessment under ECL model on trade balances based on provision matrix.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

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

	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount 2022 RMB'000	Gross carrying amount 2021 RMB'000
Financial assets at amortised cost					
Trade receivables	20	(note 2)	Lifetime ECL (Provision matrix)	862,084	1,165,003
		Loss	Credit-impaired	28,075	27,223
				890,159	1,192,226
Amounts due from joint ventures	20	Loss (2021: Low risk)	Credit-impaired (2021: 12m ECL)	313	313
Amount due from a non-controlling interest of a subsidiary	20	Low risk	12m ECL	–	34,000
Bank balances	21	(note 1)	12m ECL	1,189,908	1,233,505
Other receivables	20, 6 (a)	Low risk/ watch list	12m ECL	111,784	138,075
		Loss	Credit-impaired	2,661	44,482
				114,445	182,557

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

notes:

1. The credit risk on bank balance is limited because the counterparties are banks with reputable credit ratings.

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

Provision matrix - trade receivables' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its Retail Business because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at December 31, 2022 and 2021 within lifetime ECL (not credit-impaired).

Trade receivables	2022 RMB'000	2021 RMB'000
Current (not past due)	820,600	1,102,576
1 – 120 days past due	41,484	62,427
	862,084	1,165,003

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

Debtors that are credit-impaired with gross carrying amounts of RMB28,075,000 (2021: RMB27,223,000) were assessed individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Provision matrix - trade receivables' aging (Continued)

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

	Trade receivables RMB'000
As at January 1, 2021	34,129
– Impairment losses reversed	(4,524)
– Write-offs	(2,382)
As at December 31, 2021	27,223
– Impairment losses recognised	5,751
– Write-offs	(4,899)
As at December 31, 2022	28,075

The Group considers the trade receivables are credit-impaired mainly when they are past due for more than 120 days based on past experience, and writes off a trade receivable when there is information indicating that the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

The Group has taken legal action to recover certain trade receivables that have been written off.

Liquidity risk

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

With regard to the Group's liquidity risk, the management monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

34. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

The following table details the contractual maturity of the Group's financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is based on the interest rate at the end of the reporting periods.

	Weighted average interest rate %	0 to 30 days RMB'000	31 to 90 days RMB'000	91 to 365 days RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at December 31, 2022								
Non-interest bearing	–	1,249,114	100,745	–	–	–	1,349,859	1,349,859
Fixed interest rate instruments	3.34	226,981	192,630	2,891	–	–	422,502	421,377
Variable interest rate instruments	1.85	37,585	–	–	–	–	37,585	37,585
Lease liabilities	4.15	77,816	243,420	534,376	1,313,080	267,411	2,436,103	2,213,791
		1,591,496	536,795	537,267	1,313,080	267,411	4,246,049	4,022,612

	Weighted average interest rate %	0 to 30 days RMB'000	31 to 90 days RMB'000	91 to 365 days RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at December 31, 2021								
Non-interest bearing	–	2,492,037	10	984	–	–	2,493,031	2,493,031
Fixed interest rate instruments	3.53	875,667	630,365	66,442	–	–	1,572,474	1,567,160
Variable interest rate instruments	1.57	17,280	–	–	–	–	17,280	17,280
Lease liabilities	4.16	98,063	278,996	696,434	1,649,077	372,346	3,094,916	2,820,882
		3,483,047	909,371	763,860	1,649,077	372,346	7,177,701	6,898,353

The amounts included above for variable interest rate instruments are subject to changes if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	190	194
Investments in subsidiaries	4,393,877	4,390,148
	4,394,067	4,390,342
CURRENT ASSETS		
Other receivables	3,163	17,125
Amounts due from subsidiaries	1,751,562	1,531,235
Bank balances and cash	65,230	3,196
	1,819,955	1,551,556
CURRENT LIABILITIES		
Other payables	6,431	18,475
Amounts due to subsidiaries	1,179,624	485,318
Bank borrowings	340,000	1,003,560
	1,526,055	1,507,353
NET CURRENT ASSETS	293,900	44,203
NET ASSETS	4,687,967	4,434,545
CAPITAL AND RESERVES		
Share capital	46,438	46,438
Reserves (note)	4,641,529	4,388,107
	4,687,967	4,434,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

note:

Movement in the Company's reserves:

	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2021	4,200,390	265,185	4,465,575
Loss and total comprehensive expense for the year	–	(52,874)	(52,874)
Repurchase of own shares	(30,109)	–	(30,109)
Recognition of equity-settled share-based payment, net of amounts lapsed relating to share options not yet vested	(893)	893	–
Recognition of equity-settled share-based payment, net of amounts lapsed relating to share awards not yet vested	5,515	–	5,515
At December 31, 2021	4,174,903	213,204	4,388,107
Profit and total comprehensive income for the year	–	320,852	320,852
Recognition of equity-settled share-based payment, net of amounts lapsed relating to share awards not yet vested	3,375	–	3,375
Transfer	(17,946)	17,946	–
Dividend recognised as distribution	–	(70,805)	(70,805)
At December 31, 2022	4,160,332	481,197	4,641,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

36. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at December 31, 2022 and 2021:

Name of subsidiary	Country/place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2022	2021	
Bao Sheng Dao Ji (Beijing) Trading Company Ltd. 寶盛道吉(北京)貿易有限公司 (note ii)	PRC	US$65,000,000	100%	100%	Retailing of sportswear
Guangzhou Baoyuen Trading Company Limited# 廣州寶元貿易有限公司 (note ii)	PRC	US$23,310,000	100%	100%	Retailing of sportswear
Harbin Baosheng Sports Goods Company Limited# 哈爾濱寶勝體育用品有限公司 (note ii)	PRC	RMB22,000,000	100%	100%	Retailing of sportswear
Hebei Zhanxin Sports Development Company Limited# 河北展新體育發展有限公司 (note iv)	PRC	RMB18,180,000	100%	100%	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited# 合肥寶勛體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Kunshan bao han Culture Sportsevolution Co., Ltd. 昆山寶悍體育文化發展有限公司 (note ii)	PRC	US$10,000,000	100%	100%	Sports marketing and organisation of sports events
Kunshan Baokun Zhilian Information Technology Co., Ltd.# 昆山寶錕智鏈信息科技有限公司 (note iv)	PRC	RMB500,000	100%	100%	Provision of technical advisory services
Kunshan Baowei Information Technology Co., Ltd. 昆山寶唯信息科技有限公司(note iv)	PRC	RMB600,000,000	100%	100%	Retailing of sportswear
Kunshan YYsports E-Commerce Co., Ltd 昆山勝道信息技術有限公司 (note ii)	PRC	US$3,000,000	100%	100%	Retailing of sportswear
Kunshan Pouchi Sports Co., Ltd 昆山寶慈體育用品有限公司 (note ii)	PRC	US$13,500,000	100%	100%	Sales of sportswear

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

36. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2022	2021	
Nanning Pou Guan Sporting Goods Company Limited# 南寧寶冠體育用品有限公司 (note ii)	PRC	US$1,300,000	100%	100%	Retailing of sportswear
PCG Bros (Holdings) Co. Limited	BVI	US$6,400,000	100%	100%	Investment holding
PCG BROS Sports Management Co. Ltd.# 寶悍運動平台股份有限公司	Taiwan	NTD360,000,000	100%	100%	Sports marketing and organisation of sports events
Pou Sheng (China) Investment Co., Ltd. 常勝投資有限公司 (note ii)	PRC	US$152,922,400	100%	100%	Investment holding
Pou Sheng International Sports Development Company Limited	HK	HK$100	100%	100%	Investment holding
Qingdao Pou Sheng International Sporting Goods Company Limited# 青島寶勝國際體育用品有限公司 (note iii)	PRC	RMB20,000,000	72%	72%	Retailing of sportswear
Shaanxi Pousheng Trading Company Ltd 陝西寶勝貿易有限公司 (note ii)	PRC	US$66,000,000	100%	100%	Retailing of sportswear
Shanghai Pouyuen Sports Trading Co. Ltd# 上海寶原體育用品商貿有限公司 (note ii)	PRC	US$50,000,000	100%	100%	Retailing of sportswear
Shanghai Shengdao Sports Goods Company Limited# 上海勝道體育用品有限公司 (note ii)	PRC	RMB5,100,000	100%	100%	Retailing of sportswear
Shanghai Shengjie Sports Goods Co., Ltd# 上海勝杰體育用品有限公司 (note ii)	PRC	RMB15,000,000	100%	N/A	Retailing of sportswear

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

36. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Country/place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2022	2021	
Shengdao (Chengdu) Trading Co. Ltd.# 勝道(成都)商貿有限公司 (note ii)	PRC	US$22,400,000	100%	100%	Retailing of sportswear
Shengyang Baoyi Trading Company Limited# 瀋陽寶益貿易有限公司 (note ii)	PRC	RMB40,000,000	100%	100%	Retailing of sportswear
Tianjin Baosheng Sports Goods Company Limited# 天津寶勝體育用品銷售有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
TREASURE CHAIN INTERNATIONAL LIMITED	BVI	US$1	100%	100%	Investment holding
WINNING TEAM HOLDINGS LIMITED	BVI	US$1	100%	100%	Investment holding
Wuxi Pouyuen Sports Goods Trading Company Limited# 無錫寶原體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
YY Sports Holdings Limited ("YY Sports") (note i)	BVI	US$1	100%	100%	Investment holding

The English names are for information purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

36. PRINCIPAL SUBSIDIARIES (Continued)

notes:

(i) The Company directly holds the interest in YY Sports. All other interests shown are indirectly held by the Company.

(ii) These entities are wholly-foreign owned enterprises established/operated in the PRC.

(iii) These entities are sino-foreign owned enterprises established/operated in the PRC.

(iv) These entities are wholly-domestic owned enterprises established/operated in the PRC.

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

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

37. MAJOR NON-CASH TRANSACTIONS

Other than as disclosed elsewhere, the Group has the following non-cash transactions:

During the year ended December 31, 2021, amount due from a joint venture of RMB264,000,000 had been settled by transfer of inventories with fair value of RMB264,000,000 from Kunshan Baowei.

During the year ended December 31, 2022, consideration payable of RMB176,128,000 (Note 22) had been settled by way of transfer of inventories.

FINANCIAL SUMMARY

Below financial information is extracted from annual reports of the Company:

RESULTS

	For the year ended December 31,				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue	22,677,375	27,189,765	25,611,125	23,350,235	18,638,021
Profit for the year	560,894	879,910	314,660	375,755	100,238
Attributable to:					
Owners of the Company	542,888	833,275	302,840	356,587	89,164
Non-controlling interests	18,006	46,635	11,820	19,168	11,074
	560,894	879,910	314,660	375,755	100,238

ASSETS AND LIABILITIES

	As at December 31,				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Total assets	13,237,469	17,390,782	17,022,269	16,658,980	13,598,861
Total liabilities	(6,201,932)	(9,684,704)	(9,146,239)	(8,456,784)	(5,404,941)
	7,035,537	7,706,078	7,876,030	8,202,196	8,193,920
Equity attributable to:					
Owners of the Company	6,867,567	7,612,574	7,770,201	8,095,464	8,114,253
Non-controlling interests	167,970	93,504	105,829	106,732	79,667
	7,035,537	7,706,078	7,876,030	8,202,196	8,193,920


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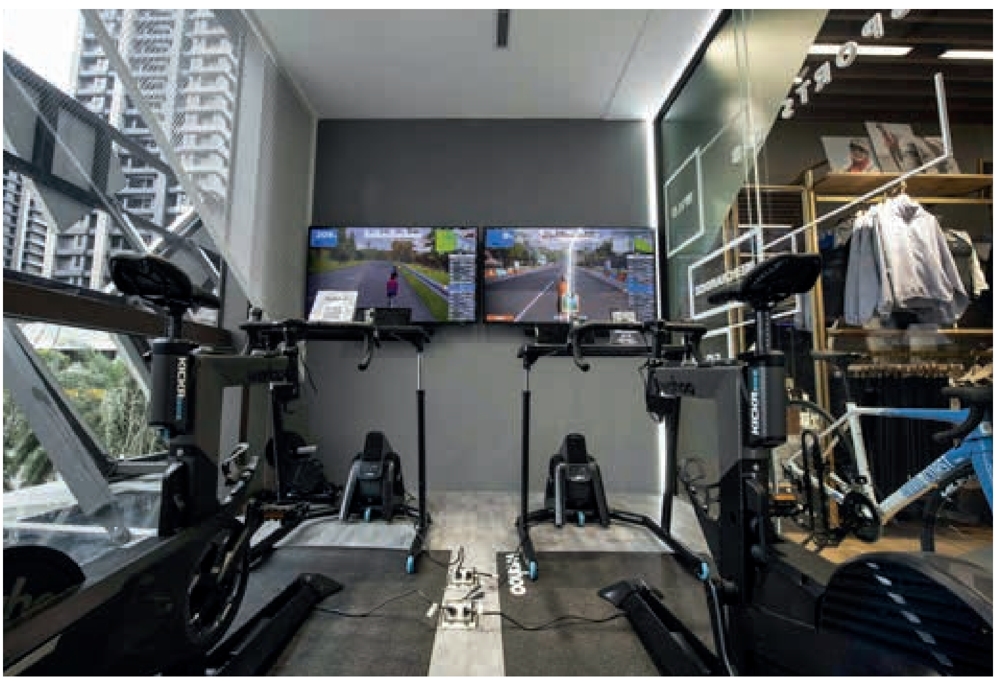


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