

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2018.

Principal Activities

The Company and its subsidiaries are principally engaged in the design, development, manufacturing and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand.

Subsidiaries

Details of the principal subsidiaries of the Group as at 31 December 2018 are set out in note 1 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2018 and the Group's financial position as at that date are set out in the financial statements on pages 73 to 138 of this annual report.

Dividends

An interim dividend of HK10.5 cents (equivalent to approximately RMB9.1 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK9.5 cents (equivalent to approximately RMB8.4 cents) per Share for the year ended 31 December 2018, subject to approval by the Shareholders at the annual general meeting to be held on 6 May 2019. The total dividends for the year ended 31 December 2018, which included the interim dividend and final dividend, amounted to HK20.0 cents (equivalent to approximately RMB17.5 cents) per Share and they represented a dividend payout ratio of approximately 60.0%. Details of the dividends for the year ended 31 December 2018 are set out in note 11 to the financial statements.

Distributable Reserves of the Company

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB371.7 million (2017: RMB99.5 million). Details of the reserves of the Company as at 31 December 2018 are set out in note 42 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year ended 31 December 2018 amounted to approximately RMB42.6 million.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2018 are set out in note 29 to the financial statements.

Directors

The Directors during the year ended 31 December 2018 were:

Executive Directors

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

Non-executive Director

Ho Yui Pok, Eleutherius

Independent Non-Executive Directors

Tan Wee Seng
Gao Xian Feng
Bao Ming Xiao

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

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

Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of three years commencing on 1 September 2017.

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

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

In accordance with article 87 of the Company's articles of association, Mr. Ho Yui Pok, Eleutherius, Mr. Tan Wee Seng and Dr. Bao Ming Xiao will retire from the Board by rotation at the forthcoming annual general meeting. Save for Mr. Ho Yui Pok, Eleutherius, Mr. Tan Wee Seng and Dr. Bao Ming Xiao, being eligible, offer themselves for re-election. Mr. Ho Yui Pok, Eleutherius has informed the Board that he would not offer himself for re-election, and accordingly, will retire from office at the conclusion of the annual general meeting.

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

Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management are set out on pages 38 to 41 of this annual report.

REPORT OF THE DIRECTORS

Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed below, there was no transaction, arrangement or contract of significance to which the holding companies of the Company, and the Company's subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2018.

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

As at 31 December 2018, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust ⁽²⁾ /Beneficial interests ⁽³⁾	1,344,974,500	59.95%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	58.40%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	58.40%
Mr. Ho Yui Pok, Eleutherius	Beneficial interests	2,900,000 ⁽⁴⁾	0.13%
Mr. Tan Wee Seng	Beneficial interests	880,000 ⁽⁵⁾	0.04%

Notes:

- (1) It was based on 2,243,380,000 issued Shares of the Company as at 31 December 2018.
- (2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts.

The Family Trusts (through their controlled companies) indirectly hold 1,310,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,310,059,500 Shares of the Company.
- (3) Mr. Ding Shui Po was also beneficially interested in 34,915,000 Shares of the Company.
- (4) 1,500,000 of these shares were subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares were subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 400,000 shares of these shares were acquired by Mr. Ho Yui Pok, Eleutherius on the Hong Kong Stock Exchange.
- (5) 600,000 of these shares were subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 100,000 of these shares were issued to Mr. Tan Wee Seng upon the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 shares of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange.

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

Share Option Schemes

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and motivating its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted on 7 May 2008. The exercise price per Share is HK\$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable
Anytime after the first anniversary of the Listing Date	30% of the total number of options granted
Anytime after the second anniversary of the Listing Date	30% of the total number of options granted
Anytime after the third anniversary of the Listing Date	40% of the total number of options granted

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2018 are as follows:

Name	Outstanding as at 1 January 2018	Exercised during the year ended 31 December 2018	Outstanding as at 31 December 2018
Employees			
Total	11,475,000	(11,475,000)	–

The total number of shares available for issue under the Pre-IPO Share Option Scheme is nil, representing none of the Company's issued share capital as at the date of this annual report.

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2018.

Share Option Scheme

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

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

REPORT OF THE DIRECTORS

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

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

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

Details of the share options granted under the Share Option Scheme as at 31 December 2018 are as follows:

Name	Date of Grant	Exercise price per Share ⁽¹⁾	Exercise period ⁽²⁾⁽³⁾⁽⁴⁾	Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Cancelled during the year ended 31 December 2018	Exercised during the year ended 31 December 2018 ⁽⁵⁾	Lapsed during the year ended 31 December 2018	Outstanding as at 31 December 2018
Directors									
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	1,500,000	–	–	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	–	1,000,000
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2011 – 29 March 2020	600,000	–	–	–	–	600,000
Employees									
In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	7,790,000	–	–	(2,480,000)	–	5,310,000
In aggregate	28 January 2010	HK\$5.01	28 January 2011 – 27 January 2020	500,000	–	–	–	–	500,000
In aggregate	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	8,000,000	–	–	–	–	8,000,000
In aggregate	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	23,695,000	–	–	(8,040,000)	–	15,655,000
Total				43,085,000	–	–	(10,520,000)	–	32,565,000

The total number of shares available for issue under the Share Option Scheme is 32,565,000, representing 1.5% of the Company's issued share capital as at the date of this annual report.

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2018.

Notes:

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

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

Vesting Date	Percentage of Share Options to vest
First anniversary of the Date of Grant	30% of the total number of options granted
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	40% of the total number of options granted

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

Vesting Date	Percentage of Share Options to vest
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	70% of the total number of options granted

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

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

(5) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$5.04.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 31 to the financial statements.

Arrangement for Directors to Purchase Shares or Debentures

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

REPORT OF THE DIRECTORS

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any Director or chief executive of the Company, as at 31 December 2018, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Group Success	Beneficial interests	1,310,059,500	58.40%
Wan Xing International Holdings Limited	Interests of controlled corporation ⁽²⁾	1,310,059,500	58.40%
Ding Wang Fortune Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	58.40%
Guan Hong Development Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	58.40%
Ming Zhong Family Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	58.40%
UBS Trustees (BVI) Limited	Trustee ⁽³⁾	1,310,059,500	58.40%

Notes:

- (1) It was based on 2,243,380,000 issued Shares of the Company as at 31 December 2018.
- (2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.

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

Save as disclosed above, as at 31 December 2018, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Share Award Scheme

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

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

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

As of 31 December 2018, there were a total of 41,210,000 outstanding awarded Shares granted to certain employees of the Group, details of which are as follows:

Name	Date of Grant	As at 1 January 2018	Granted during the year	Number of Awarded Shares		As at 31 December 2018	Vesting period
				Vested during the year	Forfeited during the year		
Employees	10 January 2017	46,100,000	–	(4,590,000)	(300,000)	41,210,000	10 January 2018 to 10 January 2022

Further details of the Scheme are set out in note 32 to the financial statements.

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

During the year ended 31 December 2018, the Company repurchased a total of 1,800,000 Shares on the Hong Kong Stock Exchange for an aggregate amount (excluding expenses) of HK\$6,278,610. Such repurchased Shares were subsequently cancelled. Particulars of the Shares repurchased on the Hong Kong Stock Exchange after 31 December 2018 are as follows:

Month of repurchase	Total number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate amount paid (excluding expenses) (HK\$)
February 2018	1,800,000	3.65	3.37	6,278,610

The Directors of the Company believe that the above repurchases are in the best interests of the Company and its shareholders as a whole because:

- (1) the Shares have been trading at a level which significantly undervalues the Company's performance and underlying value. The Board is committed to actively manage the Company's capital and the Board believes that the above share repurchases would create benefits to the Shareholders;
- (2) as the Group's three-year transformation as described in the Company's announcement dated 8 December 2017 is near the end, the Board expects the Group's financial performance to turnaround in 2018, and cashflow to be stronger as compared to the past three years; and
- (3) the Group's financial position is stable with net cash of RMB1.16 (approximately HK\$1.37) per Share, accounting for approximately 48.6% of the Group's net asset, as of 30 June 2017.

The healthy current financial position and cashflow of the Group enables the Company to conduct the share repurchases while maintaining sufficient financial resources for continued growth of the Group's operations.

Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018 and up to the date of this annual report.

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Contracts with Controlling Shareholders

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2018.

Specific Performance Obligations on Certain Controlling Shareholders

On 9 January 2014, the Company as borrower entered into a facility agreement (the “2014 Facility Agreement”) with a consortium of 11 banks arranged by Hang Seng Bank Limited (“HASE”) as co-ordinator, a mandated lead arranger and facility agent, pursuant to which a 3-year dual currency term loan facility in the principal amount of US\$92,000,000 and HK\$452,400,000 (equivalent to approximately HK\$1,170,000,000 in aggregate) (the “2014 Facility”) was made available to the Company on the terms and conditions stated therein.

On 3 January 2017, the Company as borrower entered into another facility agreement (together with the 2014 Facility Agreement, the “Facility Agreements”) with a consortium of 9 banks arranged by HASE, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, Industrial and Commercial Bank of China (Asia) Limited and CTBC Bank Co., Ltd. as mandated lead arrangers and bookrunners and HASE as the facility agent, pursuant to which a 3.5-year dual currency term loan facility in the principal amount of US\$116,000,000 and HK\$651,000,000 (equivalent to approximately HK\$1,555,800,000 in aggregate) (together with the 2014 Facility, the “Facilities”) was made available to the Company on the terms and conditions stated therein.

The Facilities are guaranteed by certain subsidiaries of the Company.

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

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

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

As at 31 December 2018 and as at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 58.40% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 1.55% of the issued share capital of the Company.

Non-compete Undertakings

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

Directors' Interest in Competing Business

None of the Directors is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2018 and up to and including the date of this annual report.

Management Contracts

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

Pre-emptive Rights

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

Emolument Policy

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

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

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 31 to the financial statements.

The Company has adopted a share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme are set out in this paragraph headed "Share Award Scheme" above and note 32 to the financial statements.

None of the directors waived any emoluments during the year.

Pension Scheme

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

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

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

Business Review

A business review of the Group for the year ended 31 December 2018 is shown on pages 10 to 35.

Permitted Indemnity Provision

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

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Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 3.3% (2017: 3.1%) and 15.1% (2017: 13.6%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 5.8% (2017: 5.3%) and 19.6% (2017: 16.5%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2018, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

Auditor

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

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2018.

Bank Loans

Details of bank loans of the Company and the Group as at 31 December 2018 are set out in note 26 to the financial statements.

Five-year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 12 March 2019