PORTICO INTERNATIONAL HOLDINGS LIMITED

PORTICO INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 0589)

ANNUAL REPORT 2016

CONTENTS

CORPORATE PROFILE

Portico International Holdings Limited (the "Company", together with its subsidiaries, the "Group") is a conglomerate intending to engage in multiple areas of business. While it is in the process of identifying appropriate business opportunities in various industries, at the moment, it is primarily engaged in the wholesale and retail distribution of ladies' and men's fashion apparel and accessories such as shoes, handbags, eyewear, scarves and fragrances in mainland China, Hong Kong, the U.S., Europe and Canada. As at 31 December 2016, the Group operated 343 retail stores in mainland China, Hong Kong, the U.S. and Canada as compared with 313 retail stores as at 31 December 2015. The Group currently operates most of its business activities in the People's Republic of China ("PRC") market and is one of the leading international fashion companies in the PRC.

The Group markets and sells its branded products in the PRC through concessions in major department stores, retail stores in upscale shopping arcades and stand-alone flagship retail outlets. These retail outlets are located in over 50 cities in the PRC, including, among others, Beijing, Shanghai, Chongqing, Shenzhen, Tianjin, Xi'an and Dalian.

The Group has also entered into various licensing and cooperation agreements with top tier international brands such as BMW Lifestyle, Armani and Versace, pursuant to which the Group has been granted with the right to sell their selected products in dedicated retail outlets operated by the Group in the PRC. In particular, Bayerische Motoren Werke AG ("BMW") has granted the Group the right to use the BMW trademark and BMW logo on BMW Lifestyle products that are manufactured by the Group and the right includes the license to design and manufacture products such as watches, sunglasses and leather goods. The right to market BMW Lifestyle products in the PRC, other than in BMW car dealer showrooms, is exclusive to the Group during the term of the license.

The Group reports its revenue under one reportable segment under retail and revenue from other business activities. The Retail segment mainly comprises of the branded products retail business. The revenue from other business activities comprises the OEM business (which exports merchandise under the brands requested by its OEM customers in North America, Europe and Asia), wholesale of branded merchandize including apparel and eyewear.

CORPORATE INFORMATION

Directors

Executive Directors:

Mr. Alfred Chan Kai Tai *(Chairman)*
Mr. Anthony Paul Chan
(Chief Executive Officer)
Ms. Jenny Ching Ching Tan
(President and Chief Operating Officer)
Mr. He Kun

Independent Non-executive Directors:

Mr. Lin Tao
Mr. Zheng Wanhe
Mr. Antonio Delfin Gregorio

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Headquarters

No. 698, Qiaoying Road
Jimei District, Xiamen,
China 361021

Principal Place of Business in Hong Kong

Suite 102, Sunbeam Center
27 Shing Yip Street
Kwun Tong
Kowloon, Hong Kong

Company Secretary

Ms. Irene Wong Fung Mei

Authorized Representatives

Mr. Alfred Chan Kai Tai
Ms. Jenny Ching Ching Tan

Audit Committee

Mr. Lin Tao *(Chairman)*
Mr. Zheng Wanhe
Mr. Antonio Delfin Gregorio

Remuneration Committee

Mr. Zheng Wanhe *(Chairman)*
Mr. Alfred Chan Kai Tai
Mr. Antonio Delfin Gregorio

Nomination Committee

Mr. Alfred Chan Kai Tai *(Chairman)*
Mr. Lin Tao
Mr. Antonio Delfin Gregorio

Principal Share Registrar and Transfer Office

Estera Management
(Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Hong Kong Share Registrar

Computershare
Hong Kong Investor
Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Bank of China Limited
Xiamen Branch, PRC

Bank of China (Hong Kong)
Limited,
International Finance Centre
Branch, Hong Kong

Company Website

http://www.portico-intl.com

Stock Code

00589.HK

FIVE-YEAR FINANCIAL SUMMARY

(Financial figures are expressed in Renminbi ("RMB") million)

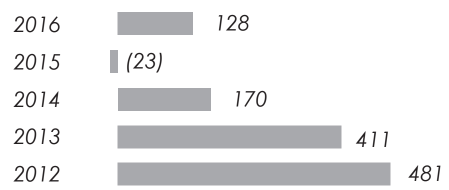
	For the year ended 31 December				
	2016	2015	2014	2013	2012
Results					
Revenue	**1,846**	1,595	1,879	2,137	2,098
Profit/(loss) from operations	**128**	(23)	170	411	481
Profit/(loss) attributable to equity shareholders	**40**	(73)	73	293	351

	As at 31 December				
	2016	2015	2014	2013	2012
Assets and liabilities					
Non-current assets	**678**	648	648	646	703
Current assets	**1,957**	2,062	2,401	2,383	2,318
Current liabilities	**447**	602	871	975	1,087
Net current assets	**1,510**	1,460	1,530	1,408	1,231
Total assets less current liabilities	**2,188**	2,108	2,177	2,054	1,933
Non-current liabilities	**125**	95	80	31	81
Equity attributable to equity shareholders of the Company	**2,038**	1,993	2,075	1,997	1,839

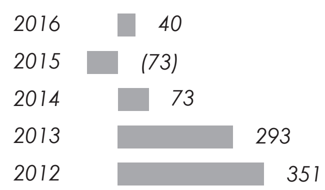
FIVE-YEAR FINANCIAL SUMMARY

Revenue (RMB million)

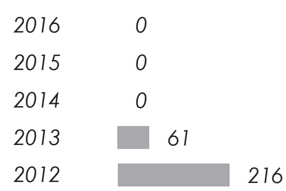
Profit/(loss) from Operations (RMB million)



Profit/(loss) Attributable to Equity Shareholders (RMB million)



Dividend History* (RMB million)



* *The figure illustrates dividends declared for the period indicated, not actual dividends paid during the period indicated.*

No interim and final dividend was proposed for the financial year ended 31 December 2016 ("FY2016") and the financial year ended 31 December 2015 ("FY2015").

STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Dear shareholders,

It has been a fruitful year for the Group in 2016, both from corporate and operational perspectives. First of all, there was a change in the composition of the board when Ms. Jenny Ching Ching Tan and myself were appointed as the president and chief executive officer in the 4th quarter of 2016. I have already established a very solid working relationship with her and Ms. Jenny Ching Ching Tan will surely provide valuable insight and contribution to the development of the Group in long run.

The operations of the Group have improved amid uncertain economic environment across the globe. We have recorded a double digit growth in revenue in FY2016 as compared with FY2015 and as a result, we have also turned from loss to profit in FY2016, which proves that our various operational improvement initiatives, such as optimization of retail networks and tight control of expenditures, have been paid off. I am particularly pleased to see that "PORTS" is enjoying a growing popularity and acceptance and is cementing its status as one of the important labels in the global luxury fashion industry. Big Sean, Kendall Jenner, Victoria Beckham, G Dragon, Gianna Jun, Fan Bing Bing, Leon Lai etc., are some of the renowned international celebrities and movie stars who have been spotted wearing PORTS 1961 apparel. Further, we have moved our show for the A/W17 Ports Collection from Milan to London, where our creative director Natasa Cagal received her fashion education, and it has turned out to be recognized as a huge success with positive feedback from fashion pundits and media and our show in the London Fashion Week has attracted over millions of online viewers.

All of the above have served as a very encouraging endorsement of the efforts put and invested by all the staff across the organization, from the design team, manufacturing team, marketing team and front-line sales team. Nevertheless, we will not rest on our laurels and will continue to strive for improvement in all core areas of our business: strengthening our wholesale distribution with focus on upcoming fashion city like Seoul; fine-tuning our retail network by undergoing critical review on our points of sale, whether from individual and regional perspective; improving the layout and design of our e-commerce platform by our newly established e-commerce team, which is dedicated to improve the shopping experience of our online visitors and shoppers; solidifying the cooperation with our licensed division partners such as Armani and BMW, etc. With the diversity of experience and attributes among fellow board members and senior management team, I am optimistic about the performance and development of our Group in both short and long terms.

Last but not the least, on behalf of fellow board members, I wish to take this opportunity to express our gratitude towards all our dedicated staff for their tremendous efforts throughout the year, our business partners for their trust and opportunity given to us and most importantly, our shareholders for their continuing support to the Company.

Anthony P. Chan
Chief Executive Officer and Executive Director

30 March 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Review and Outlook

After recording two consecutive years of downfall in revenue, the Group recorded a 15.8% growth in its total revenue for the financial year ended 31 December 2016, as compared with the financial year ended 31 December 2015, while revenue in the second half of year 2016 representing an increase of 27.7% over the second half of year 2015. The Group has reacted to the shift in market trends and customers shopping behavior, mixed economic signals across the globe, and fierce competition among luxury fashion brands with stringent cost control measures, fine-tuning of its distribution strategy and streamlining of its operational structure.

To enhance the overall operational efficiency of the Group, we have undergone a serious review of our reporting and decision making processes among our regional offices in FY2016. The merger of certain departments and the centralization of reporting lines, which may be overlapping in terms of functions and duties, facilitate a more efficient execution of works and responsibilities. At the same time, we have continued to recruit quality talents and management to join our team to ensure that our operations, in particular the overseas operations which control the production and distribution functions in Europe, are able to perform at a very high standard and in a sustainable manner.

In response to the growing popularity of affordable luxury apparel and quicker change in fashion trends, the Group has expanded its product portfolio by the introduction of a diffusion line "Ports PURE", the collections of which present young, energetic and elegant chic styles to our female customers. Our first dedicated "Ports PURE" store in Harbour City Hong Kong officially opened in September 2016 and has broadened our offerings to meet the diversifying needs of our customers.

Furthermore, our business development team has continued to strengthen our wholesale partnership across the globe, particularly in regions such as South Korea and Japan, where local fashion media and peers have shown encouraging response. We have recorded an increase of 202.5% in the revenue of our apparel wholesale business for the financial year ended 31 December 2016, as compared with the preceding financial year, but we are cautiously optimistic about our potential for further improvement in 2017.

Looking ahead, we, along with other luxury fashion peers, will remain subject to various challenges, such as fast changing shopping behaviors and fashion trends, as well as weak consumption appetites in major markets. The management will monitor any change or development closely to ensure that the brand can maintain its competitiveness and attractiveness. Furthermore, we will continue to allocate resources for the marketing of our brand and distribution of our products with our overseas partners in order to leverage their local experience and connections, with the objective of complementing our global distribution networks.

The financial position of the Group remains very strong and solid, with approximately RMB709.4 million of cash and cash equivalents, fixed deposit with banks with original maturity over three months and pledged bank deposits as at 31 December 2016. The Group's current ratio was 4.38 based on its current assets of RMB1,957.0 million and current liabilities of RMB447.3 million as at 31 December 2016 (as at 31 December 2015: 3.42). We will continue to monitor and maintain our financial position prudently so that we will be able to grasp available and suitable investment or expansion opportunities in the market as and when they arise.

Revenue

Revenue of the Group increased from RMB1,594.6 million in FY2015 to RMB1,846.2 million in FY2016, representing an increase of 15.8%, while the total revenue increased from RMB746.8 million in the second half of year 2015 to RMB953.5 million in the second half of year 2016, representing an increase of 27.7%. Revenue comprises one reportable segment under retail and revenue from other business activities. Please refer to note 3(b) under section "Notes to the financial statements" for further details.

Retail revenue

Retail revenue increased from RMB1,477.8 million in FY2015 to RMB1,695.1 million in FY2016, representing an increase of 14.7%, while the retail revenue increased from RMB699.3 million in the second half of year 2015 to RMB882.1 million in the second half of year 2016, representing an increase of 26.1%, due to improvement in the overall luxury fashion retail environment and an increasing recognition of our core Ports 1961 brand among fashion lovers. As at 31 December 2016, the Group operated 343 retail stores in mainland China, Hong Kong, the U.S. and Canada as compared with 313 retail stores as at 31 December 2015. In light of the current market environment, we have monitored and reviewed our retail network, with the objective of optimizing our stores distribution across the regions. The contribution from Retail segment to total revenue has slightly decreased from 92.7% in FY2015 to 91.8% in FY2016.

Others revenue

Others revenue increased by 29.4%, from RMB116.8 million in FY2015 to RMB151.1 million in FY2016. Such increase was mainly contributed by the improvement in our distribution business in the Euro denominated market. The contribution from Others segment to total revenue increased from 7.3% in FY2015 to 8.2% in FY2016.

Gross profit

Gross profit increased from RMB1,282.5 million in FY2015 to RMB1,446.9 million in FY2016, representing an increase of 12.8%, while the gross profit increased from RMB591.2 million in the second half of year 2015 to RMB742.7 million in the second half of year 2016, representing an increase of 25.6%. Gross profit margin slightly decreased from 80.4% in FY2015 to 78.4% in FY2016.

Retail gross profit

Retail gross profit increased by 12.8% from RMB1,250.5 million in FY2015 to RMB1,410.7 million in FY2016, while the retail gross profit increased from RMB583.0 million in the second half of year 2015 to RMB728.6 million in the second half of year 2016, representing an increase of 25.0%. Retail gross profit margin slightly decreased to 83.2% in FY2016 (FY2015: 84.6%).

Others gross profit

Others gross profit increased from RMB32.0 million in FY2015 to RMB36.2 million in FY2016, representing an increase of 13.1%, resulted from increase in revenue in our wholesale business in the Euro denominated markets. Others gross profit margin slightly decreased to 24.0% in FY2016 (FY2015: 27.4%).

Other revenue

Other revenue mainly consisted of government subsidy, insurance compensation as well as design and decoration income. Other revenue slightly decreased by 1.0%, from RMB10.0 million in FY2015 to RMB9.9 million in FY2016, despite there was an increase in design and decoration income, primarily due to the decrease in government grants and other receipts that are one-off in nature.

Operating expenses

Operating expenses consisted of distribution costs, administrative expenses and other operating expenses. Operating expenses increased from RMB1,314.7 million in FY2015 to RMB1,328.2 million in FY2016, representing slight increase of 1.0%. A more detailed breakdown is set out as follows:

Distribution costs

Distribution costs mainly comprised of rental charges, salaries and benefits, stores and mall expenses, depreciation charges and marketing expenses. Distribution costs increased from RMB985.8 million in FY2015 to RMB1,044.8 million in FY2016, representing an increase of 6.0% (FY2015 versus FY2014: a decrease of 7.6%). The increase was mainly due to the increase in rental charges, salaries and benefits for retail sales staff. Distribution costs as a percentage of Retail revenue decreased to 61.6% in FY2016 (FY2015: 66.7%).

Rental charges increased by 10.7% (FY2015 versus FY2014: a decrease of 12.5%) from RMB445.1 million in FY2015 to RMB492.8 million in FY2016. Due to the increase in sales volume from our retail stores during FY2016, the relative rent paid for our retail stores in various locations has increased accordingly in FY2016 as compared to FY2015. Rental payment as a percentage of Retail revenue has dropped to 29.1% in FY2016 (FY2015: 30.1%).

Administrative expenses

Administrative expenses increased from RMB111.6 million in FY2015 to RMB123.4 million in FY2016, representing an increase of 10.6%, due to increase in office expenses, salaries and benefits for administrative staff and business taxes contributed by the expansion of our European offices and operations. Administrative expenses as a percentage of total revenue decreased slightly to 6.7% in FY2016 (FY2015: 7.0%).

Salaries and benefits for administrative staff, the single largest category of administrative expenses, increased from RMB62.8 million in FY2015 to RMB70.6 million in FY2016, representing an increase of 12.4%. Salaries and benefits for administrative staff as a percentage of total revenue slightly decreased to 3.8% in FY2016 (FY2015: 3.9%).

Other operating expenses

Other operating expenses decreased from RMB217.2 million in FY2015 to RMB160.0 million in FY2016, representing a decrease of 26.3% or RMB57.2 million, due to the decreases in write-down of inventories and impairment loss of leasehold improvements of retail stores, following the improvement in our sales activities in FY2016. In FY2016, the stock provision made as a percentage of Retail revenue decreased to 8.8% (FY2015: 12.8%).

Profit/(loss) from operations

The Group's profit/(loss) from operations increased from loss of RMB23.4 million in FY2015 to profit of RMB127.9 million in FY2016, representing an increase of RMB151.3 million, while the profit/(loss) from operations increased from loss of RMB79.7 million in second half of year 2015 to profit of RMB96.7 million in second half of year 2016, representing an increase of RMB176.4 million, pre-dominantly contributed by the increase in revenue for the retail segment. The Group's operating margin (i.e. profit/(loss) from operations expressed as a percentage of total revenue) increased from -1.5% in FY2015 to 6.9% in FY2016.

Net finance (costs)/income

Net finance income of RMB0.9 million in FY2015 decreased to net finance costs of RMB1.7 million in FY2016, representing a decrease of 288.9%. In FY2016, the Group reported an interest income of RMB7.9 million, representing a decrease of RMB17.6 million from RMB25.5 million in FY2015. On the other hand, interest expense for the Group decreased by RMB5.5 million, from RMB8.0 million in FY2015 to RMB2.5 million in FY2016 due to the reduction of bank loans. The Group recorded an exchange loss of RMB4.8 million in FY2016, as compared to RMB13.5 million in FY2015, due to the appreciation of US$ denominated bank loans against RMB during FY2016.

Income tax

The Group's income tax expense increased by 62.3% from RMB50.6 million in FY2015 to RMB82.1 million in FY2016. The effective income tax rate was 65.0% in FY2016 (FY2015: -224.5%), due to the fact that higher portion of revenue is taxable in 2016.

Profit/(loss) attributable to equity shareholders

As a result of the factors discussed above, profit/(loss) attributable to equity shareholders of the Company increased from loss of RMB72.7 million in FY2015 to profit of RMB40.3 million in FY2016, as a result of the increase in retail revenue.

Financial position, liquidity and gearing ratio

As at 31 December 2016, the Group had RMB709.4 million in cash and cash equivalents, fixed deposits with banks with original maturity over three months and pledged bank deposits, which had decreased by 26.9% as compared to RMB970.7 million as at 31 December 2015. As at 31 December 2016, the Group had bank loans of RMB5.5 million, representing a decrease of 98.2% from RMB306.5 million as at 31 December 2015. As such, the interest expenses decreased by 68.8% to RMB2.5 million in FY 2016 (FY 2015: RMB8.0 million).

Net cash generated from operating activities was RMB119.9 million in FY2016 as compared with RMB63.9 million in FY2015, representing an increase of 87.6% which was primarily contributed by the increase in profit before taxation during FY2016.

As at 31 December 2016, the Group's gearing ratio was 0.3% calculated as outstanding bank loans over total equity (as at 31 December 2015: 15.2%). As at 31 December 2016, the current ratio was 4.38 based on current assets of RMB1,957.0 million and current liabilities of RMB447.3 million (as at 31 December 2015: 3.42).

Currency risk management

The Group's cash balances from normal business operations are mainly deposited in RMB, USD, JPY, HKD and Euros with major banks in Hong Kong and mainland China and hence, the Group is exposed to foreign exchange risk arising from the fluctuation of exchange rate among those currencies. The management will continue to monitor the foreign exchange risks of the Group on a regular basis. The Group does not employ any financial instruments for hedging purposes.

Capital commitments and contingent liabilities

As at 31 December 2016, the Group had capital commitments of RMB88.5 million, as compared with RMB57.0 million as at 31 December 2015, which was authorised but not contracted for. The Group has no material contingent liabilities as at 31 December 2016 (FY2015: nil).

Capital structure of the Group

The Group required working capital to support its manufacturing, retail and other operations. As at 31 December 2016, the Group had cash and cash equivalents, fixed deposits with banks with original maturity over three months and pledged bank deposits of RMB709.4 million, denominated principally in RMB, USD, JPY, HKD and Euros. As at 31 December 2016, the Group had bank loans of RMB5.5 million, denominated in RMB. The directors of the Company ("Directors") believe that the cash balances and net cash inflow from operating activities are sufficient to support the operating activities of the Group.

Charges on assets

As at 31 December 2016, the Group's bank deposits in the amount of RMB59.5 million (as at 31 December 2015: RMB110.9 million) and buildings in the amount of RMB16.6 million (as at 31 December 2015: construction in progress of RMB16.7 million) were pledged to secure bank loans, letter of credit and letter of guarantee issued by banks in connection with its operation in the ordinary course of business.

Human resources

As at 31 December 2016, the Group had approximately 4,500 employees (as at 31 December 2015: approximately 4,600). Total personnel expenses, comprised of wages, salaries and benefits, amounted to RMB432.0 million in FY2016, compared with RMB394.2 million in FY2015, representing an increase of 9.6%. In FY2016, total personnel expenses as a percentage of the Group's revenue was at 23.4% (FY2015: 24.7%).

The remuneration of employees was determined with reference to the employees' responsibilities and experience, the performance and profitability of the Group as well as remuneration benchmarks from other companies in the retail industry and the prevailing market conditions. The Group currently does not have any share option scheme for employees.

CORPORATE GOVERNANCE REPORT

The board of directors ("Directors") of the Company (the "Board") strives to maintain a high standard of corporate governance practice, which would provide a solid foundation for effective management and healthy corporate structure. The Company emphasizes on quality board leadership, sound internal controls and accountability to all shareholders as key principles of good corporate governance within the Group.

The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2016, except for code provision A.6.7 as Mr. Antonio Delfin Gregorio, an independent non-executive Director, did not attend the annual general meeting of the Company held on 27 May 2016 due to other business engagement.

The Board

During the year 2016 and up to the date of this report, the Directors of the Company are:

Executive Directors

Mr. Alfred Chan Kai Tai *(Chairman)* [1]
Mr. Anthony Paul Chan *(Chief Executive Officer)* [2]
Ms. Jenny Ching Ching Tan *(President and Chief Operating Officer)* [3]
Mr. Pierre Bourque [4]
Mr. He Kun

Independent Non-Executive Directors

Mr. Lin Tao
Mr. Zheng Wanhe
Mr. Antonio Delfin Gregorio

Remarks:

1. *Mr. Alfred Chan Kai Tai resigned as Chief Executive Officer of the Company and was appointed as Chairman of the Company with effect from 14 October 2016.*
2. *Mr. Anthony Paul Chan was appointed as an executive Director and Chief Executive Officer of the Company with effect from 14 October 2016. He is the son of Mr. Alfred Chan Kai Tai and cousin of Ms. Jenny Ching Ching Tan.*
3. *Ms. Jenny Ching Ching Tan was appointed as an executive Director, President and Chief Operating Officer of the Company with effect from 14 October 2016. She is the niece of Mr. Alfred Chan Kai Tai and cousin of Mr. Anthony Paul Chan.*
4. *Mr. Pierre Bourque resigned as executive Director of the Company with effect from 14 October 2016.*

The biographical information of the Directors and senior management are set out on pages 35 to 36 of this report.

As of 31 December 2016, the Board comprises seven Directors, including four executive Directors and three independent non-executive Directors. Therefore, the Company has complied with the requirement of the Listing Rules in having at least three independent non-executive Directors, representing at least one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or relating financial management expertise.

Responsibilities of the Board and Senior Management

Since the resignation of Mr. Edward Tan Han Kiat, the former Chairman of the Company, Mr. Pierre Bourque, a former executive Director of the Company, assumed the duties of the Chairman and Mr. Alfred Chan Kai Tai was the Chief Executive Officer of the Company. Upon the resignation of Mr. Pierre Bourque, Mr. Alfred Chan Kai Tai was appointed as the Chairman of the Company and ceased to be the Chief Executive Officer of the Company with effect from 14 October 2016. Mr. Alfred Chan Kai Tai is responsible for managing and providing leadership to the Board, initiating communication with other Board members, in particular the independent non-executive Directors and, where appropriate, considering any matters proposed by other Directors for inclusion in the agenda of Board meetings.

Mr. Anthony Paul Chan, who is the son of Mr. Alfred Chan Kai Tai, was appointed as the Chief Executive Officer of the Company with effect from 14 October 2016. Mr. Anthony Paul Chan is directly responsible for the day-to-day management of the business of the Company and the monitoring of the operational performance of the Company. He also reviews and discusses with the Board members the business plans, the overall execution, and recommends courses of action to improve the performance of the Company.

The Board is responsible for the management of the business and affairs of the Group and owes a fiduciary duty and statutory responsibility towards the Company. In particular, it formulates the overall strategies and policies of the Group. The Board is also responsible for providing leadership and control of the Company and monitoring the performance of the management, which is responsible for the day-to-day operations of the Company. Executive Directors and senior management assume the responsibilities on the daily operations of the Company. Decisions of the Board, including strategic policies, financial plans and corporate objectives, are communicated to the management through the executive Directors and their delegates. The Board is also responsible for developing appropriate policy to enhance the corporate governance of the Company, and performing the duties set out in code provision D.3.1 of the Corporate Governance Code.

During FY2016, the Board reviewed the Company's policies and practices on corporate governance and the compliance with legal and regulatory requirements. It also monitored and reviewed the code of conduct applicable to employees and Directors as well as the training and continuous professional development of Directors and senior management. In addition, the Board reviewed the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The independent non-executive Directors bring independent judgment, knowledge and experience to the Board's deliberations. The independent non-executive Directors are of sufficient caliber that their views carry significant weight in the Board's decision making process. The Board considers that there is reasonable balance between the executive Directors and non-executive Directors and they have provided adequate checks and balances for safeguarding the interests of all shareholders and the Group. The Directors are given access to independent professional support at the Company's expense, when the Directors deem it necessary to carry out their responsibilities.

Under Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. Our independent non-executive Directors, Mr. Lin Tao, Mr. Antonio Delfin Gregorio and Mr. Zheng Wanhe have entered into appointment letters with the Company with a renewal term of three years, commencing 31 July 2016 and 23 August 2016 and 23 August 2016 respectively, subject to retirement and re-election in accordance with the bye-laws of the Company.

The Board has received from each of its independent non-executive Directors a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Rotation and Retirement of Directors

Under the Code Provision A.4.2, every Director should be subject to retirement by rotation at least every three years. Pursuant to Article 99 of the Bye-laws of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not a multiple of three, the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. Mr. Anthony Paul Chan, Ms. Jenny Ching Ching Tan, Mr. He Kun, Mr. Antonio Delfin Gregorio and Mr. Zheng Wanhe shall retire by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Responsibility

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but be distinguished from, the "Independent Auditor's Report" on pages 37 to 42 of this report which states the reporting responsibilities of the Group's auditors.

Annual Report and Accounts

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Directors 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.

Accounting Policies

The Directors consider that in preparing the financial statements, the Group has used appropriate accounting policies that were consistently applied, and that all applicable accounting standards have been followed.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable accounting standards.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Company has also arranged appropriate insurance cover in respect of legal action against the Directors for the year 2016 and onwards.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code in their securities transactions throughout the year ended 31 December 2016. Directors' interests in the shares of the Company are set out on page 24 of this report.

Remuneration of Directors

In FY2016, the remuneration of Directors and senior management was determined by the Board with reference to the performance and profitability of the Group as well as remuneration benchmarks from other companies in the retail industry and the prevailing market conditions. Details of the remuneration and emoluments awarded are set out on pages 68 to 69 of this report.

Board Committees

The Board is supported by a number of committees, including the Nomination Committee, Remuneration Committee and Audit Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions and the terms of reference are available on the websites of both the Stock Exchange and the Company. All board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Nomination Committee

The Nomination Committee is chaired by Mr. Alfred Chan Kai Tai, an executive Director and Chairman of the Board, and its other members are two independent non-executive Directors, namely Mr. Lin Tao and Mr. Antonio Delfin Gregorio. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee is also responsible for the development of the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors when needed.

The Nomination Committee held one meeting during the financial year ended 31 December 2016, at which the structure, size and composition of the Board were considered, the policy for nomination of directors, the nomination procedures and the process and criteria adopted by the nomination committee to select and recommend candidates for directorship during the year were reviewed. Mr. Alfred Chan Kai Tai and Mr. Lin Tao attended the meeting, while Mr. Antonio Delfin Gregorio did not attend the meeting due to personal affairs.

Diversity Policy

The Company adopted a board diversity policy in October 2013 which sets out the approach to achieve diversity on the Board. The Company embraces the benefits of having a diverse Board, and sees diversity as an important element in effective decision making and management. The objective is to recognize the benefits and importance of diversity at the Board, the key decision making body in the Company, to enhance the quality of its performance and maintain a sustainable development in long run. Board diversity shall be achieved through consideration of a number of factors and measurable objectives, including, but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, skills and knowledge. All appointments of the Board members are made on merit against objective criteria and with due regard towards the achievement of diversity within the Board.

Remuneration Committee

The Board has established a Remuneration Committee which comprises three Board members. The Remuneration Committee is chaired by Mr. Zheng Wanhe, an independent non-executive Director. The other two members are Mr. Alfred Chan Kai Tai, executive Director and Chairman of the Board, and Mr. Antonio Delfin Gregorio, an independent non- executive Director who was appointed as a member with effect from 14 October 2016, while Mr. Lin Tao resigned as a member of the Remuneration Committee on the same date.

The Remuneration Committee is responsible for the development and administration of procedures for the determination of remuneration policies on the remuneration of Directors and senior management of the Company, including their remuneration packages and assessing performance of executive directors. Executive Directors, however, do not participate in the determination of their own remuneration. The Remuneration Committee is authorized by the Board to make recommendations to the Board on the remuneration payable to executive Directors and members of senior management, the emolument policies and the basis for determining such emoluments.

The Remuneration Committee held one meeting during the financial year ended 31 December 2016, at which the policy for the remuneration of Directors and senior management of the Company, the terms of the executive Directors' service contracts, the performance of Directors and the remuneration packages of Directors and senior management of the Company were considered. Mr. Alfred Chan Kai Tai, and Mr. Lin Tao and Mr. Zheng Wanhe attended the meetings. No meeting was held after the appointment of Mr. Antonio Delfin Gregorio as a member of the Remuneration Committee took effect on 14 October 2016.

Audit Committee

The Audit Committee consists of Mr. Lin Tao, Mr. Zheng Wanhe and Mr. Antonio Delfin Gregorio, all of whom are independent non-executive Directors. The Audit Committee is chaired by Mr. Lin Tao. All committee members possess appropriate business and financial experience. The Audit Committee is authorized to obtain external professional advice if it considers necessary.

The primary duties of the Audit Committee mainly include to: (a) monitor and review the preparation of financial statements of the Company; (b) monitor and maintain the relationship with the Company's external auditors; and (c) oversee the Company's financial reporting system, internal control and risk management procedures. The Audit Committee has reviewed the consolidated financial statements for FY2016 and the accounting principles and practices adopted, and discussed auditing, internal control and financial reporting matters with the management and the Company's external auditors.

The Audit Committee held two meetings during the financial year ended 31 December 2016, at which the Company's interim and annual results, internal control system, and the Audit Committee's other duties under the Corporate Governance Code were considered. Mr. Lin Tao, Mr. Zheng Wanhe and Mr. Antonio Delfin Gregorio have attended all meetings during 2016.

Auditors' Remuneration

KPMG has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by KPMG and considered that such services have no adverse effect on the independence of the external auditor.

During the year ended 31 December 2016, the fees payable to KPMG in respect of its audit services and review of unaudited interim results were RMB1.6 million and RMB0.5 million, respectively.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2016.

Company Secretary

The Company engaged an external professional company secretarial provider to provide secretarial services and has appointed Ms. Irene Wong Fung Mei ("Ms. Wong") as its company secretary since September 2003. Her primary contact person at the Company is the head of legal and compliance department of the Company and other officers of the department.

In accordance with Rule 3.29 of the Listing Rules, Ms. Wong has taken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

Internal Controls and Risk Management

The Board acknowledges that it is responsible for the oversight and management of the Company's risk management and internal control systems and reviewing their effectiveness. It has an overall responsibility for establishing and maintaining the operation of risk management and internal control systems, and their respective approval procedures. Executive Directors are appointed to the boards of all material operating subsidiaries, in order to work closely with the senior management of the Group and monitor their performance to ensure that strategic objectives are implemented and business performance targets are met.

The Directors confirm that they have reviewed the effectiveness of risk management and internal controls systems of the Company and its subsidiaries in FY2016 and that they consider that such systems are reasonably effective and adequate although they cannot provide absolute assurance that all material risks are appropriately identified, evaluated and managed. The annual review covered all material controls of the Group, including financial, operational, compliance and risk management controls. Whilst the Group's risk management and internal control system, as outlined by the various procedures described below, are designed to identify and manage rather than eliminate risks that could potentially adversely affect the Group's ability to meet its business objectives and to properly record and report financial information, they can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk management process

Senior management responsible for the operations within the Group would prepare the business plan and budget on an annual basis, which is subject to review and approval by the executive Directors. When setting budgets and forecasts, senior management identifies, evaluates and reports on the likelihood and potential financial impact of any significant business risks. Budgets are prepared on an annual basis and forecasts are usually prepared on a quarterly basis.

The Company's financial controller has established guidelines and procedures for the approval and control of expenditures and has carried out annual review. Both operating and capital expenditures are subject to overall budget control. Operating expenditures are further controlled by approval ceilings, which are set by reference to the level of responsibilities of the relevant executives and officers. Capital expenditures (including material expenditures within the approved budget as well as unbudgeted expenditures) are subject to specific approval prior to commitment.

The Audit Committee works with the Group's finance team and other senior management members to monitor the risk management and internal control systems and their approval procedures, to ensure their effectiveness. The Group's internal audit function provides independent assurance as to the existence and effectiveness of the risk management activities and internal controls in the Group's business operations. Internal audit follows up with the management team on issues identified in the course of audit where the risks identified are rated with mitigating factors discussed and considered. The Company has also developed a system of controls and procedures for the timely record, processing and reporting of information in the course of its operations. Further, risk assessment and internal control review reports are prepared and circulated among the financial controller and relevant senior management within the Group, where material findings including the risks relevant to the Company potential improvement in the internal control system, and material internal control defects identified are reported to the Audit Committee for discussion.

The Group has also formulated and regularly reviewed corresponding policies and procedures for the handling and dissemination of inside information, such as:

— The Group shall consider the applicable information disclosure requirements under the Listing Rules in the course of dealing and shall consult external legal opinion if necessary;

— The Group has made appropriate disclosure of information through financial reports, announcements, as well as corporate websites to implement fair disclosure policies;

— The Group strictly prohibits unauthorized use of confidential and insider information among all management members and employees.

The Company is minded to strengthen the internal control and risk management processes of the Group by adopting and implementing various practices in the daily operations which provide check and balance across different levels of operations. Specifically, the Group reviews the procedures of payment audit and seal management whereby we rotate seal management personnel periodically and conduct checks to ensure that the relevant personnel are competent and discharging the duties appropriately and responsibly. For new businesses or any changes on operation, all related departments would coordinate in advance to ensure accuracy and efficiency of the underlying financial and administrative reporting.

The above policies and procedures are also being communicated with personnel across our organization through regular trainings to department managers and staffs from time to time in order to equip them with necessary knowledge and techniques to monitor the implementation and compliance in their respective departments.

In view of the above procedures and measures taken or to be taken by the Company, the Directors consider that the Company has complied with the code provisions on risk management and internal control for FY2016 and consider that the risk management and internal control systems of the Company and its subsidiaries are effective.

Board and Shareholders' Meetings

During FY2016, the Board held four board meetings through telephone conference. At each of the Board meetings, Directors could suggest matters for inclusion into the agenda for discussion at the Board meetings. All Directors have access to Board's papers and relevant materials from the Company so that they are able to make informed decisions on matters placed before them. When a Director is unable to attend a meeting, he would be informed of the content and results of the Board meeting.

The number of full Board Committee and Shareholders' meetings attended by each Director during the financial year ended 31 December 2016 are as follows:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Alfred Chan Kai Tai	4/4	N/A	1/1	1/1	1/1
Mr. Pierre Bourque[1]	3/4	N/A	N/A	N/A	1/1
Mr. Anthony Paul Chan[2]	1/4	N/A	N/A	N/A	0/1
Ms. Jenny Ching Ching Tan[3]	1/4	N/A	N/A	N/A	0/1
Mr. He Kun	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Lin Tao[4]	4/4	2/2	1/1	1/1	1/1
Mr. Zheng Wanhe	4/4	2/2	1/1	N/A	1/1
Mr. Antonio Delfin Gregorio[5]	4/4	2/2	0/1	0/1	0/1

Remarks:

1. *Mr. Pierre Bourque resigned as executive Director with effect from 14 October 2016.*
2. *Mr. Anthony Paul Chan was appointed as executive Director with effect from 14 October 2016.*
3. *Ms. Jenny Ching Ching Tan was appointed as executive Director with effect from 14 October 2016.*
4. *Mr. Lin Tao resigned as member of Remuneration Committee with effect from 14 October 2016.*
5. *Mr. Antonio Delfin Gregorio was appointed as member of Remuneration Committee with effect from 14 October 2016.*

Continuous Professional Development

Professional and continuous training of directors is essential for the purposes of developing and refreshing their knowledge and skills, which in turn facilitates their contribution to the Board. Pursuant to Code Provision A.6.5, all existing Directors, namely Mr. Alfred Chan Kai Tai, Mr. Anthony Paul Chan, Ms. Jenny Ching Ching Tan, Mr. He Kun, Mr. Lin Tao, Mr. Zheng Wanhe and Mr. Antonio Delfin Gregorio, have attended professional training in December 2016 provided by the Company's external legal advisors, in relation to the disclosure of interests regime under Part XV of the Securities and Futures Ordinance, and Environmental, Social and Governance Reporting under the Listing Rules.

	Attended Professional Training
Executive Directors	
Mr. Alfred Chan Kai Tai	✓
Mr. Anthony Paul Chan	✓
Ms. Jenny Ching Ching Tan	✓
Mr. He Kun	✓
Independent Non-executive Directors	
Mr. Lin Tao	✓
Mr. Zheng Wanhe	✓
Mr. Antonio Delfin Gregorio	✓

Investor Relations

Convening an Extraordinary General Meeting ("EGM") by Shareholders

Pursuant to section 74 of the Bermuda Companies Act, a Shareholder or Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may requisition the Directors to forthwith proceed duly to convene an EGM by depositing a written requisition at the registered office of the Company.

The written requisition must state the purposes of the meeting (including the resolutions to be considered at the meeting), signed by the requisitionists and deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene an EGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

An EGM so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimiles or by email, together with his/her contact details, such as postal address, email or fax, addressing to the office of the Company at the following address or facsimile number or via email:

Portico International Holdings Limited
Suite 102, Sunbeam Center
27 Shing Yip Street
Kwun Tong
Kowloon
Hong Kong

Fax: (852) 2790 4815
Email: irene.wong@portico-intl.com
Attention: Ms. Irene Wong Fung Mei

Putting Forward Proposals at General Meetings

Shareholders shall deposit a written notice at the Company's principal place of business in Hong Kong at Suite 102, Sunbeam Center, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details, and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Amendments to Constitutional Documents

There was no change in the Company's constitutional documents during the financial year ended 31 December 2016.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders the annual report together with the audited consolidated financial statements of the Group for FY2016.

Principal Activities

The Group is a conglomerate intending to engage in multiple areas of business. While it is in the process of identifying appropriate business opportunities in various industries, at the moment, the Group is primarily engaged in the wholesale and retail distribution of ladies' and men's fashion apparel and accessories such as shoes, handbags, eyewear, scarves and fragrances in mainland China, Hong Kong, the U.S., Canada and Europe.

The principal activities and other particulars of the Company's principal subsidiaries are set out in note 13 on page 73 of the consolidated financial statements.

Results, Dividends and Appropriations

The profits of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group are set out in the financial statements.

The Directors did not recommend the payment of any final dividend for the year ended 31 December 2016. As far as the Company is aware, as at the date of this report, there was no arrangement under which any shareholder has waived or agreed to waive any dividend proposed to be distributed for the year 2016. (2015: Nil)

Business Review

The business review of the Group for the year ended 31 December 2016, including a fair review of the business and a description of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, are set out in the section headed "Management's Discussion and Analysis" on pages 7 to 11 of this report. A discussion on the Company's environmental policies and performance, an account of the key relationships with the Company's employees, customers and suppliers, and a discussion on the compliance with the relevant laws and regulations that have a significant impact on the Group can be found in the "Environmental, Social and Governance Report" set out on pages 28 to 34 of this report. This discussion forms part of this "Report of the Directors".

Major Customers & Suppliers

For the year ended 31 December 2016 , the Group purchased approximately 12% and 28% of its goods (primarily being raw materials) and services from its largest supplier and five largest suppliers respectively. The percentages of revenue attributable to the Group's largest customer and its five largest customers combined were approximately 3% and 13% respectively.

None of the Directors, their close associates or any shareholder of the Company (which to the best knowledge of the Directors own more than 5 % of the Company's share capital) had any interest at any time in FY2016 in the five largest customers and suppliers of the Group.

Distributable Reserves

As at 31 December 2016, the aggregate amount of reserves available for distribution to shareholders of the Company was RMB154,223 thousand (2015: RMB148,222 thousand). Details of distributability of reserves are outlined on page 84 of this report.

REPORT OF THE DIRECTORS

Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out in the financial summary on pages 4 to 5 of this report. This summary does not form part of the audited financial statements.

Share Capital

Details of the share capital of the Company are set out on page 83 of this report.

Equity-linked Agreements

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

Property, plant and equipment

Details of the movements of property, plant and equipment of the Group during the year ended 31 December 2016 are set out on page 71 of this report.

Donations

During FY2016, the Group made charitable and other donations of approximately RMB261 thousand (FY2015: RMB440 thousand).

Directors

The Directors of the Company for the year ended 31 December 2016 were:

Executive Directors

Mr. Alfred Chan Kai Tai *(Chairman)*[1]
Mr. Anthony Paul Chan *(Chief Executive Officer)*[2]
Ms. Jenny Ching Ching Tan *(President and Chief Operating Officer)*[3]
Mr. He Kun

Independent Non-Executive Directors

Mr. Lin Tao
Mr. Zheng Wanhe
Mr. Antonio Delfin Gregorio

Notes:

1 *Mr. Alfred Chan Kai Tai resigned as Chief Executive Officer and was appointed as Chairman with effect from 14 October 2016.*
2 *Mr. Anthony Paul Chan was appointed as an executive Director and Chief Executive Officer of the Company with effect from 14 October 2016.*
3 *Ms. Jenny Ching Ching Tan was appointed as an executive Director, President and Chief Operating Officer of the Company with effect from 14 October 2016.*

A brief biography information of each Director and senior management of the Company can be found on pages 35 to 36 of this report.

Directors' Service Contracts

None of the Directors has a service contract with the Group that is not determinable within one year without payment of compensation other than statutory compensation.

Change in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors are as follows:

Mr. Pierre Bourque resigned as executive Director of the Company with effect from 14 October 2016, due to his decision to devote more time on operation of the Group.

Mr. Alfred Chan Kai Tai resigned as Chief Executive Officer of the Company and was appointed as Chairman of the Company with effect from 14 October 2016.

Mr. Anthony Paul Chan was appointed as an executive Director and Chief Executive Officer of the Company with effect from 14 October 2016.

Ms. Jenny Ching Ching Tan was appointed as an executive Director, President and Chief Operating Officer of the Company with effect from 14 October 2016.

Mr. Lin Tao ceased to be a member of the Remuneration Committee of the Company with effect from 14 October 2016.

Mr. Antonio Delfin Gregorio was appointed as a member of Remuneration Committee of the Company with effect from 14 October 2016.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the six months ended 30 June 2016.

Permitted Indemnity Provision

Pursuant to the Bye-laws of the Company, the Directors, Managing Directors, alternate Directors, Auditors, Secretary and other officers for the time being of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses incurred by him in the execution and discharge of his duties or in relation thereto. Such provisions were in force during FY2016 and remained in force as of the date of this report.

Directors' and Chief Executives Interests

As at 31 December 2016, the interests or short positions of each Director or chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept Section 352 of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code, were as follows:

Shares of the Company of HK$0.0025 each ("Shares")

Name of Directors	Personal Interest	Corporate Interest	Total Interest	Percentage of total issued Shares
Mr. Alfred Chan Kai Tai[1]	200,000(L)	412,893,389(L)	413,093,389(L)	74.50(L)
Mr. Anthony Paul Chan	1,113,500(L)	0	1,113,500(L)	0.20(L)
Ms. Jenny Ching Ching Tan	0	0	0	0
Mr. He Kun	1,100,000(L)	0	1,100,000(L)	0.20(L)
Mr. Lin Tao	0	0	0	0
Mr. Zheng Wanhe	0	0	0	0
Mr. Antonio Delfin Gregorio	0	0	0	0

(L) — Long Position

Note:

1. *Mr. Alfred Chan Kai Tai owns 50% of the shareholding interest of Ports International Enterprises Limited ("PIEL"). As at 31 December 2016, PIEL held a long position of 162,705,752 Shares directly. 250,187,637 Shares were owned by CFS International Inc. ("CFS"), a direct subsidiary of PIEL. Mr. Alfred Chan Kai Tai was deemed to be interested in 74.47% of the issued share capital of the Company by virtue of his interests in PIEL pursuant to Part XV of the SFO;*

As at 31 December 2016, other than the holdings disclosed above, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders

The Company has been notified that, as at 31 December 2016, the persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Total number of Shares held	% of Issued share capital
CFS International Inc.[1]	Beneficial Owner	250,187,637 (L)	45.12 (L)
Ports International Enterprises Limited	Interest of Controlled Corporation	250,187,637(L)	45.12 (L)
	Beneficial Owner	162,705,752 (L)	29.35 (L)
Mr. Edward Tan Han Kiat[2]	Beneficial Owner	250,000 (L)	0.04 (L)
	Interest of Controlled Corporation	412,893,389 (L)	74.47 (L)
維格娜時裝股份有限公司	Beneficial Owner	40,000,000 (L)	7.21 (L)
Hwabao Trust Co. Ltd.	Trustee	40,000,000 (L)	7.21 (L)

Notes:

1. *PIEL is deemed to be interested in the 250,187,637 Shares held by CFS by virtue of PIEL's interest in CFS. Please also see Note 1 under the paragraph headed "Directors and Chief Executives Interests" on page 24 of this report.*

2. *Mr. Edward Tan Han Kiat is deemed to be interested in the 412,893,389 Shares held by PIEL by virtue of Mr. Edward Tan Han Kiat's 50% shareholding interest in PIEL.*

Save as disclosed above, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares of the Company as at 31 December 2016 as recorded in the register required to be kept under section 336 of the SFO.

Directors' Interest in Transactions, Arrangements and Contracts

There were no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, during FY2016, save as disclosed in the paragraphs below headed "Connected Transactions".

Directors' Rights to Acquire Shares or Debentures

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Controlling Shareholders' Interests in Contracts of Significance

There were no contracts 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 controlling shareholder had a material interest, whether directly or indirectly, during FY2016, save as disclosed in the paragraphs below headed "Connected Transactions".

Management Contracts

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during FY2016.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed or redeemable securities during FY2016.

Pre-emptive Rights

There is no provision regarding pre-emptive rights under the Bye-laws of the Company and the laws of Bermuda.

Connected Transactions

Continuing Connected Transactions

(a) *Lease Agreements between Ports International (Beijing) Company Limited ("Ports Beijing") and Beijing Scitech Holdings Limited ("Beijing Scitech Holdings")*

On 27 January 2017, one of the Company's subsidiaries, Ports Beijing, as the landlord entered into two lease agreements ("Lease Agreements") respectively with two subsidiaries of Beijing Scitech Holdings, namely Beijing Scitech-MQ Pharmaceuticals Limited ("Beijing Scitech Pharmaceuticals") and Beijing Northern Anitech Limited ("Beijing Northern Anitech") as the tenants in relation to the leasing of certain buildings owned by Ports Beijing located at Shunyi District in Beijing for a term of three years. Both Beijing Scitech Pharmaceuticals and Beijing Northern Anitech are ultimately owned by Mr. Alfred Chan Kai Tai, who is an executive Director and a substantial shareholder (as defined in the Listing Rules) of the Company and Mr. Edward Tan Han Kiat, who is also a substantial shareholder (as defined in the Listing Rules) of the Company. As such, Beijing Scitech Pharmaceuticals and Beijing Northern Anitech are associates (as defined in the Listing Rules) of the connected persons of the Company and therefore connected persons of the Company within the meaning of the Listing Rules.

The aggregate annual caps for the maximum aggregate rental payable under the Lease Agreements for each of the three years ending 31 December 2017, 2018 and 2019 is approximately RMB5.3 million, RMB5.5 million and RMB5.1 million, respectively, which have been determined by reference to the aggregate rentals to be received by Ports Beijing under the transactions contemplated under the Lease Agreements.

(b) *Continuing Connected Transactions with Ports International Retail Corporation ("PIRC")*

The Group has sold ladies' and men's fashion garments and accessories and other merchandise or products branded with the PORTS INTERNATIONAL and PORTS 1961 brands ("PORTS Products") to PIRC, a wholly-owned subsidiary of the Company's controlling shareholder, CFS, which resells them in Europe and North America. Mr. Alfred Chan Kai Tai, an executive Director, is the ultimate controlling shareholder (as defined in the Listing Rules) of CFS. The Group supplies PORTS Products to PIRC on a contract basis, with each contract specifying the quantity to be sold, the price and the date of delivery (the "Sales Transactions"). On 1 November 2006, the Company and PIRC entered into an agreement for the supply of PORTS Products to PIRC and its affiliated companies (the "Master Agreement"). The Master Agreement was subsequently renewed on 1 September 2009, 29 December 2011 and 29 December 2014 and shall expire on 31 December 2017 (the "Renewed Master Agreement"). The annual cap in respect of the aggregate amount of the Sales Transactions under the Renewed Master Agreement for each of the three years ended 31 December 2015, 2016 and ending 31 December 2017 is RMB9.3 million, RMB10.2 million and RMB11.2 million, respectively, which have been determined by reference to a projected additional 10% growth rate each year. During FY2016, the value of the Sales Transactions was RMB9.5 million (2015: RMB6.0 million).

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

The independent non-executive Directors have also reviewed the above continuing connected transactions of the Company for FY2016 and have confirmed that:

(a) the continuing connected transactions had been entered into in the ordinary and usual course of business of the Group;

(b) the continuing connected transactions had been entered into on normal commercial terms or better; and

(c) the continuing connected transactions had been entered into according to the agreement governing them on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

In respect of the connected transactions and continuing connected transactions entered into by the Group in FY2016, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Significant Events

There have been no significant events affecting the Group which have occurred since 31 December 2016.

Pledging of Shares by Controlling Shareholders

The controlling shareholders of the Company has not pledged any of its interests in the Shares to any third party.

Corporate Governance

The "Corporate Governance Report" of the Company is outlined on pages 12 to 20 of this report.

Auditors

KPMG was appointed as auditor of the Group since the listing and will retire at upcoming annual general meeting. A resolution for the re-appointment of KPMG as auditors of the Group is to be proposed at the upcoming annual general meeting.

Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

On behalf of the Board
Anthony P. Chan
Chief Executive Officer and executive Director

30 March 2017

Overview

The Group has been committed to a high level of corporate social responsibility. We actively contribute to the community in different aspects and strive to integrate sustainability into our daily operations. During FY2016, the Group operated more than 300 retail stores across our operational regions, predominantly located in the PRC.

Our approach

In this report, the Company prioritizes and highlights the key Environmental, Social and Governance ("ESG") subject areas, aspects and KPIs that are material in strategic, operation and financial terms. The information disclosed in this report is specific and tailored to our organization, taking into account of our business activities in the wholesale and retail distribution of ladies' and men's fashion apparel and accessories, our stakeholders' views, priorities, values and overall business strategy. In view of our management's opinion, we will adopt the materiality test by focusing and reporting only on our operations in the PRC, which account for over 90% of the Group's total revenue.

Reporting Framework and Reporting period

The information published in this ESG report covers the period from 1 January 2016 to 31 December 2016 ("FY2016") and is prepared with reference to ESG Reporting Guide as described in Appendix 27 of the Listing Rules.

I. Environmental Protection

Energy and Carbon, Water and Waste

Our Company, as providers of consumer goods involving in manufacturing and distribution activities, may have significant impacts on the environment and natural resources from an operational standpoint. In this connection, emissions, use of resources such as water usage and environment and natural resources which may result in loss of biodiversity are the relatively important environmental protection aspects of the Company.

During FY2016, the Group has complied with requirements under the relevant environmental laws and regulations in the PRC and has continuously monitored the existing policies on the handling of hazardous and non hazardous waste. The Group has also adopted effective measures to promote efficient use of resources, energy saving and waste reduction. We set out our key concerns and examples on the energy-saving initiatives implemented by our Company during FY2016, as follows:

A1: Emissions

Greenhouse gas (GHG) emissions included, cover direct emissions from operations that are owned or controlled by the Company (Scope 1), indirect emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the Company (Scope 2) and all other indirect emissions that occurred outside the Company, including both upstream and downstream emissions (Scope 3).

Controlling and reducing emissions of both hazardous and non-hazardous waste have become a matter of increasing urgency both globally and in our operations. In FY2016, our operating subsidiaries in the PRC have engaged waste disposal contractors to handle hazardous waste for incineration treatment and have achieved satisfactory results as follows:

	2016	2015
Hazardous waste		
HW49 waste organic waste	**0.428 tons**	1.307 tons
HW 06 other liquid hazardous waste	**0.2 tons**	0.2 tons
Non-hazardous waste^	**84.65 tons**	80.82 tons

^ *Non-Hazardous waste are waste such as rags and cardboards which have undergone recycling processes*

A2: Use of Resources

Resources, including energy, water and other raw materials, is closely linked to the effects of climate change and over-consumption, which affects the sustainability of our business in long run. The Group strives to save energy and resources through persistent implementation of internal policies and use of advanced technologies in order to ensure that resources are efficiently utilised at each operation procedure.

The energy consumption metrics as well as our Scope 1 and 2 GHG emissions are shown in the table as below:

ENVIRONMENTAL METRICS COMPARISON FOR 2015–2016

Consumption	**2016**	2015
Electricity consumption (kWh)	**9,632,289**	10,079,154
Water consumption (Tons)	**123,393**	94,993
Natural Gas Usage (cubic meters)	**334,042**	511,109

Aspect A3: Environmental and Natural Resources

During FY2016, we have continued to invest capital and efforts in energy-saving and environmental friendly initiatives across the operations of the Group, including:

- maintaining office temperatures at not less than 26 degrees Celsius to minimize energy use;
- turning off half of the lights in the office whenever there is sufficient daylight, and turning off the lights completely in the office for one hour during lunch break;
- replacing 36W fluorescent tube light bulbs by 425 units of energy saving 15W LED light bulbs in the headquarter of the Company since July 2016;
- highly encouraging duplex printing and copying as well as paper recycling across the entire organization;
- regularly reviewing our packaging reuse, waste paper, and fabric scrap recycling procedures to minimize the potential harmful effects caused to the environment;
- 122 additional trees were planted within the office and factory area, with a removal factor of 23, total of 2806 kg saved per tree; and
- using FSC-certified paper for the bulk-printing of the Company's annual report this year to further support environmental protection.

II. Workplace Quality

As a manufacturer of high-end luxury products, our labour force has an important role in ensuring the smooth and high quality operations of our business. Concurrently, the society and the general public have demonstrated heightened scrutiny towards employees in respect of labour and employment practices. As a result, the Company has placed much emphasis on workplace quality, including working conditions, health and safety, development and training and labour standards, which are briefly described as below: -

B1: Employment

The Group's human resources policies are in compliance with the applicable employment laws and regulations in the PRC, including Company Law of PRC 《中國公司法》, Labour Law of the PRC 《中國勞動法》, Labour Contract Law of the PRC 《中國勞動合同法》, and the social security schemes that are enforced by the State Regulations of the PRC to provide employee benefits, including the provision of pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund. The Group's human resources department reviews and updates relevant company policies regularly in accordance with the latest laws and regulations in force.

As at 31 December 2016, in terms of materiality, the Group had a total workforce of 4,347 employees (2015: 4,330) based mainly in the PRC, which are divided into the following categories:

- *By Gender*

	2016	2015
Male	**946**	1,006
Female	**3,401**	3,324

- *By Age Groups*

	2016	2015
16–20	**60**	79
21–30	**1,606**	1,654
31–40	**1,640**	1,642
41–50	**917**	832
Over 50	**124**	123

- *By Employment type*

	2016	2015
Full-time or contract	**4,345**	4,323
Part-time	**2**	7

- *Employee turnover rate by gender*

Gender	No. of new joiners **2016**	2015
Male	**271**	316
Female	**1,629**	1,443
Sub-total	**1,900**	1,759

Gender	No. of leavers **2016**	2015
Male	**331**	389
Female	**1,552**	1,549
Sub-total	**1,883**	1,938
Employee turnover rate^	**43.5%**	44.8%

^ *approximately, calculated as dividing the number of leavers by total number of employees at the beginning of period.*

B2: Health and Safety

To provide and maintain good working conditions and foster a safe and healthy working environment, the Group's safety and health policies are in compliance with various laws and regulations stipulated by the local government, including the Production Safety Laws of the PRC《中國安全生產法》, Labour Law of the PRC《中國勞動法》, Occupational Disease Prevention Law in PRC《中國職業病防治法》, Regulations on Work-Related Injury Insurance《工傷保險條例》, Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents《生產安全事故報告和調查處理條例》and Regulations Concerning the Labour Protection of Female Staff and Workers《女職工勞動保護規定》.

During FY2016, the Group has implemented various measures with the aim of providing a safe, healthy and respectful workplace among our offices and production facilities, as reported below:

- the Group has set up internal manuals on occupational health and safety systems within our production facilities at Xiamen, PRC, including fire safety policy, labour protection management policy, production site safety policy and safety warning signs management;

- the Group has engaged professional staffs to conduct regular in-house safety talks and training have been conducted by professional staffs on topics such as workplace hazards, safe working practices, as well as emergency response training and drills; and

- "Ke Xiude Charity Foundation", which was established by the Company in 2010, has continued to provide financial and other support to our employees that suffer from serious diseases. Such support has been highly valuable to and appreciated by our employees.

B3. Development and Training

Our Group has a clear vision and strategy for long-term business sustainability. The focus is on the building of the employees' competencies, which ultimately benefits and aligns with the development of the Company. Below is a brief recap of what the Company has done in this area:

- during FY2016, the Company has provided 14 in-house learning programs and over 1,900 employees have participated, with an average of over two training hours per staff. The training topics cover primarily on product and production knowledge as well as sales and services skills, etc; and

- apart from in-house training programs, the Company has sponsored staff members to maintain their professional qualifications and pursue continuous self-development from external institutions, which in the opinion of the management, can facilitate personal development and also benefit the operational quality of the Group.

B4. Labour Standards

The Group is in compliance with Labour Law of the PRC《中國勞動法》, Labour Contract Law of the PRC《中國勞動合同法》, Protection of Minors Law of the PRC 《中國未成年人保護法》 and other related labour laws and regulations currently in force in the PRC, and other regions to prohibit any child and forced labour employment.

Our Group strictly prohibits child labour in any workplace or any involvement in any forced labour, debt repayment or contractually blinded labour or involuntary prison labour.

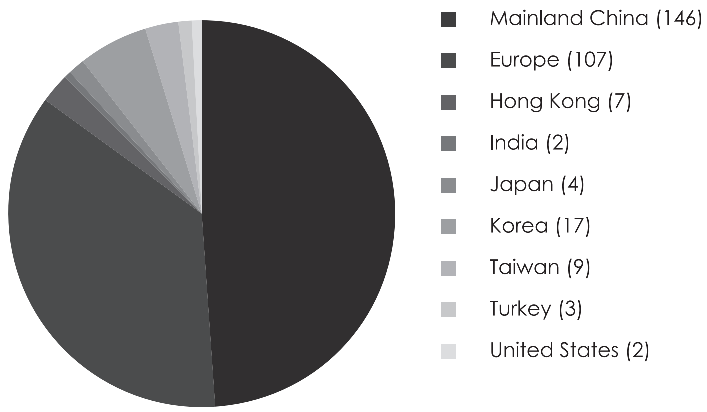
III. Operating Practices

B5. Supply Chain Management and Our Partnership

In accordance with the FTSE Russell's ESG Ratings on supply chain labour standards, companies involving in sourcing or manufacturing of consumer products such as clothing and accessories are considered to be of high risk to the operating practice of the Company since the practices and behavior of our suppliers would directly affect our own reputation. Our Group has adopted various controls with the objective of mitigating such risks and improving our overall efficiency and performance.

As at 31 December 2016, our Group has a total of 297 suppliers were spread among the below geographical regions and among which, 50 of them were first engaged in FY2016.

Suppliers (by geographical regions) as at 31 December 2016



The Group selects suppliers based on multiple factors such as reliability, experience, quality control and price competitiveness. The Group strives to adhere to the principles outlined in the United Nations Global Compact and works only with suppliers who can meet the requisite standards and share the same respect for those principles.

We adopt strict criteria and policy in connection with the screening and engagement of new suppliers and undergo a stringent due diligence process by conducting pre-qualification and factory inspection. The Group maintains ongoing interactions with suppliers with regard to industry trends and market risks and performs assessments of the supply chain to ensure that it is up to standard. For instance, we have requested potential suppliers to provide unified business license (統一營業執照) for pre-qualification screening purposes. Further, we have conducted inspection checks where necessary against our suppliers to ensure their compliance with those principles and standards on National General Safety Technical Code for Textile Products《國家紡織產品基本安全技術規範》 as adopted by our Group. Through a stringent pre-engagement screening and ongoing interactions, the Group is able to establish a solid supplier management practice, which minimizes the supply chain risk and enhances the efficiency of our supply chain management.

B6. Product Responsibility

The principal business of the Group is the distribution of high-end luxury apparel and accessories and hence, the Company considers that product responsibility is one of the most important elements for establishing long term credibility with our potential and current customers.

With regard to the health and safety, advertising and labelling, quality management relating to the Group's products, the Group ensures that they are in compliance with the related rules and regulations in the PRC such as Product Quality Law of the PRC 《中華人民共和國產品質量法》 and Law on Protection of Consumer Rights and Interests of the PRC 《中國消費者權益保護法》. The Group has its own quality control that adheres to national statutory standards.

In connection with the above, we have developed and implemented the following quality assurance processes and product recall procedures:

- we commit to sell 100% authentic products at our official stores, official website, Lynx flagship store and Jingdong official website;

- we guarantee that all goods purchased through our physical and online stores that meet our return policy are entitled to our seven days return services;

- our products sold or shipped that are subject to recall for safety and health reasons are promptly returned to the production line for secondary processing to ensure compliance with relevant requirements on National General Safety Technical Code for Textile Products《國家紡織產品基本安全技術規範》. The whole process is specifically handled by a dedicated team within our retail operations; and

- we regularly monitor and protect the intellectual property rights, such as the use of trademarks attached to our products, across our global distribution network.

B7. Anti-corruption

The Group's operations are mainly carried out in the PRC and the Company's shares are listed on the Stock Exchange. Therefore, it is required to comply with the relevant anti-corruption laws and regulations in Hong Kong and mainland China.

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the laws and regulations relating to anti-corruption and bribery in particular Law of the PRC on Anti-money Laundering 《中華人民共和國反洗錢法》. The Group has formulated and strictly enforced its anti-corruption policies as stipulated in the Group's operational manuals such as rules on gifts and hospitality as the Group does not tolerate any form of corruption.

During FY2016, there was no reported material breach of or non-compliance with relevant laws and regulations, including provisions on anti-corruption, anti-bribery and conflict of interest, gift policy, data confidentiality and security and fund management policy, that have a significant impact on the Group.

IV. Community Care

During FY2016, our Group has also engaged in the following community initiatives:

- the Company sponsored the event "FOLLOW PORTS SPREAD LOVE" with the theme "LOVE IS ALL YOU NEED" over 55 cities in the PRC for a total period of three months. The star personally designed charity T-shirt, by using old recycling shirt used for the Bazaar Charity Fund "Art Fantasy Package" project. The donation raised will be used to subsidize the children art education in less developed countries to fulfill their artistic dreams

  Source: http://www.wxzhi.com/archives/168/dbhkpt7wrungyco5/

- we have provided clothing and other sponsorship to various charity campaigns, such as Breast Cancer Awareness Month which was held between May to June 2016 in Hong Kong, with the aim of raising awareness and providing financial support.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Alfred Chan Kai Tai, aged 69, is the Chairman and executive Director of the Company, and one of the founders of the Group. He is also the chairman of the Nomination Committee and member of the Remuneration Committee. Mr. Alfred Chan Kai Tai has over 30 years' experience in the garment and fashion industry in North America and Asia. He was nominated as one of the 200 top chief executive officers in Canada by the Financial Post of Canada in 1992. He is responsible for the overall management and operations of the Group. Mr. Alfred Chan Kai Tai graduated from McGill University in Canada with a Bachelor of Science degree in physics in 1970 and a master's degree in electrical engineering in 1972. Mr. Alfred Chan Kai Tai also holds directorships in substantial shareholders of the Company within the meaning of Part XV of the SFO and certain subsidiaries of the Company.

Anthony Paul Chan, aged 37, is the chief executive officer and exeutive Director of the Company since 14 October 2016. He is the son of Mr. Alfred Chan, the Chairman of the Group and an executive Director of the Company. Mr. Anthony Paul Chan has over 15 years of experience in corporate strategy, operations, private investments and corporate finance. He was an executive vice president of PCD Stores (Group) Limited which was delisted from the main board of the Stock Exchange in December 2013 and the chairman of Scitech Holdings Group, a private family real estate development and investment company based in Beijing. Mr. Anthony Paul Chan also held prior positions at Bain & Company, the Government of Singapore Investment Corporation and Credit Suisse First Boston. Mr. Anthony Paul Chan obtained a Bachelor Degree in Government and Economics, magna cum laude with distinction in all subjects, from Cornell University in 2001 and received a Master of Business Administration from University of Pennsylvania in 2006.

Jenny Ching Ching Tan, aged 46, is the president and chief operating officer, authorized representative and executive Director of the Company since 14 October 2016. She has over 15 years of experience in marketing and retail and she was the general manager of operation in PCD Xiamen, the subsidiary department store chain in Xiamen of PCD Stores (Group) Limited, which was delisted from the main board of the Stock Exchange in December 2013. Ms. Jenny Ching Ching Tan was also the publisher of Rouge Media, a luxury fashion magazine. Ms. Jenny Ching Ching Tan holds the certification of the American Institute of Certified Public Accountants. She obtained a Bachelor Degree in Commerce from University of Toronto in 1993.

He Kun, aged 46, is the financial controller of the Group and executive Director of the Company. He is responsible for budget control and financial reporting of the Group. Mr. He Kun joined the Group in 1992. He graduated from Xiamen University, China with a Professional Accounting degree in 1992 and a Master of Business Administration degree in 2004.

Independent Non-Executive Directors

Lin Tao, aged 45, is the independent non-executive Director of the Company. He also serves as the chairman of the Audit Committee and a member of the Nomination Committee. Mr. Lin Tao joined the Group in July 2013. He has been a professor of corporate finance and principle of accountancy in Xiamen University since September 1999 and was the associate dean of School of Management of Xiamen University from March 2003 to December 2015. Mr. Lin Tao was the associate director and director of the Center of Executive Master of Business Administration of Xiamen University from August 2004 to May 2008 and from May 2008 to March 2013, respectively. He has also been the independent director of various companies listed on the Shenzhen Stock Exchange, the Shanghai Stock Exchange and the Taiwan Stock Exchange. Mr. Lin obtained his doctoral degree in management (accountancy) in Xiamen University in 1999.

Zheng Wanhe, aged 64, is the independent non-executive Director of the Company. He also serves as the chairman of the Remuneration Committee and a member of the Audit Committee. Mr. Zheng Wanhe joined the Group in August 2013. He is a senior economist, who was graduated from the Beijing Institute of Economics in 1982. Mr. Zheng Wanhe is currently the honorary Chairman of Wangfujing Group Co., Ltd (王府井集團股份有限公司, 600859.SH) (the "Wangfujing Group"), formerly known as Beijing Wangfujing Department Store (Group) Co., Ltd (the "Wangfujing Department Store"), a company listed on the Shanghai Stock Exchange, and Vice President of China Chain Store and Franchise Association. Prior to the above appointments, Mr. Zheng Wanhe was the Vice-General Manager for Beijing City Department Store in 1984, and began his career at Wangfujing Department Store as Vice-President and General Manager from 1993. He had then been appointed as President and General Manager of Wangfujing Department Store since September 2003, until he resigned from the board of Wangfujing Department Store and Beijing Wangfujing International Commercial Development Co. Ltd (北京王府井國際商業發展有限公司), respectively in March 2013.

Antonio Delfin Gregorio, aged 53, is the independent non-executive Director and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Antonio Delfin Gregorio joined the Group in August 2013. He is currently working as a design consultant in the fashion design industry, developing creative concepts for his clients since 2009. He is also an entrepreneur and freelance photographer. Prior to being an entrepreneur and photographer, Mr. Antonio Delfin Gregorio was the co-founder and President of G.H. Interiors Incorporated from 1993 to 2009. He was also the Designer for Britches (Menswear Collection) and Head Designer for Alfred Sung Design (Alfred Collection) from 1990 to 1992 and from 1992 to 1993, respectively. Mr. Antonio Delfin Gregorio completed his fashion design and merchandizing program at Ryerson University in Toronto, and he has extensive knowledge of the fashion and design industry in North America and Europe.

Senior Management

Pierre Bourque, aged 69, remains as the executive vice president the Company. Mr. Pierre Bourque joined the Company in August 2002 and resigned as the executive Director since 14 October 2016. Mr. Pierre Bourque has over 30 years' experience in the garment and fashion industry with extensive knowledge of inventory management, inventory quality control, marketing, merchandising and sales. Mr. Pierre Bourque joined the Canadian operations of Ports International in 1997 and was appointed as the vice president of CFS International Inc.

Natasa Cagalj, aged 47, is the creative director for Ports 1961 Womenswear. Ms. Natasa Cagalj joined the Group in 2014. Prior to joining the Group, Ms. Natasa Cagalj was the Head of Design at Stella McCartney in London. In 2001, Ms. Natasa Cagalj left Cerruti Arte in Paris to join Lanvin as designer. She graduated with distinction from the Central Saint Martins MA program in 1997.

Milan Vukmirovic, aged 47, is the creative director for Ports 1961 Menswear. Mr. Milan Vukmirovic joined the Group in 2014. He was the co-founder of Colette Store in 1997. In 2000, Mr. Milan Vukmirovic became design director for Gucci group, then moved to Jil Sander as creative director. In 2005, internationally acclaimed menswear magazine L'Officiel Hommes enlisted him as their editor-in-chief and in 2007 he joined Trussardi 1911 as their creative director. Mr. Milan Vukmirovic is now editor-in-chief and founder of Fashion for Men bookazine.

Irene Wong Fung Mei, aged 64, is the company secretary of the Company. Ms. Irene Wong Fung Mei joined the Group in September 2003. She is an associate member of the Institute of Chartered Secretaries and Administrators, a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants. She is also a practicing certified public accountant in Hong Kong and has been practicing accounting for over 20 years.

Salem Cibani, aged 38, is the global director of business development for the Group. He works closely with the Board in overseeing the strategic initiatives of the Group globally. He joined the Group in 2006. Prior to this, he was an entrepreneur, operating his own real estate development company in Vancouver, Canada. He studied Mathematics and Kinesiology at the University of British Columbia, Canada. Mr. Salem Cibani is the brother- in-law of Mr. Alfred Chan Kai Tai.

Michelle Chen, aged 48, is the marketing director of the Group. Ms. Michelle Chen is responsible for the advertising and marketing activities of the retail business of the Group. Ms. Michelle Chen first joined the Group in 1997 and left in 2004 before rejoining the Group in 2006. She graduated from Xiamen University, PRC majoring in international journalism in 1991, and graduated from the Paris ESSEC Business School Luxury Brand Management Program with a Master of Business Administration degree in 2005.

KPMG

Independent auditor's report to the shareholders of Portico International Holdings Limited
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Portico International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 43 to 96, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters *(continued)*

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policies on page 58.

The Key Audit Matter	How the matter was addressed in our audit
Revenue principally comprises sales of ladies' and men's fashion apparel and accessories. The Group has different revenue streams, retail and wholesale, which have different revenue recognition criteria. The Group's accounting systems process a high volume of individual transactions. Revenue for retail sales is generally recognised when the goods are purchased, received and accepted by the customers in the Group's retail outlets. Revenue from wholesale operations may be recognised when the goods leave the Group's warehouses or when the wholesalers receive and accept the goods, in accordance with the terms of the sales contracts. We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the recognition of revenue included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over the completeness, existence, accuracy and timing of revenue recognition which included involving our internal information technology risk management specialists to assess the relevant general information technology controls; • comparing, on a sample basis, the Group's retail revenue records with relevant sales reconciliation reports received from shopping arcades in which the Group's retail outlets are located and with bank statements to assess the shopping arcades' remittance of sales proceeds to the Group's bank accounts; • comparing, on a sample basis, the Group's wholesale revenue records with sales reconciliation reports which are sent by the Group each month to wholesalers to confirm transaction details and the accounts receivable balances and which are checked and returned to the Group by the wholesalers indicating any disagreements; • assessing, on a sample basis, whether specific wholesale revenue transactions around the financial year end had been recognised in the appropriate financial period and in accordance with the contractual terms set out in the wholesale agreements by comparing revenue records with goods delivery notes or goods receipt notes signed by the wholesalers as evidence of delivery of the goods; • scrutinising the sales ledger after the year end to identify significant credit notes issued and sales returns and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate accounting period in accordance with the requirements of the prevailing accounting standards; and • inspecting significant manual adjustments to revenue raised during the reporting period, enquiring of management as to the reasons for such adjustments and comparing details of the adjustments with relevant underlying documentation.

Key audit matters *(continued)*

Valuation of inventories

Refer to note 15 to the consolidated financial statements and the accounting policies on page 54.

The Key Audit Matter	How the matter was addressed in our audit
Sales of inventories in the fashion industry can be volatile with consumer demand changing according to current fashion trends. The Group typically does not dispose of off-season inventories but sells off-season inventories at a markdown from the original price through outlets and other channels to maintain the strength of the brand and make room for new season inventories in its stores. Accordingly, there is a risk that actual future selling prices of inventories may fall below their cost. Inventories are carried in the consolidated financial statements at the lower of cost and net realisable value. The estimation of net realisable value of inventories in the fashion industry involves management judgement due to the uncertainties of consumer demand. We identified the valuation of inventories as a key audit matter because of the significant judgement exercised by management in determining the appropriate levels of provisions for inventories which involves predicting the amounts of inventories which are unlikely to be sold at current prices and the markdowns necessary to sell such off-season inventories on a discounted basis in the foreseeable future. Both of these factors can be inherently uncertain and may involve management bias.	Our audit procedures to assess the valuation of inventories included the following: • assessing whether the provisions for inventories at the reporting date were calculated in a manner consistent with the Group's inventory provision policy by recalculating the provisions for inventories based on the percentages and other parameters in the Group's inventory provision policy and assessing the Group's inventory provision policy with reference to the requirements of the prevailing accounting standards; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing bracket by utilising our internal information technology risk management specialists to assess the logic and controls over the inputs in the relevant computer system; • assessing the Group's inventory provision policy by comparing management's forecasts of the amounts of inventories which are unlikely to sold in the foreseeable future at current prices and the corresponding forecast markdowns with historical sales amounts and markdown data for the current and prior years; • comparing, on a sample basis, the carrying amounts of the Group's inventories as at 31 December 2016 with selling prices (less costs of completion and costs necessary to make the sale) achieved after 31 December 2016; and • enquiring of the Chief Executive Officer and the senior management team about any expected changes in plans for markdowns or disposals of off-season inventories and comparing their representations with actual sales transactions subsequent to the financial year end.

Key audit matters *(continued)*

Valuation of property, plant and equipment of the Group's stores

Refer to note 12 to the consolidated financial statements and the accounting policies on page 53.

The Key Audit Matter	How the matter was addressed in our audit
During 2016, the global economy continued to cope with an uncertain and volatile environment with decelerating growth in Mainland China, all of which have negatively impacted the forecast sales for certain of the Group's stores. The Group invests a significant amount of capital in its retail store portfolio through leasehold improvements. There is a risk that the value of leasehold improvements in certain of the Group's stores may not be recoverable in full through the future cash flows to be generated from the trading operations of these stores or from disposal of the related assets if the profitability expectations for the related stores are adversely impacted by trading and other conditions that were not anticipated in the initial business case. Management is required to exercise significant judgement in determining if indicators of potential impairment of retail stores exist. Where indicators of potential impairment were identified, management determined the recoverable amounts of the relevant assets. The recoverable amount of property, plant and equipment is determined by management at the greater of the value in use and the fair value less costs of disposal of these assets. In order to assess the value in use of under-performing stores, management prepared discounted cash flow forecasts which involved the exercise of significant management judgement, particularly in estimating future revenue, future margins and future cost growth rates. We identified the valuation of property, plant and equipment of the Group's stores as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement in forecasting future cash flows for potentially impaired stores, which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess the valuation of property, plant and equipment of the Group's stores included the following: • evaluating the methodology applied by management in its preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards; • assessing and challenging the Group's impairment assessment model, which included assessing the impairment indicators identified by management, evaluating the discounted cash flow forecasts on a store-by-store basis and considering whether these supported the carrying value of the relevant assets as well as whether this indicated that a reversal of a past impairment was required; • comparing the most significant inputs used in the discounted cash flow forecasts, including future revenue, future margins and future cost growth rates, with the historical performance of these stores, management's forecasts, industry reports and any agreements signed subsequent to the reporting date, which included, where relevant, any changes to the terms of leases for store premises; • assessing the discount rates used in the cash flow forecasts by benchmarking against those of other similar retailers; • performing a sensitivity analysis of the discount rates, sales growth rates and cost inflation rates and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements in respect of impairment testing of property, plant and equipment of the Group's stores, including the key assumptions and sensitivities to changes in such assumptions, with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Liu Hin Pan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	**2016** **RMB'000**	2015 RMB'000
Revenue	3	**1,846,179**	1,594,575
Cost of sales		**(399,298)**	(312,118)
Gross profit		**1,446,881**	1,282,457
Other revenue	4(a)	**9,868**	10,014
Other net expense	4(b)	**(691)**	(1,228)
Distribution costs		**(1,044,846)**	(985,801)
Administrative expenses		**(123,398)**	(111,613)
Other operating expenses	5	**(159,952)**	(217,247)
Profit/(loss) from operations		**127,862**	(23,418)
Finance income		**7,857**	25,476
Finance costs		**(9,536)**	(24,601)
Net finance (costs)/income	6(a)	**(1,679)**	875
Profit/(loss) before taxation	6	**126,183**	(22,543)
Income tax	7(a)	**(82,074)**	(50,620)
Profit/(loss) for the year		**44,109**	(73,163)
Other comprehensive income for the year (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**5,138**	(8,954)
Total comprehensive income for the year		**49,247**	(82,117)
Profit/(loss) attributable to:			
Equity shareholders of the Company		**40,265**	(72,730)
Non-controlling interests		**3,844**	(433)
Profit/(loss) for the year		**44,109**	(73,163)
Total comprehensive income attributable to:			
Equity shareholders of the Company		**45,004**	(82,132)
Non-controlling interests		**4,243**	15
Total comprehensive income for the year		**49,247**	(82,117)
Earnings/(loss) per share (RMB cents)			
Basic	10(a)	**7**	(13)
Diluted	10(b)	**7**	(13)

The notes on pages 48 to 96 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016
(Expressed in Renminbi)

	Note	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Lease prepayments	11	**22,251**	22,770
Property, plant and equipment	12	**451,630**	438,904
Intangible assets		**2,447**	—
Interest in an associate		**3,121**	2,951
Deferred tax assets	23(b)	**198,956**	183,300
		678,405	647,925
Current assets			
Trading securities	14	**1,661**	1,590
Inventories	15	**800,282**	743,502
Trade and other receivables	16	**445,592**	346,713
Pledged bank deposits	17	**59,487**	110,928
Fixed deposits with banks with original maturity over three months		**275,461**	351,772
Cash and cash equivalents	18	**374,472**	507,958
		1,956,955	2,062,463
Current liabilities			
Trade and other payables	19	**404,377**	282,587
Bank loans	21	**1,688**	301,015
Current taxation	23(a)	**41,210**	18,593
		447,275	602,195
Net current assets		**1,509,680**	1,460,268
Total assets less current liabilities		**2,188,085**	2,108,193

	Note	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Non-current liabilities			
Trade and other payables	19	**115,330**	83,512
Bank loans	21	**3,798**	5,515
Deferred tax liabilities	23(b)	**6,289**	5,745
		125,417	94,772
Net assets		**2,062,668**	2,013,421
Capital and reserves			
Share capital	24(c)	**1,474**	1,474
Reserves		**2,036,882**	1,991,878
Total equity attributable to equity shareholders of the Company		**2,038,356**	1,993,352
Non-controlling interests		**24,312**	20,069
Total equity		**2,062,668**	2,013,421

Approved and authorised for issue by the board of directors on 30 March 2017.

Alfred Chan Kai Tai
Chairman and Executive Director

Anthony P. Chan
Chief Executive Officer and Executive Director

The notes on pages 48 to 96 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital	Capital reserve-staff share options issued (undistributable)	Capital reserve	Share premium	General reserve fund	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	1,474	126,537	61,419	443,348	60,436	8,369	1,373,901	2,075,484	21,364	2,096,848
Changes in equity for 2015										
Loss for the year	—	—	—	—	—	—	(72,730)	(72,730)	(433)	(73,163)
Other comprehensive income	—	—	—	—	—	(9,402)	—	(9,402)	448	(8,954)
Total comprehensive income	—	—	—	—	—	(9,402)	(72,730)	(82,132)	15	(82,117)
Share option expired during the year	—	(126,537)	—	—	—	—	126,537	—	—	—
Disposal of interests in subsidiaries	—	—	—	—	—	—	—	—	(1,310)	(1,310)
Appropriation to statutory reserve	—	—	—	—	576	—	(576)	—	—	—
Balance at 31 December 2015 and 1 January 2016	1,474	—	61,419	443,348	61,012	(1,033)	1,427,132	1,993,352	20,069	2,013,421
Changes in equity for 2016										
Profit for the year	—	—	—	—	—	—	40,265	40,265	3,844	44,109
Other comprehensive income	—	—	—	—	—	4,739	—	4,739	399	5,138
Total comprehensive income	—	—	—	—	—	4,739	40,265	45,004	4,243	49,247
Liquidation of a subsidiary	—	—	—	—	(4,474)	—	4,474	—	—	—
Appropriation to statutory reserve	—	—	—	—	498	—	(498)	—	—	—
Balance at 31 December 2016	1,474	—	61,419	443,348	57,036	3,706	1,471,373	2,038,356	24,312	2,062,668

The notes on pages 48 to 96 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	**2016**	2015
		RMB'000	*RMB'000*
Operating activities			
Cash generated from operations	*18(b)*	**194,422**	181,806
Income tax paid	*23(a)*	**(74,569)**	(117,940)
Net cash generated from operating activities		**119,853**	63,866
Investing activities			
Payment for the purchase of property, plant and equipment		**(91,557)**	(107,376)
Proceeds from disposal of property, plant and equipment		**56**	2,432
Payment for the purchase of intangible assets		**(2,447)**	—
Proceeds from disposal of interests in subsidiaries		**—**	180,000
Repayment of proceeds from disposal of interests in subsidiaries		**—**	(180,000)
Payment for acquisition of interest in an associate		**—**	(3,195)
Payment for the purchase of trading securities		**(1,047)**	(3,869)
Proceeds from sale of trading securities		**646**	1,714
Placement of fixed deposits at banks with original maturity over three months		**(587,834)**	(110,099)
Withdrawn of fixed deposits at banks with original maturity over three months		**664,145**	269,442
Placement of pledged bank deposits		**(53,074)**	(52,500)
Withdrawn of pledged bank deposits		**104,515**	226,517
Interest received		**11,138**	30,484
Other cash flows arising from investing activities		**47**	27
Net cash generated from investing activities		**44,588**	253,577
Financing activities			
Proceeds from bank loans		**—**	290,173
Repayment of bank loans		**(301,044)**	(610,344)
Interest paid		**(2,687)**	(8,490)
Net cash used in financing activities		**(303,731)**	(328,661)
Net decrease in cash and cash equivalents		**(139,290)**	(11,218)
Cash and cash equivalents at 1 January	*18(a)*	**507,958**	519,176
Effect of foreign exchange rate changes		**5,804**	—
Cash and cash equivalents at 31 December	*18(a)*	**374,472**	507,958

The notes on pages 48 to 96 form part of these financial statements.

1 Significant accounting policies

Portico International Holdings Limited (the "Company") is a company incorporated in Bermuda with limited liability. The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as trading securities and derivative financial instruments are stated at their fair value as explained in the accounting policies as set out in note 1(f) and 1(g).

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. Items included in the financial statements of each entity in the Group are measured using currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The Company has its functional currency in RMB. Most of the companies comprising the Group are operating in the People's Republic of China ("PRC") and their functional currency is RMB, hence, RMB is used as the presentation currency of the Group.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 Significant accounting policies *(continued)*

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests are presented as financial liabilities in the consolidated statement of financial position in accordance with note 1(o).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)(ii)).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

1 Significant accounting policies *(continued)*

(e) Associates *(continued)*

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(k)(i) and (ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year and the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income are recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

(f) Financial instruments classified as trading securities

Financial instruments classified as trading securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends earned on these investments as these are recognised in accordance with the policies set out in note 1(t)(iv).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

1 Significant accounting policies *(continued)*

(h) Property, plant and equipment *(continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— Machinery 10 years

— Fixtures, fittings and other fixed assets 3–8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending for installation, and is stated at cost less impairment losses(see note 1(k)(ii)). Cost comprises direct costs of construction. Capitalisation of these costs ceased and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— patents 10 years

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

1 Significant accounting policies *(continued)*

(j) Leased assets *(continued)*

(i) Classification of assets leased to the Group

Assets that are held by group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating leases charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(k)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(k) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investment in an associate accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).

1 Significant accounting policies *(continued)*

(k) Impairment of assets *(continued)*

(i) Impairment of investments in equity securities and trade and other receivables (continued)

— For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— lease prepayments;

— intangible assets; and

— investments in subsidiaries and an associate.

If any such indication exists, the asset's recoverable amount is estimated.

1 Significant accounting policies *(continued)*

(k) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversal of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(k)(i) and (ii)).

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1 Significant accounting policies *(continued)*

(l) Inventories *(continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the costs of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 Significant accounting policies *(continued)*

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

1 Significant accounting policies *(continued)*

(r) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 Significant accounting policies *(continued)*

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

(iii) Services rendered

Revenue from services rendered is recognised when the service is rendered.

(iv) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

1 Significant accounting policies *(continued)*

(u) Translation of foreign currencies *(continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains or losses arising from such a monetary item are considered to form a net investment in a foreign operation and are recognised directly in other comprehensive income and accumulated in equity in the exchange reserve.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

1 Significant accounting policies *(continued)*

(w) Related parties *(continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting judgement and estimates

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Note 25 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the experience of selling products with similar nature. They could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles and other changes in market conditions. The Group reassesses these estimates at the end of each reporting period.

2 Accounting judgement and estimates *(continued)*

(c) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

(d) Impairment of property, plant and equipment

As stated in note 1(k)(ii), an impairment loss is recognised in profit and loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. At the end of each reporting period, the Group reviews the recoverable amount of property, plant and equipment, which involves judgement on the determination of their fair value less costs of disposal and value in use. The fair value less costs of disposal is determined based using market comparison approach by reference to recent sales price of comparable assets and the value in use is determined by discounting projected cash flow series associated with the assets using risk-adjusted discount rates. Any change in the assumptions would increase or decrease the recoverable amount of property, plant and equipment.

(e) Provision for deferred tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3 Revenue and segment reporting

(a) Revenue

The principal activities of the Group are design, manufacture, wholesale and retail distribution of ladies' and men's fashion apparel and accessories in the PRC, the United States ("the USA"), Canada and Europe. Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

The Group's customer base is diversified and the Group does not have any single customer with whom transactions have exceeded 10% of the Group's revenue.

Further details regarding the Group's principal activities are disclosed below.

3 Revenue and segment reporting *(continued)*

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified one reportable segment, Retail.

This segment primarily derives revenue from retail sales in the PRC. The products are either sourced externally or are manufactured in the Group's manufacturing facilities located in the PRC.

(i) Segment results and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

Segment assets represent inventories only.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

The measure used for reporting segment profit is gross profit less distribution costs directly attributable to the segment.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	Retail		**Others***		**Total**	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**1,695,100**	1,477,794	**151,079**	116,781	**1,846,179**	1,594,575
Reportable segment revenue	**1,695,100**	1,477,794	**151,079**	116,781	**1,846,179**	1,594,575
Reportable segment profit	**484,776**	426,834	**9,774**	31,956	**494,550**	458,790
Distribution costs	**925,917**	823,667	**26,414**	—	**952,331**	823,667

3 Revenue and segment reporting *(continued)*

(b) Segment reporting *(continued)*

(i) Segment results and assets (continued)

	Retail		Others*		Total	
	31 December 2016 RMB'000	31 December 2015 *RMB'000*	**31 December 2016 RMB'000**	31 December 2015 *RMB'000*	**31 December 2016 RMB'000**	31 December 2015 *RMB'000*
Reportable segment assets	**736,596**	687,106	**63,686**	56,396	**800,282**	743,502

* *Revenue from segments below the quantitative thresholds are mainly attributable to three operating segments of the Group. Those segments include OEM sales, export sales and wholesales. None of those segments met any of the quantitative thresholds for determining reportable segments.*

(ii) Reconciliations of reportable segment revenue, profit and assets

	2016 ***RMB'000***	2015 *RMB'000*
Revenue		
Reportable segment revenue	**1,695,100**	1,477,794
Other revenue	**151,079**	116,781
Consolidated revenue	**1,846,179**	1,594,575
Profit		
Reportable segment profit	**484,776**	426,834
Other profit	**9,774**	31,956
	494,550	458,790
Other revenue and other net expense	**9,177**	8,786
Distribution costs	**(92,515)**	(162,134)
Administrative expenses	**(123,398)**	(111,613)
Other operating expenses	**(159,952)**	(217,247)
Net finance (costs)/income	**(1,679)**	875
Consolidated profit/(loss) before taxation	**126,183**	(22,543)

3 Revenue and segment reporting *(continued)*

(b) Segment reporting *(continued)*

(ii) Reconciliations of reportable segment revenue, profit and assets (continued)

	At 31 December 2016	At 31 December 2015
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**736,596**	687,106
Other inventories	**63,686**	56,396
Consolidated inventories	**800,282**	743,502
Non-current assets	**678,405**	647,925
Trade and other receivables	**445,592**	346,713
Pledged bank deposits	**59,487**	110,928
Fixed deposits with banks with original maturity over three months	**275,461**	351,772
Trading securities	**1,661**	1,590
Cash and cash equivalents	**374,472**	507,958
Consolidated total assets	**2,635,360**	2,710,388

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, lease prepayments, intangible assets and interest in an associate ("specified non-current assets"). The geographical location of customers is based on the location at which the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and lease prepayments, and the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in an associate.

The Group's business is mainly based and operated in Mainland China.

	Revenues from external customers		**Specified non-current assets**	
			31 December	31 December
	2016	2015	**2016**	2015
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Mainland China	**1,673,104**	1,465,319	**468,070**	449,380
Others	**173,075**	129,256	**11,379**	15,245
	1,846,179	1,594,575	**479,449**	464,625

4 Other revenue and other net expense

(a) Other revenue

	2016 RMB'000	2015 RMB'000
Design and decoration income	**6,995**	4,450
Insurance compensation	**1,537**	1,153
Government subsidy*	**320**	1,387
Others	**1,016**	3,024
	9,868	10,014

* *Government subsidy were received from local government authorities as a recognition of the Group's contribution towards the local economic development, of which the entitlement was unconditional.*

(b) Other net expense

	2016 RMB'000	2015 RMB'000
Net realised and unrealised losses on trading securities	**330**	565
Net loss on sales of property, plant and equipment	**175**	32
Share of (profits)/losses of an associate	**(170)**	244
Change in fair value of foreign exchange forward contracts	**356**	—
Others	**—**	387
	691	1,228

5 Other operating expenses

	2016 RMB'000	2015 RMB'000
Write-down of inventories (note 15(b))	**149,737**	188,531
Impairment loss of property, plant and equipment (note 12)	**10,215**	28,716
	159,952	217,247

6 Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Net finance costs/(income)

	2016	2015
	RMB'000	*RMB'000*
Interest income	**(7,857)**	(25,476)
Finance income	**(7,857)**	(25,476)
Interest expense on bank loans	**2,537**	8,015
Net foreign exchange loss	**4,829**	13,457
Others	**2,170**	3,129
Finance costs	**9,536**	24,601
Net finance costs/(income)	**1,679**	(875)

(b) Staff costs

	2016	2015
	RMB'000	*RMB'000*
Contributions to defined contribution retirement plans	**21,641**	15,804
Salaries, wages and other benefits	**410,363**	378,393
	432,004	394,197

(c) Other items

	2016	2015
	RMB'000	*RMB'000*
Amortisation- lease prepayments (note 11)	**519**	793
Depreciation (note 12)	**93,326**	105,370
Operating lease charges in respect of properties		
— minimum lease payments	**232,344**	212,629
— contingent rents	**260,423**	232,466
Auditors' remuneration — audit services	**2,100**	2,613
Cost of inventories[#] (note 15(b))	**549,035**	500,649
Impairment losses		
— trade and other receivables (note 16(b))	**2,562**	—
— property, plant and equipment (note 12)	**10,215**	28,716

[#] *Cost of inventories includes RMB129,483,000 (2015: RMB128,473,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each type of these expenses.*

7 Income tax in the consolidated statement of profit or loss and other comprehensive income

(a) *Taxation in the consolidated statement of profit or loss and other comprehensive income represents:*

	2016	2015
	RMB'000	*RMB'000*
Current tax — PRC Income Tax		
Provision for the year	**90,026**	69,273
Under/(over) provision in respect of prior years	**560**	(152)
	90,586	69,121
Deferred tax		
Origination and reversal of temporary differences (note 23(b))	**(8,512)**	(18,501)
	82,074	50,620

(i) Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda. Also, certain subsidiaries located in British Virgin Islands ("BVI") and Samoa Islands are not subject to any income tax in their local jurisdictions.

(ii) No provision for Hong Kong Profits Tax, Macau Complementary (Profits) Tax, USA Income Tax, Italy Income Tax and Canada Income Tax as the Group did not earn any assessable income subject to Hong Kong Profits Tax, Macau Complementary (Profits) Tax, USA Income Tax, Italy Income Tax and Canada Income Tax during the years ended 31 December 2016 and 2015.

(iii) All PRC subsidiaries are subject to income tax at 25% for the years ended 31 December 2016 and 2015 under the PRC Corporate Income Tax Law which was enacted on 16 March 2007.

(iv) According to the PRC Corporate Income Tax Law and its implementation regulations, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. Deferred tax liabilities have been provided for based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

7 Income tax in the consolidated statement of profit or loss and other comprehensive income *(continued)*

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2016	2015
	RMB'000	*RMB'000*
Profit/(loss) before taxation	**126,183**	(22,543)
Notional tax on profit/(loss) before taxation, calculated at the applicable rates in the tax jurisdictions concerned	**28,128**	(7,020)
Tax effect of non-deductible expenses	**129**	151
Tax effect of non-taxable income	**(43)**	(58)
Tax effect of unused tax losses not recognised	**41,212**	51,841
Tax effect of temporary difference for which no deferred tax was recognised	**—**	1,431
Utilisation of previously unrecognised tax losses	**(1,252)**	(1,092)
Withholding tax	**13,340**	5,519
Under/(over) provision in prior years	**560**	(152)
Actual tax expense	**82,074**	50,620

8 Directors' emoluments

Directors' emoluments are as follows:

	Directors' fees	**Salaries, allowances and benefits in kind**	**Contributions to defined contribution retirement plans**	**Total 2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Alfred Chan Kai Tai*	—	852	—	852
Mr. Anthony Paul Chan (appointed on 14 October 2016)	118	—	—	118
Ms. Jenny Ching Ching Tan (appointed on 14 October 2016)	118	162	—	280
Mr. He Kun	—	298	20	318
Mr. Pierre Frank Bourque (resigned on 14 October 2016)	—	654	—	654
Independent non-executive directors				
Mr. Lin Tao	108	—	—	108
Mr. Zheng Wanhe	95	—	—	95
Mr. Antonio Delfin Gregorio	82	—	—	82
	521	1,966	20	2,507

8 Directors' emoluments *(continued)*

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Contributions to defined contribution retirement plans *RMB'000*	Total 2015 *RMB'000*
Executive directors				
Mr. Alfred Chan Kai Tai	—	852	—	852
Mr. Pierre Frank Bourque	—	809	—	809
Mr. He Kun	—	206	19	225
Independent non-executive directors				
Mr. Lin Tao	100	—	—	100
Mr. Zheng Wanhe	100	—	—	100
Mr. Antonio Delfin Gregorio	100	—	—	100
	300	1,867	19	2,186

Note :

* *Mr. Alfred Chan Kai Tai was appointed as the chairman of the board of the Company with effect from 14 October 2016.*

During the year, no amount was paid or payable by the Group to the directors or any of the 5 highest paid individuals set out in note 9 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, none of them (2015: nil) is a director whose remuneration is disclosed in note 8. The aggregate of the emoluments in respect of the five (2015: five) individuals are as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Basic salaries, allowances and other benefits	**8,272**	7,800

The emoluments of the five (2015: five) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HKD 1,000,001 — 1,500,000	**2**	2
HKD 1,500,001 — 2,000,000	**1**	2
HKD 2,000,001 — 4,000,000	**2**	1

10 Earnings/(loss) per share

(a) *Basic earnings/(loss) per share*

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of RMB40,265,000 (2015: loss of RMB72,730,000) and the weighted average number of 554,453,492 ordinary shares (2015: 554,453,492 shares) in issue during the year.

(b) *Diluted earnings/(loss) per share*

No share option was outstanding and exercisable as at 31 December 2016 and 2015, and therefore, diluted earnings/(loss) per share are the same as the basic earnings/(loss) per share.

11 Lease prepayments

	2016 ***RMB'000***	2015 *RMB'000*
Cost		
Balance at the beginning and end of year	**25,340**	25,340
Accumulated amortisation		
Balance at beginning of year	**(2,570)**	(1,777)
Charge for the year	**(519)**	(793)
Balance at the end of year	**(3,089)**	(2,570)
Net book value		
At the end of year	**22,251**	22,770

The lease prepayments of the Group represented rentals prepaid in obtaining land use rights in the PRC for a period of 50 years.

12 Property, plant and equipment

	Plant and buildings	Machinery	Fixtures, fittings and other fixed assets	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
Balance at 1 January 2015	316,273	41,713	550,720	42,147	950,853
Additions	—	139	77,196	42,145	119,480
Transfer from construction in progress	—	—	66,531	(66,531)	—
Disposals	—	(4)	(39,818)	—	(39,822)
Balance at 31 December 2015	316,273	41,848	654,629	17,761	1,030,511
Balance at 1 January 2016	316,273	41,848	654,629	17,761	1,030,511
Additions	—	1,717	30,148	84,633	116,498
Transfer from construction in progress	16,679	—	84,674	(101,353)	—
Disposals	—	(202)	(96,941)	—	(97,143)
Balance at 31 December 2016	332,952	43,363	672,510	1,041	1,049,866
Accumulated depreciation and impairment					
Balance at 1 January 2015	54,713	27,515	412,355	—	494,583
Charge for the year	10,696	2,436	92,238	—	105,370
Impairment loss	—	—	28,716	—	28,716
Written back on disposals	—	(4)	(37,058)	—	(37,062)
Balance at 31 December 2015	65,409	29,947	496,251	—	591,607
Balance at 1 January 2016	65,409	29,947	496,251	—	591,607
Charge for the year	10,787	2,056	80,483	—	93,326
Impairment loss	—	—	10,215	—	10,215
Written back on disposals	—	(182)	(96,730)	—	(96,912)
Balance at 31 December 2016	76,196	31,821	490,219	—	598,236
Net book value					
At 31 December 2016	256,756	11,542	182,291	1,041	451,630
At 31 December 2015	250,864	11,901	158,378	17,761	438,904

12 Property, plant and equipment *(continued)*

Buildings with net book value of RMB16,610,000 as at 31 December 2016 (31 December 2015: construction in progress of RMB16,679,000) were pledged as collateral of the Group's bank loans (note 21).

All of the buildings owned by the Group are located in the PRC on land under medium term leases.

Impairment loss

As at 31 December 2016, the Group reviewed the performance on its retails stores and identified that some retail stores are under-performing.

The Group has determined that for the purposes of impairment testing, each store and outlet is a cash-generating unit. Cash-generating units are tested for impairment if there are indications of impairment at the end of reporting period.

Recoverable amounts for cash-generating units are based on value in use, which is calculated from cash flow projections using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, sales growth rates and cost inflation rates. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Sales growth rates and cost inflation rates are based on past experience and expectations of future changes in the market. The pre-tax discount rates used to calculate value in use is derived from the Group's weighted average cost of capital.

The impairment losses relate to stores whose recoverable amounts (value in use) did not exceed the asset carrying values. In all cases, impairment losses arose due to stores performing below projected trading levels.

Based on the assessment results, the carrying amount of leasehold improvement of certain stores was written down to their recoverable amount (value in use) with an impairment loss of RMB10,215,000 recognised for the year ended 31 December 2016 (2015: RMB28,716,000), which was included in "other operating expenses" in the consolidated statement of profit or loss and other comprehensive income.

(Expressed in Renminbi unless otherwise indicated)

13 Investments in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

				Ownership interest		
Name of company	**Place of incorporation and business**	**Particulars of issued and paid up capital**	**Particulars of Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Ports Asia Holdings Limited	BVI	USD10,556	100%	100%	—	Investment holding
Ports International Marketing. Ltd.	BVI	USD100	100%	100%	—	Sales of garments
Smythe Trading Company Limited	Samoa Islands	USD1,000	100%	99.9%	0.1%	Sales of garments
Ports Asia Holding (Hong Kong) Limited	Hong Kong	300,000,000 shares	100%	—	100%	Sales of garments and investment holding
Ports Retail (H.K.) Limited	Hong Kong	300,000,000 shares	100%	—	100%	Sales of garments
PRHK Limited (formerly known as Ports 1961 Retail Limited)	Hong Kong	300,000,000 shares	100%	—	100%	Sales of garments
Ports 1961 Macau Limited	Macau	MOP25,000	100%	—	100%	Sales of garments
Ports International (Beijing) Co., Ltd. (note (i) and (ii)) 寶姿時裝 (北京) 有限公司	PRC	USD8,380,000	100%	—	100%	Sales of garments
Cpax Ltd. (note (i) and (ii)) 世紀寶姿 (廈門) 實業有限公司	PRC	RMB20,000,000	100%	—	100%	Manufacturing and sales of garments
Ports Fashion (Xiamen) Ltd. (note (i) and (iii)) 黛美服飾 (廈門) 有限公司	PRC	RMB322,000,000	100%	—	100%	Manufacturing and sales of garments
Xiamen Weijue Optical Co., Ltd. (note (i) and (iii)) 廈門唯覺光學有限公司	PRC	RMB28,000,000	51%	—	51%	Manufacturing of glasses
Xiamen Baozhan Trading Co., Ltd (note (i) and (iii)) 廈門寶瞻商貿有限公司	PRC	RMB2,000,000	51%	—	51%	Sales of glasses
Vivienne Tam Fashion (Xiamen) Ltd. (note (i) and (ii)) 賽特投資管理諮詢有限公司	PRC	HKD10,000,000	100%	—	100%	Sales of garments
Xiamen Tabi Limited (note (i) and (iii)) 廈門帝柏服飾有限公司	PRC	RMB10,000,000	100%	—	100%	Sales of garments
Ports 1961 USA Inc.	USA	USD200,000	100%	—	100%	Sales of garments
Ports 1961 Italy SPA	Italy	EUR1,000,000	99%	—	99%	Manufacturing and sales of garments
Ports 1961 Retail Distribution Inc.	Canada	CAD100	100%	—	100%	Sales of garments

13 Investments in subsidiaries *(continued)*

Notes:

(i) The English translation of the companies' names is for reference only. The official name of these companies are in Chinese.

(ii) These entities are wholly foreign owned enterprises established in the PRC.

(iii) These entities are domestic enterprises established in the PRC.

The directors are of the view that the Group had no individually material non-controlling interest as at 31 December 2016 and 2015.

14 Trading securities

	2016	2015
	RMB'000	*RMB'000*
Listed equity securities at fair value outside Hong Kong (note 25(e)(i))	**1,661**	1,590

15 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**72,157**	73,087
Work in progress	**37,324**	36,659
Finished goods	**690,452**	629,981
Goods in transit	**349**	3,775
	800,282	743,502

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**399,298**	312,118
Write-down of inventories (note 5)	**149,737**	188,531
	549,035	500,649

16 Trade and other receivables

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**248,112**	172,954
Less: allowance for doubtful debts (note 16(b))	**(7,562)**	(5,000)
	240,550	167,954
Amounts due from related parties (note 20)	**7,635**	3,989
Advances to suppliers	**36,055**	19,248
Other receivables, deposits and prepayments	**161,352**	155,522
	445,592	346,713

Trade and other receivables of the Group included deposits of RMB81,121,000 (2015: RMB81,282,000) which are expected to be recovered or recognised as expense after more than one year. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables based on revenue recognition date and net of allowance for doubtful debts, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**199,010**	147,637
Over 1 month but within 3 months	**27,316**	9,875
Over 3 months but within 6 months	**6,169**	4,242
Over 6 months	**8,055**	6,200
Total	**240,550**	167,954

Customers are normally granted credit terms of 0 to 90 days, depending on the credit worthiness of individual customers. Further details on the Group's credit policy are set out in note 25(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (note 1(k)(i)).

16 Trade and other receivables *(continued)*

(b) Impairment of trade receivables *(continued)*

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016	2015
	RMB'000	*RMB'000*
As at 1 January	**5,000**	5,000
Impairment loss recognised	**2,562**	—
As at 31 December	**7,562**	5,000

As at 31 December 2016, the Group's trade receivables of RMB11,176,000 (2015: RMB8,730,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and the management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts of RMB7,446,000 (2015: RMB5,000,000) was recognised.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**199,010**	147,637
Less than 1 month past due	**27,316**	9,875
1 to 3 months past due	**6,169**	4,242
Over 3 months but less than 12 months past due	**1,672**	2,470
Over 12 months	**438**	—
Total	**234,605**	164,224

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

17 Pledged bank deposits

	2016	2015
	RMB'000	*RMB'000*
Security for bank loans (note 21)	**—**	104,125
Security for letter of credit and letter of guarantee issued by banks	**59,487**	6,803
	59,487	110,928

18 Cash and cash equivalents

(a) *Cash and cash equivalents comprise:*

	2016 RMB'000	2015 RMB'000
Cash at bank and on hand	**174,889**	300,665
Fixed deposits with banks with original maturity within three months	**199,583**	207,293
	374,472	507,958

At 31 December 2016, cash and cash equivalents, pledged bank deposits and fixed deposits at banks with original maturity over three months with aggregate amount of RMB549,915,000 (2015: RMB749,783,000) were placed with banks in mainland China. Remittance of funds out of mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) *Reconciliation of profit/(loss) before taxation to cash generated from operations:*

	Note	2016 RMB'000	2015 RMB'000
Profit/(loss) before taxation		**126,183**	(22,543)
Adjustments for:			
Depreciation	6(c)	**93,326**	105,370
Impairment loss of property, plant and equipment	5	**10,215**	28,716
Amortisation of lease prepayments	6(c)	**519**	793
Net loss on sales of property, plant and equipment	4(b)	**175**	32
Share of (profits)/losses of an associate	4(b)	**(170)**	244
Finance costs	6(a)	**2,537**	8,015
Dividends earned on trading securities		**(47)**	—
Interest income	6(a)	**(7,857)**	(25,476)
Net realised and unrealised losses on trading securities	4(b)	**330**	565
Loss of change in fair value of foreign exchange forward contracts	4(b)	**356**	—
Changes in working capital			
Increase in inventories		**(56,780)**	(23,248)
(Increase)/decrease in trade and other receivables		**(102,161)**	10,964
Increase in trade and other payable		**127,796**	98,374
Cash generated from operations		**194,422**	181,806

19 Trade and other payables

	2016 RMB'000	2015 RMB'000
Current		
Accounts payable	**92,729**	75,341
Amounts due to related parties (note 20)	**6,499**	7,087
Derivative financial liabilities — foreign exchange forward contracts (note 25(e)(i))	**356**	—
Other creditors and accruals	**304,790**	200,156
Dividends payable to the equity shareholders of the Company	**3**	3
	404,377	282,587
Non-current		
Other creditors and accruals	**115,330**	83,512
Total	**519,707**	366,099

The amount of deposits expected to be settled after more than one year is RMB3,755,000 (2015: RMB3,398,000). All the other current trade and other payables (including amounts due to related parties) are expected to be settled within one year or repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables based on the date of receipt of goods is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 month	**71,005**	50,555
Over1 month but within 3 months	**10,415**	10,045
Over 3 months but within 6 months	**5,633**	8,438
Over 6 months	**5,676**	6,303
	92,729	75,341

20 Amounts due from/to related parties

	2016 RMB'000	2015 RMB'000
Amounts due from related parties		
Ports International Retail Corporation	**7,550**	3,801
Beijing Scitech Holdings Limited and its subsidiaries	**85**	188
	7,635	3,989

The amounts due from related parties are unsecured, interest free and repayable on demand.

20 Amounts due from/to related parties *(continued)*

	2016	2015
	RMB'000	*RMB'000*
Amounts due to related parties		
Ports International Retail Corporation	**6,337**	7,087
Beijing Scitech Holdings Limited and its subsidiaries	**162**	—
	6,499	7,087

The amounts due to related parties are unsecured, interest free and repayable on demand.

21 Bank loans

At 31 December 2016, the bank loans were repayable as follow:

	2016	2015
	RMB'000	*RMB'000*
Bank loans repayable within one year or on demand	**1,688**	301,015
Non-current bank loans	**5,486**	7,175
Less: Repayable within one year	**(1,688)**	(1,660)
Bank loans repayable more than one year	**3,798**	5,515

As at 31 December 2016, the bank loans were secured as follow:

	2016	2015
	RMB'000	*RMB'000*
Bank loans		
— Secured	**5,486**	180,554
— Unsecured	**—**	125,976
	5,486	306,530

The bank loans of the Group have maturity terms within five years and carry variable interest rate during the borrowing period.

Assets of the Group pledged to secure the bank loans comprise:

	2016	2015
	RMB'000	*RMB'000*
Pledged bank deposits (note 17)	**—**	104,125
Construction in progress (note 12)	**—**	16,679
Property, plant and equipment (note 12)	**16,610**	—
	16,610	120,804

22 Employee Retirement Benefits

Defined contribution retirement plans

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 8% to 20% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

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

23 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2016	2015
	RMB'000	*RMB'000*
Balance at beginning of the year	**18,593**	50,195
Provision for PRC corporate income tax	**90,586**	69,121
Transfer from deferred taxation (note 23(b)(i))	**6,600**	17,217
Paid during the year	**(74,569)**	(117,940)
Balance at end of the year	**41,210**	18,593

23 Income tax in the consolidated statement of financial position *(continued)*

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Impairment of trade receivables	Write-down of inventories	Undistributed profits of subsidiaries	Tax losses carried forward	Property, plant and equipment	Accrued expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	1,250	146,761	(17,443)	1,216	10,053	—	141,837
Credited/(charged) to profit or loss (note 7(a))	—	23,650	(5,519)	(1,216)	1,586	—	18,501
Transfer to current tax (note 23(a))	—	—	17,217	—	—	—	17,217
At 31 December 2015	1,250	170,411	(5,745)	—	11,639	—	177,555
At 1 January 2016	**1,250**	**170,411**	**(5,745)**	**—**	**11,639**	**—**	**177,555**
Credited/(charged) to profit or loss (note 7(a))	**—**	**7,084**	**(7,144)**	**—**	**6,157**	**2,415**	**8,512**
Transfer to current tax (note 23(a))	**—**	**—**	**6,600**	**—**	**—**	**—**	**6,600**
At 31 December 2016	**1,250**	**177,495**	**(6,289)**	**—**	**17,796**	**2,415**	**192,667**

(ii) Reconciliation to the consolidated statement of financial position

	2016	2015
	RMB'000	*RMB'000*
Net deferred tax asset recognised in the consolidated statement of financial position	**198,956**	183,300
Net deferred tax liability recognised in the consolidated statement of financial position	**(6,289)**	(5,745)
	192,667	177,555

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB167,086,000 (2015: RMB112,822,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Cumulative tax losses of RMB88,146,000 (2015: RMB70,685,000) will expire within 5 years under current tax legislation.

23 Income tax in the consolidated statement of financial position *(continued)*

(d) Deferred tax liabilities not recognised

As at 31 December 2016, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,851,604,000 (2015: RMB1,979,740,000). Deferred tax liabilities of RMB92,580,000 (2015: RMB98,987,000) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital	Capital reserve-staff share options issued (undistributable)	Share premium	Contributed surplus	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	1,474	126,537	443,348	9,578	7,789	588,726
Total comprehensive income for the year	—	—	—	—	4,318	4,318
Share option expired during the year	—	(126,537)	—	—	126,537	—
Balance at 31 December 2015	1,474	—	443,348	9,578	138,644	593,044
Balance at 1 January 2016	1,474	—	443,348	9,578	138,644	593,044
Total comprehensive income for the year	—	—	—	—	6,001	6,001
Balance at 31 December 2016	1,474	—	443,348	9,578	144,645	599,045

(b) Dividends

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2016 and 2015.

24 Capital, reserves and dividends *(continued)*

(c) Share capital

(i) Authorised and issued share capital

	2016		2015	
	Number of shares	**Amount HK$'000**	Number of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.0025 each	**3,600,000,000**	**9,000**	3,600,000,000	9,000
Issued and fully paid:				
At the beginning and end of the year	**554,453,492**	**1,386**	554,453,492	1,386
		RMB'000 equivalent		*RMB'000 equivalent*
		1,474		1,474

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents the differences between the nominal value of the share capital of the subsidiaries acquired pursuant to group reconstructions over the nominal value of the shares issued by Ports Asia Holdings Limited and the Company respectively in exchange therefor.

(ii) Share premium

Under the Companies Act 1981 of Bermuda (as amended), the share premium account is distributable in the form of fully paid bonus shares.

24 Capital, reserves and dividends *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) General reserve fund

General reserve fund mainly represented:

PRC statutory reserves

As stipulated by regulations in the PRC, the Company's subsidiaries established and operated in mainland China are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) as determined in accordance with the PRC rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of profits to parent companies.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

Contributed surplus

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company shall not declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Pursuant to a shareholders' special resolution dated 1 June 2010, the Company's Bye-laws were amended so that dividends may be paid out of contributed surplus.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of foreign operations which are dealt with in accordance with the accounting policies as set out in note 1(u).

(e) Distributability of reserves

The aggregate amount of reserves, including contributed surplus and retained profits, available for distribution to shareholders of the Company as at 31 December 2016 was RMB154,223,000 (2015: RMB148,222,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

24 Capital, reserves and dividends *(continued)*

(f) Capital management *(continued)*

The Group monitors its capital structure on the basis of debt-to-equity ratio and gearing ratio (calculated as bank loans over equity). For this purpose the Group defines debt and equity as total liabilities excluding deferred tax liabilities and total equity respectively.

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the debt-to-equity ratio and gearing ratio at a level considered reasonable by the Group's management from time to time with reference to the prevailing market conditions and in compliance with financial covenants imposed by the bankers. In order to maintain or adjust the ratios, the Group may adjust the amount of dividends paid to shareholders, issue new shares or raise new debt financing.

The Group's debt-to-equity ratio and gearing ratio at 31 December 2016 and 2015 was as follows:

	Note	**2016** ***RMB'000***	2015 *RMB'000*
Trade and other payables	*19*	**519,707**	366,099
Bank loans	*21*	**5,486**	306,530
Current taxation	*23(a)*	**41,210**	18,593
Total debt		**566,403**	691,222
Total equity		**2,062,668**	2,013,421
Debt-to-equity ratio		**27.5%**	34.3%
Gearing ratio		**0.3%**	15.2%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, deposits with banks and other financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

(i) Trade and other receivables

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as to the economic environment. Normally, the Group does not obtain collateral from customers. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

25 Financial risk management and fair values of financial instruments *(continued)*

(a) Credit risk *(continued)*

(i) Trade and other receivables (continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 2% (2015: 3%) and 8% (2015: 9%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the wholesale operating segment.

The Group does not provide any guarantees which would expose the Group to credit risk.

(ii) Deposits with banks and other financial assets

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit rating. Transactions involving derivative financial instruments are with counterparties of sound credit standing and with whom the Group has a signed netting agreement. Given the high credit standing, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the end of reporting period) and the earliest date the Group can be required to pay:

25 Financial risk management and fair values of financial instruments *(continued)*

(b) Liquidity risk *(continued)*

	2016				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years**	**Total**	**Carrying amount at 31 December**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Trade and other payables excluding advance receipts from customers and deferred income	300,722	15,133	100,197	416,052	416,052
Bank loans	1,992	1,899	2,231	6,122	5,486
Total	302,714	17,032	102,428	422,174	421,538
Derivative financial liabilities-foreign exchange forward contracts					
— outflow	(40,394)	—	—	(40,394)	
— inflow	40,252	—	—	40,252	

	2015				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables excluding advance receipts from customers and deferred income	223,505	6,828	76,684	307,017	307,017
Bank loans	303,050	1,988	4,219	309,257	306,530
Total	526,555	8,816	80,903	616,274	613,547

(c) Interest rate risk

The Group's interest rate risk arises primarily from pledged bank deposits, fixed deposits with banks, cash at banks and bank loans. Interest-bearing financial instruments at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

25 Financial risk management and fair values of financial instruments *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's cash at banks, pledged bank deposits, fixed deposits with banks and bank loans at the end of reporting period.

	2016		2015	
	Effective interest rate	***RMB'000***	Effective interest rate	*RMB'000*
Fixed rate instruments				
Fixed deposits with banks with original maturity within three months	**0.76%~8.50%**	**199,583**	1.35%~1.75%	207,293
Pledged bank deposits	**1.75%**	**6,558**	2.25%~3.30%	110,539
Fixed deposits with banks with original maturity over three months	**1.03%~1.95%**	**275,461**	1.28%~3.30%	351,772
		481,602		669,604
Variable rate instruments				
Cash at banks	**0.01%~0.35%**	**173,885**	0.01%~0.35%	300,665
Pledged bank deposits	**0.35%**	**52,929**	4.40%	389
Bank loans	**5.54%**	**(5,486)**	0.95%~4.40%	(306,530)
		221,328		(5,476)
Total financial instruments		**702,930**		664,128
Fixed rate financial instruments as a percentage of total financial instruments		**69%**		101%

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB1,728,000 (2015: decreased/increased the Group's loss after tax and increased/decreased retained profits by approximately RMB55,000).

25 Financial risk management and fair values of financial instruments *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis (continued)

In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of reporting period, the impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2015.

(d) Currency risk

The Group is exposed to currency risks primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Euro and Hong Kong Dollars.

The Group actively monitors foreign exchange rate fluctuation to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rate where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2016			
	United States Dollars	**Hong Kong Dollars**	**Euro**	**Japanese Yen**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Trade and other receivables	**25,458**	**31,956**	**3,218**	**—**
Cash and cash equivalents	**52,897**	**14,359**	**7,554**	**40,394**
Fixed deposits with banks with original maturity over three months	**20,811**	**—**	**—**	**—**
Trade and other payables	**(14,253)**	**(97,132)**	**(1,360)**	**—**
Derivative financial liabilities: foreign exchange forward contracts	**—**	**—**	**—**	**(40,394)**
Overall net exposure	**84,913**	**(50,817)**	**9,412**	**—**

25 Financial risk management and fair values of financial instruments *(continued)*

(d) Currency risk *(continued)*

(i) Exposure to currency risk (continued)

	Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2015		
	United States Dollars *RMB'000*	Hong Kong Dollars *RMB'000*	Euro *RMB'000*
Trade and other receivables	20,546	28,506	39,757
Cash and cash equivalents	76,005	16,731	6,327
Fixed deposits with banks with original maturity over three months	64,994	—	—
Trade and other payables	(4,647)	(61,235)	(19,526)
Bank loans	(299,355)	—	—
Overall net exposure	(142,457)	(15,998)	26,558

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit/(loss) after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in net profit or loss ***RMB'000***	**Increase/ (decrease) in retained profits** ***RMB'000***	Increase/ (decrease) in net profit or loss *RMB'000*	Increase/ (decrease) in retained profits *RMB'000*
United States Dollars				
— 5% strengthening of RMB	**(3,635)**	**(3,635)**	(9,192)	9,192
— 5% weakening of RMB	**3,635**	**3,635**	9,192	(9,192)
Hong Kong Dollars				
— 5% strengthening of RMB	**2,138**	**2,138**	(589)	589
— 5% weakening of RMB	**(2,138)**	**(2,138)**	589	(589)
Euro				
— 5% strengthening of RMB	**(405)**	**(405)**	978	(978)
— 5% weakening of RMB	**405**	**405**	(978)	978

25 Financial risk management and fair values of financial instruments *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

		Fair value measurement as at 31 December 2016 categorised into		
	Fair value at 31 December 2016	**Level 1**	**Level 2**	**Level 3**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurement				
Assets:				
Trading securities (note 14)	**1,661**	**1,661**	**—**	**—**
Liabilities:				
Derivative financial liabilities — foreign exchange forward contracts (note 19)	**(356)**	**—**	**(356)**	**—**

25 Financial risk management and fair values of financial instruments *(continued)*

(e) Fair value measurement *(continued)*

(i) Financial assets and liabilities measured at fair value (continued)

	Fair value at 31 December 2015 *RMB'000*	Fair value measurement as at 31 December 2015 categorised into Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*
Recurring fair value measurement				
Assets:				
Trading securities	1,590	1,590	—	—

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 and 2015.

26 Commitments

(a) Operating lease commitments

Non-cancellable operating lease rentals for properties are payable as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Less than one year	**232,717**	204,010
Between one and five years	**689,199**	695,864
More than five years	**283,285**	518,539
	1,205,201	1,418,413

The leases normally run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. In addition to the minimum rental payments disclosed above, the Group has a commitment to pay rent with reference to revenue for certain leased properties. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

26 Commitments *(continued)*

(b) Capital commitments

Capital commitments in respect of purchase of property, plant and equipment outstanding at 31 December 2016 and 2015 but not provided for in the consolidated financial statements were as follows:

	2016	2015
	RMB'000	*RMB'000*
Authorised but not contracted for	**88,500**	57,000

27 Material related party transactions

Transactions with the following entities are considered as significant related party transactions for the years ended 31 December 2016 and 2015.

Name of party	**Relationship**
Ports International Enterprises Limited	Ultimate parent company
Ports International Retail Corporation	Fellow subsidiary company
Alfred Chan Kai Tai	Director of the Company and 50% equity interest holder of ultimate parent company
Edward Tan Han Kiat	50% equity interest holder of ultimate parent company
Ports of Knightsbridge Limited (referred as "PKL")	Company over which Edward Tan Han Kiat and Alfred Chan Kai Tai have significant influence
Beijing Scitech Holdings Limited and its subsidiaries	Company controlled by Alfred Chan Kai Tai and Edward Tan Han Kiat

The Group also has a related party relationship with its directors and senior officers.

Particulars of significant transactions between the Group and the above related parties for the years ended 31 December 2016 and 2015 are as follows:

(a) Transactions with key management personnel

	2016	2015
	RMB'000	*RMB'000*
Short-term employee benefits	**4,209**	2,167
Contribution to defined contribution retirement plans	**34**	19

Total remuneration is included in "staff costs" (note 6(b)).

27 Material related party transactions *(continued)*

(b) Sales, purchases and rental charges

	2016	2015
	RMB'000	*RMB'000*
Sales of goods to:		
Ports International Retail Corporation	**9,499**	6,022
Purchases of goods from:		
Ports International Retail Corporation	**505**	13,449
Rental fee charged to:		
Beijing Scitech Holdings Limited and its subsidiaries	**565**	188

(c) Other transactions

	2016	2015
	RMB'000	*RMB'000*
Rental fee reimbursed to:		
PKL*	**12,326**	11,320

* *Pursuant to an agency agreement dated 25 April 2012, the Group appoints PKL to lease a property and make all the payment relating to the lease on its behalf. The Group agrees to make reimbursement of all payments made and pay an agency fee at 0.5% of the amount paid by PKL on the Group's behalf under the lease.*

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of Ports International Retail Corporation above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected Transactions" in the report of the directors.

28 Company-level statement of financial position

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investments in subsidiaries	13	**329,092**	330,392
		329,092	330,392
Current assets			
Trade and other receivables		**278,387**	274,508
Cash and cash equivalents		**1,549**	1,286
		279,936	275,794
Current liabilities			
Trade and other payables		**9,983**	13,142
		9,983	13,142
Net current assets		**269,953**	262,652
Net assets		**599,045**	593,044
Capital and reserves	24		
Share capital		**1,474**	1,474
Reserves		**597,571**	591,570
Total equity		**599,045**	593,044

29 Immediate and ultimate controlling party

As at 31 December 2016, the directors consider the immediate parent and ultimate controlling party of the Group to be CFS International Inc. and Ports International Enterprises Limited respectively, which are incorporated in Canada and British Virgin Islands respectively.

(Expressed in Renminbi unless otherwise indicated)

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
• Amendments to IAS 7, Statement of cash flows: Disclosure initiative	1 January 2017
• Amendments to IAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
• IFRS 9, Financial Instruments	1 January 2018
• IFRS 15, Revenue from contracts with customers	1 January 2018
• Amendments to IFRS 2, Share-based payment: Classification and measurement of share-based payment transactions	1 January 2018
• IFRS 16, Leases	1 January 2019

The Group is in the process of making an assessment on what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements, except of the following.

IFRS 16 Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 *Leases* and the related interpretations including IFRIC 4 *Determining whether an arrangement contains a lease*.

The Group does not plan to early adopt the above new standards or amendments. With respect to IFRS 16, given the Group has not completed its assessment of their full impact on the Group, their possible impact on the Group's results of operations and financial position has not been quantified.