PORTS

1961

# PORTS DESIGN LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 0589)

INTERIM REPORT 2014

# CONTENTS

# CORPORATE PROFILE

PORTS DESIGN LIMITED (the "Company", together with its subsidiaries, the "Group") is a vertically integrated international fashion and luxury goods company with its own design, manufacture, wholesale and retail capabilities. It is primarily engaged in the wholesale and retail distribution of ladies' and men's fashion apparels and accessories such as shoes, handbags, eyewear, scarves and fragrances in China, the U.S., Canada and Europe, under the PORTS brand name. As at 30 June 2014, the Group operated 327 retail stores. The Group currently operates most of its business activities in the PRC market and is one of the leading international fashion companies in China.

The Group markets and sells its PORTS 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 60 cities in China, 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 China, other than in BMW car dealer showrooms, is exclusive to the Group during the term of the license.

The Group reports its business under "Retail" and "Others" segments. The Retail segment mainly comprises of the PORTS and BMW Lifestyle retail business. The Others segment comprises the OEM business (which exports merchandise under the brands requested by its OEM customers in North America, Europe and Asia), wholesale of PORTS branded merchandize including eyewear and export of BMW Lifestyle goods to North America and Europe.

# CORPORATE INFORMATION

## Directors

**Executive Directors:**

Mr. Alfred Chan *(Chief Executive Officer)*
Mr. Pierre Bourque
Mr. He Kun[1]

**Non-executive Director:**

Mr. Ian Hylton[2]

**Independent Non-executive Directors:**

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

## 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

## Authorized Representatives

Mr. Alfred Chan
Suite 102, Sunbeam Center
27 Shing Yip Street
Kowloon
Hong Kong

Ms. Irene Wong
37G, Block 1
The Merton, 28 New Praya
Kennedy Town, Hong Kong

## Audit Committee

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

## Remuneration Committee

Mr. Zheng Wanhe *(Chairman)*
Mr. Alfred Chan
Mr. Lin Tao

## Nomination Committee

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

## Principal Share Register and Transfer Office

Appleby 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

Hong Kong & Shanghai Banking Corporation Limited, Xiamen Branch

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

## Company Website

www.portsdesign.com

## Stock Code

00589.HK

*Notes:*
1. *Mr. He Kun was appointed with effect from 21 July 2014*
2. *Mr. Ian Hylton resigned with effect from 21 July 2014*

# FIVE-YEAR FINANCIAL SUMMARY

**(Financial figures are expressed in Renminbi (“RMB”) million)**

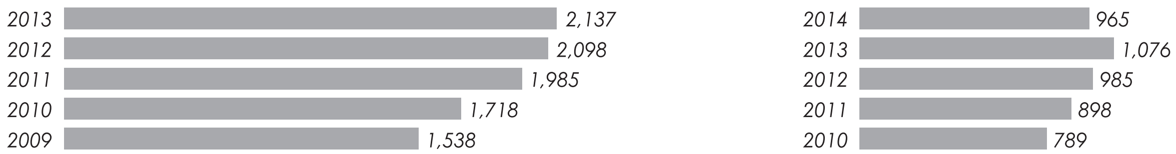
| | For the six months ended 30 June | | For the year ended 31 December | | | | |
|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | 2013 | 2012 | 2011 | 2010 | 2009 |
| **Operating Results** | | | | | | | |
| Turnover | **965** | 1,076 | 2,137 | 2,098 | 1,985 | 1,718 | 1,538 |
| Profit from operations | **108** | 205 | 411 | 481 | 566 | 510 | 524 |
| Profit attributable to shareholders | **55** | 140 | 293 | 351 | 430 | 473 | 468 |

| | As at 30 June | | As at 31 December | | | | |
|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | 2013 | 2012 | 2011 | 2010 | 2009 |
| **Assets and liabilities** | | | | | | | |
| Non-current assets | **651** | 691 | 646 | 703 | 583 | 396 | 315 |
| Current assets | **2,416** | 2,331 | 2,383 | 2,318 | 2,580 | 2,007* | 2,516* |
| Current liabilities | **921** | 1,011 | 975 | 1,087 | 1,312 | 746* | 1,466* |
| Net current assets | **1,494** | 1,320 | 1,408 | 1,231 | 1,268 | 1,261 | 1,050 |
| Total assets less current liabilities | **2,145** | 2,011 | 2,054 | 1,933 | 1,851 | 1,657 | 1,365 |
| Non-current liabilities | **70** | 92 | 31 | 81 | 7 | 8 | 7 |
| Shareholders’ Equity | **2,051** | 1,903 | 1,997 | 1,839 | 1,833 | 1,649 | 1,358 |

* *Restated*

***Turnover***
***(RMB million)***

*For the year ended 31 December* *For the six months ended 30 June*




***Profit from Operations***
***(RMB million)***

*For the year ended 31 December* *For the six months ended 30 June*


***Profit Attributable to Shareholders***
***(RMB million)***

*For the year ended 31 December* *For the six months ended 30 June*


***Dividend History****
***(RMB million)***

*For the year ended 31 December* *For the six months ended 30 June*


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

# STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Over the past 6 months, the business conditions for luxury goods retailers remain challenging due to the contraction in the spending momentum in China, which resulted in the decrease of the demand for high-priced luxury items. Further, the exorbitant rental rates in coveted locations as well as the increasing cost for experienced and top quality retail staff render the operational environment even tougher to us and the rest of industry peers. The surging cost of operations has been one of the major reasons for the reduction in our net profit in the first half of 2014.

In spite of the effects that the above macro-economic condition is having on the consumption appetite in China, the Group has undergone a store rationalization and consolidation program, which involves the closing down of lesser performed stores and the opening of stores in the prominent locations to reinforce the brand positioning and increase the brand's visibility. For instance, the flagship store in Hong Kong is expected to commence its operation shortly with a complete collection of PORTS merchandize available to our customers at Canton Road, one of the most important shopping streets in Hong Kong. Concurrently, the renovation of our Shanghai flagship store on Nanjing Road is also well on track for soft opening towards the end of this year. Significant capital investments have been made but we consider these investments as an essential part of our distribution strategy.

Separately, in order to maintain our competitiveness with fellow fashion brands, we have directed abundant resources to fine-tune and improve our product portfolio to ensure that our merchandize is stylish and appealing to a wide spectrum of customers. Our "No. 10 Bag", an iconic piece from our first line of handbags and tribute to our signature No. 10 Blouse created by our brand founder Mr. Luke Tanabe, has become a popular item among fashion lovers since its first launch in Milan. We look to build upon this success and develop a more complete collection of accessories items to our customers, which we consider an important source of revenue to the Group in future.

Although the current government policy in China does not favour the operation of companies providing luxury services or goods, it is not, in our view, all doom and gloom for luxury brands in China. In the long run, it is widely anticipated that a rapid increase in household income and the growing of middle class in China will fuel the trend towards trendy lifestyle including high-end apparels, and will ultimately create healthy demand for the luxury goods industry. No doubt, the medium to long term prospect remains bright for the Chinese consumption market. With our experience in the Chinese market and our more active and important role in the European fashion industry, we have every confidence that PORTS will continue to grow and groom as one of the most exclusive designer's brands in China as well as globally.

Last but not the least, I would take this opportunity to express my deep appreciation to the board of directors for their valuable guidance, the management team and every member within the Group for their tireless effort and dedication.

**Alfred Chan**
*Chief Executive Officer*



28 August 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## TURNOVER

Turnover of the Group decreased from RMB1,075.6 million in 1H2013 to RMB965.0 million in 1H2014, representing a decrease of 10.3%. Turnover comprises two different segments: Retail and Others.

### Retail Turnover

Retail turnover decreased from RMB976.1 million in 1H2013 to RMB877.2 million in 1H2014, representing a decrease of 10.1%. A weak consumption appetite across the luxury goods sector in the PRC attributed such reduction in sales. As at 30 June 2014, the Group operated 327 retail stores in the PRC, Hong Kong, the U.S and Canada as compared with 352 retail stores as at 31 December 2013. We are consolidating and optimizing our store network in order to maintain a more commercially efficient network with focus on the opening of flagship stores in prominent shopping areas and high-end shopping malls. The contribution from Retail segment to total turnover increased from 90.7% in 1H2013 to 90.9% in 1H2014.

### Others Turnover

Others turnover decreased by 11.8%, from RMB99.5 million in 1H2013 to RMB87.8 million in 1H2014. Such decrease was resulted from the decrease in income from OEM business. The contribution from Others segment to total turnover decreased from 9.3% in 1H2013 to 9.1% in 1H2014.

## GROSS PROFIT

Gross profit decreased from RMB881.4 million in 1H2013 to RMB786.3 million in 1H2014, representing a decrease of 10.8%. Gross profit margin slightly decreased to 81.5% in 1H2014 (1H2013: 81.9%).

### Retail Gross Profit

Retail gross profit decreased by 10.7% from RMB846.5 million in 1H2013 to RMB755.6 million in 1H2014. Retail gross profit margin slightly decreased to 86.1% in 1H2014 (1H2013: 86.7%).

### Others Gross Profit

Others gross profit decreased from RMB34.9 million in 1H2013 to RMB30.7 million in 1H2014, representing a decrease of 12.1%. The mild recovery trend in the global luxury consumption market, in particular the European market results in a lower demand in our OEM and wholesale business. Others gross profit margin slightly decreased from 35.1% in 1H2013 to 35.0% in 1H2014.

## OTHER REVENUE

Other revenue consisted of insurance compensation, design and decoration income, commission on liaison services as well as other receipts which may be recurrent or one-off in nature. Other revenue increased by 19.8%, from RMB2.4 million in 1H2013 to RMB2.9 million in 1H2014.

# OPERATING EXPENSES

Operating expenses increased from RMB678.1 million in 1H2013 to RMB681.3 million in 1H2014, representing an increase of 0.47%. Operating expenses consisted of distribution costs, administrative expenses and other operating expenses. 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 advertising costs. Distribution costs increased from RMB524.6 million in 1H2013 to RMB534.0 million in 1H2014, representing an increase of 1.8% (1H2013 versus 1H2012: 11.3%). The increase was mainly due to the increase in rental charges. Distribution costs as a percentage of Retail turnover increased to 60.9% in 1H2014 (1H2013: 53.7%).

Rental charges increased by 12.9% (1H2013 versus 1H2012: 11.3%) from RMB229.3 million in 1H2013 to RMB258.9 million in 1H2014. Rental charges as a percentage of Retail turnover has risen to 29.5% in 1H2014 (1H2013: 23.5%). Such increase was due to the general upgrading of our stores towards the most prominent locations in a city, in particular on the stand-alone flagship stores in prime shopping areas or stores in high-end shopping malls where the rental charges per square meter are significantly higher. The management considers that the location of our stores is a very important factor in cementing our brand's positioning in line with other international fashion peers.

### Administrative expenses

Administrative expenses increased from RMB53.4 million in 1H2013 to RMB55.5 million in 1H2014, representing an increase of 4.0%. Administrative expenses as a percentage of total turnover increased to 5.8% in 1H2014 (1H2013: 5.0%).

Salaries and benefits for administrative staff, the single largest category of administrative expenses, increased from RMB31.2 million in 1H2013 to RMB32.6 million in 1H2014, representing an increase of 4.5%. The increase was mainly due to the continuing recruitment or engagement of experienced staff responsible for the exploration and management of opportunities in the overseas market, which the management considers essential to maintain and enhance the brand exposure in the major fashion cities in the globe. Salaries and benefits for administrative staff as a percentage of total turnover increased slightly to 3.4% in 1H2014 (1H2013: 2.9%).

### Other operating expenses

Other operating expenses decreased from RMB100.2 million in 1H2013 to RMB91.9 million in 1H2014, representing a decrease of 8.3% or RMB8.3 million due to decrease in the stock provision. The Group closely monitored the inventory level and assessed the amount of stock provision from time to time based on historical experience, current market condition and the Group's business plan in future. In 1H2014, the stock provision made as a percentage of Retail turnover increased to 10.5% (1H2013: 10.3%).

## PROFIT FROM OPERATIONS

The Group's profit from operations decreased from RMB204.7 million in 1H2013 to RMB107.9 million in 1H2014, representing a decrease of 47.3% or RMB96.8 million. The Group's operating margin (i.e. profit from operations expressed as a percentage of total turnover) declined from 19.0% in 1H2013 to 11.2% in 1H2014.

## NET FINANCE INCOME

Net finance income decreased from RMB10.7 million in 1H2013 to RMB1.5 million in 1H2014, representing a decrease of 86.3%. In 1H2014, the Group reported an interest income of RMB16.8 million, representing a decrease of RMB0.6 million, from RMB17.4 million in 1H2013. On the other hand, interest expense for the Group decreased by RMB7.1 million, from RMB13.6 million in 1H2013 to RMB6.5 million in 1H2014 due to the repayment of loans and borrowings. The Group recorded an exchange loss of RMB6.1 million in 1H2014, as compared to a gain of RMB8.5 million in 1H2013. The reason is that the United States dollars ("US$") denominated borrowings appreciated against RMB in 1H2014 while US$ denominated borrowings depreciated against RMB in 1H2013.

## INCOME TAX

The Group's income tax expense decreased by 25.1% from RMB69.7 million in 1H2013 to RMB52.2 million in 1H2014. The effective income tax rate increased from 32.4% in 1H2013 to 47.7% in 1H2014 due to certain current period losses for which no deferred tax assets was recognized.

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS

As a result of the factors discussed above, profit attributable to shareholders of the Company decreased from RMB139.7 million in 1H2013 to RMB55.0 million in 1H2014, representing a decrease of 60.7%.

## FINANCIAL POSITION, LIQUIDITY AND GEARING RATIO

As at 30 June 2014, the Group had RMB1,379.0 million (as at 31 December 2013: RMB1,293.4 million) in cash and cash equivalents, fixed deposits with banks and pledged bank deposits. As at 30 June 2014, the Group had interest-bearing borrowings of RMB724.6 million, which is stable as compared with the amount of RMB717.2 million as at 31 December 2013 in connection with the Group's treasury management strategy.

Net cash generated from operations activities was RMB145.8 million in 1H2014 as compared with RMB201.4 million in 1H2013, representing a decrease of 27.6% due to the decrease in profit before income tax during 1H2014.

As at 30 June 2014, the Group's gearing ratio was 34.9% based on outstanding borrowings and total equity of RMB2,075.1 million (as at 31 December 2013: 35.4%). As at 30 June 2014, the current ratio was 2.62 based on current assets of RMB2,415.6 million and current liabilities of RMB921.5 million (as at 31 December 2013: 2.44).

## CURRENCY RISK MANAGEMENT

The Group's cash balances from normal business operations are mainly deposited in RMB, US$, HK$ and the European Union common currency ("Euro"), with major banks in Hong Kong and the PRC 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 30 June 2014, the Group had capital commitments of RMB55.6 million, as compared with RMB58.8 million as at 31 December 2013, which was authorized but not contracted for. The Group has no material contingent liabilities as at 30 June 2014.

## CAPITAL STRUCTURE OF THE GROUP

The Group required working capital to support its manufacturing, retail and other operations. As at 30 June 2014, the Group had cash, cash equivalents, fixed deposits with banks and pledged bank deposits of RMB1,379.0 million, denominated principally in RMB, US$, HK$ and Euros. 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 30 June 2014, the Group's bank deposits in the amount of RMB309.4 million were pledged to secure banking facilities and bank borrowings granted to the Group.

## HUMAN RESOURCES

As at 30 June 2014, the Group had approximately 4,800 employees. Total personnel expenses, comprised of wages, salaries, and benefits, amounted to RMB193.3 million in 1H2014, compared with RMB193.1 million in 1H2013, representing an increase of 0.10%. In 1H2014, total personnel expenses as a percentage of the Group's turnover was at 20.0% (1H2013: 17.9%).

# CORPORATE GOVERNANCE

The board of Directors (the "Board") believes that high standards of corporate governance would effectively enhance the Company's value and safeguard the interests of shareholders. The Company is committed to the maintenance of good corporate governance practices within the Group. Below is a summary of the key areas in this regard:

## Model Code for 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 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Based on the specific enquiry to all Directors, during 1H2014, each of the Directors has confirmed that they have complied with the required standards as set out in the Model Code. Reminder will be sent to the Board prior to the commencement of each black-out period in respect of dealings in securities of the Company.

## Corporate Governance Code

The Company is committed to adhere to the principles and comply 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 to the Listing Rules during the period from 1 January 2014 to 30 June 2014 .

Since the resignation of Mr. Edward Tan, the former Chairman of the Company, the Company has not yet identified a suitable candidate to be the Chairman. Mr. Pierre Bourque, an executive Director, is currently assuming the duties of the Chairman. Mr. Pierre Bourque is responsible for managing and providing leadership to the Board. He is also responsible for initiating communication with other Board members, in particular the non-executive Directors and, where appropriate, considering any matters proposed by other Directors for inclusion in the agenda of Board meeting. The Company will identify suitable candidate to take up the position as the Chairman.

Mr. Alfred Chan, the Chief Executive Officer of the Company, 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. The Chief Executive Officer also reviews and discusses with the Board members the business plans, the plan versus performance, and recommends courses of action needed to improve the performance of the Company. The roles of the Chairman and Chief Executive Officer are separate and exercised by different individuals.

## Review of Accounts

The unaudited condensed consolidated accounts of the Company and its subsidiaries for 1H2014 have been reviewed by our Audit Committee. The Company's auditors have attended our Audit Committee meeting to explain and address the issues raised by the committee members.

Our Audit Committee consists of three independent non-executive Directors, namely, Mr. Lin Tao (Chairman), Mr. Antonio Gregorio and Mr. Zheng Wanhe, with terms of reference in compliance with the Listing Rules.

## Internal Control

The Board strives to attain and maintain sound and effective internal control. Following our appointment of FTI Consulting as the adviser on internal control in 2012, the Company has adopted and implemented various practices with the intention of strengthening the internal control and risk management processes of the Group. Further, the Group also regularly 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. 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 works. In addition, trainings on latest applicable regulations are provided by KPMG, our auditors, to department managers who will ensure the implementation and compliance of the same in their respective departments.

### Directors

The Directors during the six months ended 30 June 2014 were:

**Executive Directors[1]:**
Mr. Alfred Chan *(Chief Executive Officer)*
Mr. Pierre Bourque

**Non-executive Director:**
Mr. Ian Hylton[2]

**Independent non-executive Directors:**
Mr. Lin Tao
Mr. Zheng Wanhe
Mr. Antonio Gregorio

*Notes:*
1. *Mr. He Kun was appointed as Executive Director with effect from 21 July 2014*
2. *Mr. Ian Hylton resigned with effect from 21 July 2014*

### 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. Lin Tao has been appointed as an independent director of Guirenniao Co., Ltd (603555.SH), a company listed on the Shanghai Stock Exchange, with effect from 13 June 2014.

Mr. Ian Hylton has resigned as non-executive director of the Company with effect from 21 July 2014.

Mr. He Kun has been appointed as executive director of the Company with effect from 21 July 2014.

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 annual report of the Company for year ended 31 December 2013.

### Directors' and Chief Executives' Interests

As at 30 June 2014, the interests and 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 maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

**(i) 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[1] | 450,000(L)[2] | 237,018,773(L) | 237,468,773(L) | 42.83(L) |
| | 0 | 52,394,000(S) | 52,394,000(S) | 9.45(S) |
| Mr. Pierre Bourque | 130,000(L)[2] | 0 | 130,000(L) | 0.02(L) |
| Mr. Ian Hylton[3] | 80,000(L)[2] | 0 | 80,000(L) | <0.02(L) |
| Mr. Lin Tao | 0 | 0 | 0 | 0 |
| Mr. Zheng Wanhe | 0 | 0 | 0 | 0 |
| Mr. Antonio Gregorio | 0 | 0 | 0 | 0 |

*(L)— Long Position, (S)— Short Position.*

*Notes:*

1. *Mr. Alfred Chan owns 50% of the shareholding interest of Ports International Enterprises Limited ("PIEL"). PIEL holds a short position of 52,394,000 Shares, long position of 1,573,500 Shares directly and 235,445,273 Shares are owned by CFS International Inc. ("CFS"), a direct subsidiary of PIEL. Mr. Alfred Chan is deemed to be interested in 42.75% of the issued share capital of the Company by virtue of his respective interests in PIEL pursuant to Part XV of the SFO.*

2. *These interests include interests in options granted by the Company under its Share Option Scheme. Mr. Alfred Chan owns 250,000 share options. For further details, please refer to pages 20 to 22 of this report.*

3. *Mr. Ian Hylton resigned with effect from 21 July 2014.*

**(ii) Share Options**

| | Number of outstanding share options | % of issued share capital |
|---|---|---|
| Mr. Alfred Chan | 250,000 | 0.04% |
| Mr. Pierre Bourque | 130,000 | 0.02% |
| Mr. Ian Hylton* | 80,000 | <0.02% |

* *Mr. Ian Hylton resigned with effect from 21 July 2014.*

As at 30 June 2014, other than the holdings disclosed above, none of the Directors or chief executives 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.

**Share Option Scheme**

The Company adopted a share option scheme (the "Scheme") pursuant to the resolutions of the shareholders of the Company passed on 14 October 2003; the Scheme has expired on 13 October 2013:

1. The purpose of the Scheme was to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.

2. The participants of the Scheme were (i) any employee of the Company, any of its subsidiaries or any entity in which any member of the Group held an equity interest ("Invested Entity"), including any executive Director of the Company; (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to any member of the Group or any Invested Entity.

3. Unless otherwise approved by the shareholders in general meeting of the Company, the total number of Shares issued and which might fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period should not exceed 1% of the issued share capital of the Company from time to time.

4. An option might be exercised in whole or in part in accordance with the terms of the Scheme at any time during a period to be notified by the Directors to each grantee. The period for exercise might commence on the date upon which the offer for grant of options was made ("Offer Date") but should expire on the day immediately preceding the tenth anniversary of the Offer Date.

5. An option might be accepted by a participant within 28 days from the Offer Date.

6. Participants were required to pay HK$10 for each option within 28 days from the Offer Date.

7. The subscription price for shares under the Scheme, subject to any adjustment stipulated therein, should be a price determined by the Directors, but should be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the Offer Date; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.

8. The first batch of share option granted on 3 November 2003 has expired on 2 November 2013. The options granted under the Scheme shall be exercisable within a period of 10 years commencing on 1 September 2006 for the second batch of share option granted and 14 July 2009 for the third batch of share option granted, respectively.

9. As the Scheme has expired on 13 October 2013, there is no security available for issue under the Scheme as at 30 June 2014.

Details of the share options outstanding as at 30 June 2014 under the Scheme were as follows:

**Second batch of Share option granted on 1 September 2006 (exercisable from 1 September 2006 until 31 August 2016 at exercise price of HK$11.68)**

| | Options held at 1/1/2014 | Options exercised during 1H2014 | Options lapsed during 1H2014 | Options cancelled during 1H2014 | Options held at 30/06/2014 |
|---|---|---|---|---|---|
| Mr. Pierre Bourque | 80,000 | 0 | 0 | 0 | 80,000 |
| Continuous contract employees | 4,237,859 | 0 | 0 | 0 | 4,237,859 |

**Third batch of Share option granted on 14 July 2009 (exercisable from 14 July 2009 until 13 July 2019 at exercise price of HK$17.32)**

| | Options held at 1/1/2014 | Options exercised during 1H2014 | Options lapsed during 1H2014 | Options cancelled during 1H2014 | Options held at 30/06/2014 |
|---|---|---|---|---|---|
| Mr. Alfred Chan | 250,000 | 0 | 0 | 0 | 250,000 |
| Mr. Pierre Bourque | 50,000 | 0 | 0 | 0 | 50,000 |
| Mr. Ian Hylton[1] | 80,000 | 0 | 0 | 0 | 80,000 |
| Continuous contract employees | 21,127,743 | 0 | 0 | 184,256 | 20,943,487 |
| Others | 100,000 | 0 | 0 | 0 | 100,000 |

*Note:*

1. *Mr. Ian Hylton resigned with effect from 21 July 2014.*

On and subject to the terms of the Scheme, the options shall only be exercisable in respect of such part thereof that has been vested in accordance with the following manner:

| Fraction of the Shares covered under the option | Vesting date |
|---|---|
| 1/3 | First anniversary of the offer date |
| 1/3 | Second anniversary of the offer date |
| 1/3 | Third anniversary of the offer date |

The Board may in its absolute discretion relax or accelerate all or any of the above vesting periods in such manner as it may deem fit.

## Substantial Shareholders

The Company has been notified that, as at 30 June 2014, persons (other than directors or chief executives 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 | 235,445,273(L) | 42.46(L) |
| Ports International Enterprises Limited[1] | Interest of Controlled Corporation | 235,445,273(L) | 42.46(L) |
| | Beneficial Owner | 1,573,500(L) | 0.28(L) |
| | Beneficial Owner | 52,394,000(S) | 9.45(S) |
| Mr. Edward Tan[2] | Beneficial Owner | 250,000(L) | 0.05(L) |
| | Interest of Controlled Corporation | 237,018,773(L) | 42.75(L) |
| | Interest of Controlled Corporation | 52,394,000(S) | 9.45(S) |
| FIL Limited | Investment Manager | 44,304,500(L) | 7.99(L) |
| Denver Investment Advisors LLC(dba) Denver Investment and Clients | Investment Manager | 44,206,322(L) | 7.97(L) |

*(L) — Long Position, (S) — Short Position*

*Notes:*

1. *PIEL is deemed to be interested in the 235,445,273 Shares held by CFS by virtue of PIEL's interest in CFS. Please also see Note 1 on page 20.*

2. *Mr. Edward Tan is deemed to be interested in a long position of 237,018,773 Shares as well as a short position of 52,394,000 Shares held by PIEL by virtue of Mr. Edward Tan's 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 30 June 2014 as recorded in the register required to be kept under section 336 of the SFO.

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

During the 1H2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed or redeemable securities.

**Significant Events**

There have been no significant events affecting the Group which have occurred since 30 June 2014.

# PORTS DESIGN LIMITED
# UNAUDITED INTERIM
# FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2014

# REVIEW REPORT TO THE BOARD OF DIRECTORS OF PORTS DESIGN LIMITED

*(incorporated in Bermuda with limited liability)*

**Introduction**

We have reviewed the interim financial report set out on pages 29 to 54 which comprises the consolidated balance sheet of Ports Design Limited (the "Company") as at 30 June 2014 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

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

28 August 2014

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
*for the six months ended 30 June 2014 (unaudited)*
*(Expressed in Renminbi Yuan, except share and per share data)*

| | Note | Six months ended 30 June 2014 RMB'000 | Six months ended 30 June 2013 RMB'000 |
|---|---|---|---|
| **Turnover** | *3* | **964,960** | 1,075,647 |
| Cost of sales | | **(178,619)** | (194,223) |
| **Gross profit** | | **786,341** | 881,424 |
| Other revenue | *4(a)* | **2,871** | 2,396 |
| Other net expense | *4(b)* | **(34)** | (1,024) |
| Distribution costs | | **(533,968)** | (524,619) |
| Administrative expenses | | **(55,490)** | (53,354) |
| Other operating expenses | | **(91,854)** | (100,168) |
| **Profit from operations** | | **107,866** | 204,655 |
| Finance income | | **16,804** | 25,960 |
| Finance costs | | **(15,337)** | (15,224) |
| **Net finance income** | *5(a)* | **1,467** | 10,736 |
| **Profit before taxation** | *5* | **109,333** | 215,391 |
| Income tax | *6* | **(52,183)** | (69,709) |
| **Profit for the period** | | **57,150** | 145,682 |
| **Other comprehensive income for the period (after tax and reclassification adjustments):** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference on translation of: | | | |
| — financial statements of overseas subsidiaries | | **(795)** | 1,598 |
| **Total comprehensive income for the period** | | **56,355** | 147,280 |
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | | **54,965** | 139,696 |
| Non-controlling interests | | **2,185** | 5,986 |
| **Profit for the period** | | **57,150** | 145,682 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **54,152** | 141,292 |
| Non-controlling interests | | **2,203** | 5,988 |
| **Total comprehensive income for the period** | | **56,355** | 147,280 |
| **Earnings per share (RMB)** | | | |
| — Basic | *7* | **0.10** | 0.25 |
| — Diluted | *7* | **0.10** | 0.25 |

*The notes on pages 33 to 54 form part of this unaudited interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17.*

# CONSOLIDATED BALANCE SHEET
*at 30 June 2014 (unaudited)*
*(Expressed in Renminbi Yuan)*

| | Note | At 30 June 2014 RMB'000 | At 31 December 2013 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Lease prepayments | | **23,817** | 24,281 |
| Property, plant and equipment | *9* | **479,462** | 483,944 |
| Intangible assets | | **8,422** | 8,422 |
| Deferred tax assets | | **139,331** | 129,530 |
| | | **651,032** | 646,177 |
| **Current assets** | | | |
| Inventories | *11* | **706,417** | 715,274 |
| Trade and other receivables, deposits and prepayments | *12* | **330,187** | 374,598 |
| Pledged bank deposits | *10* | **309,402** | 450,108 |
| Fixed deposits with banks | | **592,799** | 432,110 |
| Cash and cash equivalents | *14* | **476,837** | 411,160 |
| | | **2,415,642** | 2,383,250 |
| **Current liabilities** | | | |
| Trade payables, other payables and accruals | *15* | **190,125** | 215,997 |
| Interest-bearing borrowings | *16* | **724,629** | 717,209 |
| Current taxation | | **6,699** | 41,948 |
| | | **921,453** | 975,154 |
| **Net current assets** | | **1,494,189** | 1,408,096 |
| **Total assets less current liabilities** | | **2,145,221** | 2,054,273 |
| **Non-current liabilities** | | | |
| Trade payables, other payables and accruals | *15* | **57,048** | 22,361 |
| Deferred tax liabilities | | **13,105** | 8,626 |
| | | **70,153** | 30,987 |
| **Net assets** | | **2,075,068** | 2,023,286 |
| **Capital and reserves** | | | |
| Share capital | *17* | **1,474** | 1,474 |
| Reserves | | **2,049,574** | 1,995,422 |
| **Total equity attributable to equity shareholders of the Company** | | **2,051,048** | 1,996,896 |
| **Non-controlling interests** | | **24,020** | 26,390 |
| **Total equity** | | **2,075,068** | 2,023,286 |

Approved and authorised for issue by the board of directors on 28 August 2014.

**Alfred Chan**
*Chief Executive Officer and Executive Director*

**Pierre Bourque**
*Executive Director*



*The notes on pages 33 to 54 form part of this unaudited interim financial report.*

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT
*for the six months ended 30 June 2014 (unaudited)*
*(Expressed in Renminbi Yuan)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Operating activities** | | | |
| Cash generated from operations | | **238,598** | 307,495 |
| Income tax paid | | **(92,754)** | (106,094) |
| **Net cash generated from operating activities** | | **145,844** | 201,401 |
| **Investing activities** | | | |
| Acquisition of property, plant and equipment | | **(64,098)** | (43,303) |
| Increase in fixed deposits with banks | | **(19,983)** | (76,522) |
| Interest received | | **14,107** | 12,526 |
| Other cash flows arising from investing activities | | **344** | (2,987) |
| **Net cash used in investing activities** | | **(69,630)** | (110,286) |
| **Financing activities** | | | |
| Dividends paid to equity shareholders of the Company | | **(15)** | (77,594) |
| Dividends paid to holders of non-controlling interests | | **(4,573)** | (3,758) |
| Interest expense paid | | **(7,327)** | (13,685) |
| Other cash flows arising from financing activities | | **1,378** | 393 |
| **Net cash used in financing activities** | | **(10,537)** | (94,644) |
| **Net increase/(decrease) in cash and cash equivalents** | | **65,677** | (3,529) |
| **Cash and cash equivalents at 1 January** | *14* | **411,160** | 430,787 |
| **Cash and cash equivalents at 30 June** | *14* | **476,837** | 427,258 |

*The notes on pages 33 to 54 form part of this unaudited interim financial report.*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
*for the six months ended 30 June 2014 (unaudited)*
*(Expressed in Renminbi Yuan)*

| | | 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 earnings | Total | Non-controlling interests | Total equity |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2013** | | 1,473 | 126,830 | 61,419 | 442,400 | 58,031 | 566 | 1,148,195 | 1,838,914 | 13,999 | 1,852,913 |
| Profit for the period | | — | — | — | — | — | — | 139,696 | 139,696 | 5,986 | 145,682 |
| Other comprehensive income | | — | — | — | — | — | 1,596 | — | 1,596 | 2 | 1,598 |
| Total comprehensive income for the period | | — | — | — | — | — | 1,596 | 139,696 | 141,292 | 5,988 | 147,280 |
| Dividends declared in respect of the previous year | *17(b)* | — | — | — | — | — | — | (77,602) | (77,602) | — | (77,602) |
| Dividends to holders of non-controlling interests | | — | — | — | — | — | — | — | — | (3,758) | (3,758) |
| Shares issued under share option scheme | *17(c)* | — | (165) | — | 557 | — | — | — | 392 | — | 392 |
| **Balance at 30 June 2013** | | 1,473 | 126,665 | 61,419 | 442,957 | 58,031 | 2,162 | 1,210,289 | 1,902,996 | 16,229 | 1,919,225 |
| **Changes in equity for the six months ended 31 December 2013** | | | | | | | | | | | |
| Profit for the period | | — | — | — | — | — | — | 153,714 | 153,714 | (1,777) | 151,937 |
| Other comprehensive income | | — | — | — | — | — | 857 | — | 857 | (7) | 850 |
| Total comprehensive income for the period | | — | — | — | — | — | 857 | 153,714 | 154,571 | (1,784) | 152,787 |
| Shares issued under share option scheme | *17(c)* | 1 | (73) | — | 391 | — | — | — | 319 | — | 319 |
| Option expired under share option scheme | *17(c)* | — | (55) | — | — | — | — | 55 | — | — | — |
| Addition through acquisition of subsidiaries | *18* | — | — | — | — | — | — | — | — | 8,025 | 8,025 |
| Capital contribution from non-controlling shareholder | | — | — | — | — | — | — | — | — | 3,920 | 3,920 |
| Dividends declared in respect of the current year | *17(b)* | — | — | — | — | — | — | (60,990) | (60,990) | — | (60,990) |
| Transfer to reserve | | — | — | — | — | 1,037 | — | (1,037) | — | — | — |
| **Balance at 31 December 2013** | | 1,474 | 126,537 | 61,419 | 443,348 | 59,068 | 3,019 | 1,302,031 | 1,996,896 | 26,390 | 2,023,286 |
| **Balance at 1 January 2014** | | 1,474 | 126,537 | 61,419 | 443,348 | 59,068 | 3,019 | 1,302,031 | 1,996,896 | 26,390 | 2,023,286 |
| Profit for the period | | — | — | — | — | — | — | 54,965 | 54,965 | 2,185 | 57,150 |
| Other comprehensive income | | — | — | — | — | — | (813) | — | (813) | 18 | (795) |
| Total comprehensive income for the period | | — | — | — | — | — | (813) | 54,965 | 54,152 | 2,203 | 56,355 |
| Dividends to holders of non-controlling interests | | — | — | — | — | — | — | — | — | (4,573) | (4,573) |
| **Balance at 30 June 2014** | | 1,474 | 126,537 | 61,419 | 443,348 | 59,068 | 2,206 | 1,356,996 | 2,051,048 | 24,020 | 2,075,068 |



*The notes on pages 33 to 54 form part of this unaudited interim financial report.*

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
*for the six months ended 30 June 2014*
*(Expressed in Renminbi Yuan)*

**1. Basis of preparation**

Ports Design Limited ("the Company") is a company incorporated in Bermuda with limited liability. The interim financial report of the Company for the six months ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as the "Group").

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 28 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 28.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2014.

## 2. Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

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

***Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities***

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

***Amendments to IAS 32, Offsetting financial assets and financial liabilities***

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies adopted by the Group.

***Amendments to IAS 36, Recoverable amount disclosures for non-financial assets***

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as the Group does not have impaired non-financial assets whose recoverable amount is based on fair value less costs of disposal.

**3. 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 the following one reportable segment.

- Retail: this segment primarily derives revenue from retail sales in the People's Republic of China ("the PRC"). The products are either sourced externally or are manufactured in the Group's manufacturing facilities located in the PRC.

***(a) Segment result and assets***

For the purposes of assessing segment performance and allocating resources between segments, the Group's 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.

3. **Segment reporting** *(continued)*

**(a) *Segment result and assets*** *(continued)*

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 period is set out below.

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | Retail | | Others(*) | | Total | |
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenue from external customers | **877,200** | 976,109 | **87,760** | 99,538 | **964,960** | 1,075,647 |
| **Reportable segment revenue** | **877,200** | 976,109 | **87,760** | 99,538 | **964,960** | 1,075,647 |
| **Reportable segment profit** | **413,004** | 474,526 | **30,703** | 34,928 | **443,707** | 509,454 |

| | Retail | | Others(*) | | Total | |
|---|---|---|---|---|---|---|
| | **30 June 2014** | 31 December 2013 | **30 June 2014** | 31 December 2013 | **30 June 2014** | 31 December 2013 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Reportable segment assets** | **658,124** | 677,074 | **48,293** | 38,200 | **706,417** | 715,274 |

(*) 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.

**3. Segment reporting** *(continued)*

***(b) Reconciliations of reportable segment revenue, profit and assets***

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Reportable segment revenue | **877,200** | 976,109 |
| Other revenue | **87,760** | 99,538 |
| **Consolidated turnover** | **964,960** | 1,075,647 |

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Profit** | | |
| Reportable segment profit | **413,004** | 474,526 |
| Other profit | **30,703** | 34,928 |
| | **443,707** | 509,454 |
| Other revenue and other net expense | **2,837** | 1,372 |
| Distribution costs | **(191,334)** | (152,649) |
| Administrative expenses | **(55,490)** | (53,354) |
| Other operating expenses | **(91,854)** | (100,168) |
| Net finance income | **1,467** | 10,736 |
| **Consolidated profit before taxation** | **109,333** | 215,391 |

| | **30 June** | 31 December |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Reportable segment assets | **658,124** | 677,074 |
| Other inventories | **48,293** | 38,200 |
| Consolidated inventories | **706,417** | 715,274 |
| Non-current assets | **651,032** | 646,177 |
| Trade and other receivables, deposits and prepayments | **330,187** | 374,598 |
| Pledged bank deposits | **309,402** | 450,108 |
| Fixed deposits with banks | **592,799** | 432,110 |
| Cash and cash equivalents | **476,837** | 411,160 |
| **Consolidated total assets** | **3,066,674** | 3,029,427 |

## 4. Other revenue and other net expense

### *(a) Other revenue*

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Liaison service income | **567** | 606 |
| Royalty income | **47** | 30 |
| Design and decoration income | **1,129** | 772 |
| Insurance compensation | **469** | 685 |
| Government subsidy (see note (i) below) | **—** | 155 |
| Others | **659** | 148 |
| | **2,871** | 2,396 |

(i) The subsidy received from local government authorities is unconditional.

### *(b) Other net expense*

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Net unrealised loss on trading securities | **—** | (1,004) |
| Net loss on sales of property, plant and equipment | **(34)** | (20) |
| | **(34)** | (1,024) |

## 5. Profit before taxation

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

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | | ***RMB'000*** | *RMB'000* |
| **(a)** | **Net finance income** | | |
| | Interest income | **(16,804)** | (17,439) |
| | Net foreign exchange gain | **—** | (8,521) |
| | Finance income | **(16,804)** | (25,960) |
| | Interest expense on bank loans repayable within five years | **6,503** | 13,647 |
| | Interest expense, net | **6,503** | 13,647 |
| | Net foreign exchange loss | **6,112** | — |
| | Others | **2,722** | 1,577 |
| | Finance costs | **15,337** | 15,224 |
| | Net finance income | **(1,467)** | (10,736) |
| **(b)** | **Other items** | | |
| | Operating leases charges in respect of properties | | |
| | — minimum lease payments | **122,248** | 67,278 |
| | — contingent rents | **136,082** | 160,079 |
| | | **258,330** | 227,357 |
| | Depreciation | **60,100** | 66,640 |
| | Amortisation — lease prepayments | **464** | 43 |
| | Cost of inventories (note 11) | **270,473** | 294,391 |

## 6. Income tax

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Current tax — PRC income tax | **57,505** | 76,748 |
| Deferred taxation | **(5,322)** | (7,039) |
| | **52,183** | 69,709 |

(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 and Samoa Islands are not subject to any income tax in their local jurisdictions.

(ii) No provision for Hong Kong Profits Tax has been made during the six months ended 30 June 2014 and 2013 as the subsidiaries in Hong Kong did not earn any assessable income for Hong Kong Profits tax purpose.

(iii) All PRC subsidiaries are subject to income tax rate at 25% for the six months ended 30 June 2014 and 2013 under the Enterprise Income Tax law ("EIT law") which was enacted on 16 March 2007.

Pursuant to the EIT Law, 10% withholding tax is levied on the foreign investor (foreign investors which are registered in Hong Kong and meet certain requirements specified in the relevant tax regulations in the PRC may be entitled to a preferential 5% rate), in respect of dividend distributions arising from profit earned by a foreign investment enterprise in the PRC after 1 January 2008. As at 30 June 2014, deferred tax liabilities of RMB94,083 thousand (31 December 2013: 91,094 thousand) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits earned by the Group's subsidiaries in the PRC will not be distributed in the foreseeable future.

*(Expressed in Renminbi Yuan)*

## 7. Earnings per share

### *(a) Basic earnings per share*

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB54,965 thousand (2013: RMB139,696 thousand) and the weighted average number of 554,453,492 (2013: 554,182,659) ordinary shares in issue during the period.

(i) Weighted average number of ordinary shares

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***Number of shares*** | *Number of shares* |
| Issued ordinary shares at 1 January | **554,453,492** | 554,114,386 |
| Effect of share options exercised | **—** | 68,273 |
| Weighted average number of ordinary shares at 30 June | **554,453,492** | 554,182,659 |

### *(b) Diluted earnings per share*

The calculation of diluted earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB54,965 thousand (2013: RMB139,696 thousand) and the weighted average number of 554,453,492 (2013: 554,389,540) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's share option scheme.

(i) Weighted average number of ordinary shares (diluted)

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***Number of shares*** | *Number of shares* |
| Weighted average number of ordinary shares at 30 June | **554,453,492** | 554,182,659 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 17) | **—** | 206,881 |
| Weighted average number of ordinary shares (diluted) at 30 June | **554,453,492** | 554,389,540 |

*(Expressed in Renminbi Yuan)*

## 8. Related party transactions

Transactions with the following entities are considered as related party transactions for the six months ended 30 June 2014 and 30 June 2013.

| Name of party | Relationship |
|---|---|
| Ports International Enterprises Limited | Ultimate parent company |
| CFS International Inc. | Immediate parent company |
| Ports International Retail Corporation | Fellow subsidiary company |
| PCD Stores (Group) Limited and its subsidiaries (i) (referred as "PCD Group") | Company of which Alfred Chan is a director |
| Alfred Chan | Director of the Company and 50% equity interest holder of ultimate parent company |
| Edward Tan | 50% equity interest holder of ultimate parent company |
| Ports of Knightsbridge Limited (referred as "PKL") | Company over which Edward Tan and Alfred Chan have significant influence |
| 北京愛尚春天電子商務有限公司 (referred as "Beijing Aishang") | Company controlled by Alfred Chan and Edward Tan |
| Tia Cibani | Close member of the family of Alfred Chan |
| Fiona Cibani | Close member of the family of Alfred Chan |

(i) Shareholders of PCD Group, Bluestone Global Holdings Limited ("Bluestone", which is wholly owned by Ports International Enterprises Limited) and Portico Global Limited ("PGL"), entered into an agreement ("the agreement") with WFJ International (王府井國際) on 31 January 2013, pursuant to which, Bluestone and PGL agreed to sell 39.53% of the entire issued share capital of PCD Group to WFJ International. Upon completion of the transaction on 28 June 2013, PCD Group ceased to be a fellow subsidiary company of the Group.

Edward Tan resigned as director and Alfred Chan resigned as Chairman of PCD Group on 2 July 2013. However, Alfred Chan remains as an executive director of PCD Group as at 30 June 2014.

## 8. Related party transactions *(continued)*

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 six months ended 30 June 2014 and 30 June 2013 are as follows:

### (a) *Transactions with key management personnel*

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Short-term employee benefits | **1,259** | 2,753 |

### (b) *Contribution to defined contribution retirement plans*

The Group participates in a defined contribution plan managed by the local government authorities for its employees employed in the PRC and 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 Group's contributions to these post-employment benefit plans amounted to RMB8,975 thousand for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB8,799 thousand).

As at 30 June 2014 and 31 December 2013, there was no material outstanding contribution to post-employment benefit plans.

8. **Related party transactions** *(continued)*

***(c) Sales, purchases and rental charges for concession counters***

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Sales of goods to:** | | |
| Ports International Retail Corporation | **2,052** | 5,657 |
| **Purchase of goods from:** | | |
| Ports International Retail Corporation | **4,657** | — |
| **Rental fee charged by:** | | |
| PCD Group (i) | **13,601** | 17,830 |
| **Commission fee charged by:** | | |
| Beijing Aishang | **243** | 255 |

(i) The Group leased a number of concession counters located within shopping arcades in the PRC owned by certain subsidiaries of PCD Group. Proceeds from the Group's sales made in these concession counters totaling RMB61,851 thousand for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB80,482 thousand) were collected by PCD Group. Settlement in respect of these concession sales was made net of the lease rental payable to these related parties.

***(d) Subscription of convertible bonds***

Ms. Tia Cibani is the holder of entire issued share capital of TIA Cibani LLC and TC Brands LLC (together referred as "the Issuers").

On 5 September 2013, Cpax Ltd, a wholly-owned subsidiary of the Company, entered into a Subscription Term Sheet ("the Subscription") with the Issuers and Ms. Tia Cibani, pursuant to which Cpax Ltd. agreed to conditionally subscribe for convertible bonds up to the principal amount of USD500,000 with zero coupon from each of the Issuers.

On 4 November 2013, Zero Coupon Redeemable and Convertible Bonds Subscription Agreements ("the Agreements") were signed between Ms. Tia Cibani, Cpax Ltd. and each of the Issuers respectively.

Pursuant to the Agreements, Cpax Ltd. agreed to subscribe for the bonds according to the following schedule:

(i) one third to be subscribed upon the First Closing Date (date on which the first completion under the Agreements in respect of the Subscription occurs, which meant 4 November 2013);

(ii) one third to be subscribed within 6 months after the First Closing Date, provided that the Issuers have achieved the First Sales Target (the sales amount in the sum of USD160,000 for E-store fall winter 2013 and wholesale spring summer 2014 collections);

(iii) one third to be subscribed within 12 months after the First Closing Date, provided that the Issuers have achieved the Second Sales Target (the sales amount in the sum of USD192,000 for E-store spring summer 2014 and wholesale fall winter 2014 collections).

**8. Related party transactions** *(continued)*

***(d) Subscription of convertible bonds*** *(continued)*

The conversion period is 5 years commencing from the issuance of the convertible bonds. Cpax shall have the right to convert all the principle amounts of its holding of the convertible bonds at any time during the conversion period. When fully converted, the convertible bonds may be convertible into 51% of the Membership Interests of each of the Issuers pursuant to the Agreements.

Ms. Tia Cibani has no rights of redemption until the maturity date. Cpax Ltd is entitled to require redemption on an event of default as set out in the Agreements.

During the year ended 31 December 2013, the Group subscribed the first one third of the convertible bonds amounting to USD333,334 (equivalent to RMB2,044 thousand) from the Issuers pursuant to the Agreements.

During the six months ended 30 June 2014, the Group subscribed the second one third of the convertible bonds amounting to USD333,334 (equivalent to RMB2,044 thousand) from the Issuers pursuant to the Agreements.

Pursuant to certain terms of the Agreements, the Group has consolidated the Issuers in its condensed consolidated interim financial statements, as it is exposed, or has rights, to variable returns from its involvement with the Issuers and has the ability to affect those returns through its power over the Issuers.

***(e) Other transactions***

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| **Expenditure paid by the Group on behalf of:** | | |
| Ports International Retail Corporation | **108** | 313 |
| **Receipt on behalf of the Group by:** | | |
| Ports International Retail Corporation | **—** | 73 |
| **Expenditure paid on behalf of the Group by:** | | |
| Ports International Retail Corporation | **585** | — |
| Fiona Cibani | **615** | — |
| **Deposits received from:** | | |
| PCD Group | **—** | 300 |
| **Rental fee reimbursed to:** | | |
| PKL (i) | **6,925** | 6,657 |

(i) 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.

## 9. Property, plant and equipment

| | **2014** | 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Cost:** | | |
| Balance at 1 January | **910,349** | 863,515 |
| Acquisitions for the period/year | **56,026** | 102,918 |
| Addition through acquisition of subsidiaries | **—** | 388 |
| Disposals for the period/year | **(26,381)** | (56,472) |
| Balance at 30 June/31 December | **939,994** | 910,349 |
| **Depreciation:** | | |
| Balance at 1 January | **426,405** | 349,371 |
| Depreciation charge for the period/year | **60,100** | 132,948 |
| Disposals for the period/year | **(25,973)** | (55,914) |
| Balance at 30 June/31 December | **460,532** | 426,405 |
| **Net book value:** | | |
| At 30 June/31 December | **479,462** | 483,944 |

## 10. Pledged bank deposits

An analysis of the balance of pledged bank deposits is set out below:

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Pledged bank deposits maturing within one year | | |
| — For interest bearing borrowings (see note 16) | **—** | 50,000 |
| — For guarantee (see note 16) | **303,781** | 376,231 |
| — Others | **5,621** | 23,877 |
| | **309,402** | 450,108 |

## 11. Inventories

Inventories comprise:

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **67,796** | 83,946 |
| Work in progress | **46,636** | 42,300 |
| Finished goods | **590,460** | 586,244 |
| Goods in transit | **1,525** | 2,784 |
| | **706,417** | 715,274 |

The analysis of the amount of inventories recognised as an expense is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Cost of goods sold | **178,619** | 194,223 |
| Stock provision | **91,854** | 100,168 |
| | **270,473** | 294,391 |

## 12. Trade and other receivables, deposits and prepayments

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | **166,863** | 202,480 |
| Amounts due from related companies (note 13) | **19,878** | 25,396 |
| Advances to suppliers | **27,483** | 14,819 |
| Other receivables, deposits and prepayments | **115,963** | 131,903 |
| | **330,187** | 374,598 |

**12. Trade and other receivables, deposits and prepayments** *(continued)*

An ageing analysis of accounts receivable, based on the due date, is as follows:

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current | **132,320** | 164,732 |
| Less than 1 month past due | **20,406** | 17,862 |
| 1–3 months past due | **7,727** | 13,761 |
| Over 3 months but less than 12 months past due | **6,410** | 6,125 |
| Amounts past due (i) | **34,543** | 37,748 |
| | **166,863** | 202,480 |

(i) Customers are normally granted credit terms of 0 to 90 days, depending on the credit worthiness of individual customers.

(ii) During the six months ended 30 June 2014, RMB3,553 thousand (six months ended 30 June 2013: Nil) has been recognised as a reduction in the amount of accounts receivable aged over 3 months and recognised as an expense in profit or loss during the period.

## 13. Amounts due from/(to) related companies

| | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|
| **Amounts due from related companies** | | |
| Ports International Retail Corporation | **7,358** | 8,195 |
| Beijing Aishang | **37** | 178 |
| PCD Stores (Group) Limited and its subsidiaries | **12,483** | 17,023 |
| | **19,878** | 25,396 |

| | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|
| **Amounts due to related companies** | | |
| Ports International Retail Corporation | **5,017** | — |
| Fiona Cibani | **615** | — |
| PCD Stores (Group) Limited and its subsidiaries | **300** | 300 |
| | **5,932** | 300 |

The amounts due from/(to) related companies are unsecured, interest-free and repayable on demand.

## 14. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is set out below:

| | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|
| Cash at bank and on hand | **349,690** | 263,160 |
| Time deposits with banks | **127,147** | 148,000 |
| | **476,837** | 411,160 |

Time deposits with banks included in cash and cash equivalents are within three months of maturity at acquisition.

## 15. Trade payables, other payables and accruals

| | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|
| *Current* | | |
| Accounts payable | **82,485** | 72,845 |
| Amounts due to related companies (note 13) | **5,932** | 300 |
| Other creditors and accruals | **101,705** | 142,834 |
| Dividends payable to the equity shareholders of the Company | **3** | 18 |
| | **190,125** | 215,997 |
| *Non-current* | | |
| Other creditors and accruals | **57,048** | 22,361 |
| Total | **247,173** | 238,358 |

An ageing analysis of accounts payable, based on the due date, is as follows:

| | 30 June 2014 RMB'000 | 31 December 2013 RMB'000 |
|---|---|---|
| Due within 1 month or on demand | **62,253** | 47,555 |
| Due after 1 month but within 3 months | **13,542** | 15,440 |
| Due after 3 months but within 6 months | **1,500** | 6,001 |
| Due after 6 months but within 12 months | **2,188** | 1,858 |
| Due after 1 year but within 2 years | **3,002** | 1,991 |
| | **82,485** | 72,845 |

## 16. Interest-bearing borrowings

| | **30 June 2014** *RMB'000* | 31 December 2013 *RMB'000* |
|---|---|---|
| Bank loans repayable within one year or on demand | | |
| — Secured | **495,208** | 91,454 |
| — Unsecured | **229,421** | 625,755 |
| | **724,629** | 717,209 |

The bank loans of the Group have maturity terms within one year and carry fixed interest rate during the borrowing period.

As at 30 June 2014, certain overseas banking facilities of the Group were guaranteed by letter of credits issued by certain banks located in the PRC. In respect of the guarantee provided by these PRC banks, certain subsidiaries' fixed deposits of RMB303,781 thousand were pledged to those PRC banks as security.

The Renminbi equivalent of banking facilities of the Group amounted to RMB1,242,028 thousand (31 December 2013: RMB929,200 thousand) of which RMB847,685 thousand (31 December 2013: RMB784,759 thousand) were utilised as at 30 June 2014.

## 17. Capital, reserves and dividends

### *(a) Share capital*

During the six months ended 30 June 2014, no share options were exercised by the holders pursuant to the share option scheme adopted by the Company. (During the six months ended 30 June 2013, 186,934 ordinary shares of HK$0.0025 each of the Company were issued for a total cash consideration of HK$491 thousand (equivalent to RMB392 thousand) as certain share options were exercised by the holders pursuant to the share option scheme adopted by the Company). Details of the share option scheme are disclosed in note 17(c)).

**17. Capital, reserves and dividends** *(continued)*

***(b) Dividends***

(i) Dividends payable to the equity shareholders of the Company attributable to the period

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Interim dividend proposed after the balance sheet date of RMB Nil per share (2013: RMB0.11 per share) | **—** | 60,973 |

(ii) Dividends payable to the equity shareholders of the Company attributable to the previous financial year

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the previous financial year, approved during the period of RMB Nil per share (2013: RMB0.14 per share) | **—** | 77,602 |

***(c) Equity settled share-based transactions***

In 2003, the Company adopted a share option scheme that entities key management personnel and employees to subscribe for shares in the Company. The terms and conditions of the share option scheme are disclosed in the consolidated financial statements for the year ended 31 December 2013.

A summary of option movements for the six months ended 30 June 2014 is presented below:

| | **Six months ended 30 June 2014** | | Year ended 31 December 2013 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of shares involved in the options** | Weighted average exercise price | Number of shares involved in the options |
| At beginning of period/year | **HK$16.381** | **25,925,602** | HK$16.196 | 27,109,385 |
| Exercised | **HK$ Nil** | **—** | HK$2.625 | (339,106) |
| Expired | **HK$ Nil** | **—** | HK$2.625 | (76,654) |
| Forfeited | **HK$17.320** | **(184,256)** | HK$17.320 | (768,023) |
| Outstanding at end of period/year | **HK$16.374** | **25,741,346** | HK$16.381 | 25,925,602 |
| Exercisable at the end of period/year | **HK$16.374** | **25,741,346** | HK$16.381 | 25,925,602 |

During the six months ended 30 June 2014, none of the Company's directors exercised options to subscribe for shares in the Company (six months ended 30 June 2013: two).

**18. Fair value measurement of financial instruments**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non — financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on 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: 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: Fair value measured using significant unobservable inputs.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2013: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the reporting period in which they occurred.

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 30 June 2014 and 31 December 2013. Given these terms, it is not meaningful to disclose the fair value of such balances.

**19. Commitments**

***(a) Operating lease commitments***

Non-cancellable operating lease rentals are payable as follows:

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Less than one year | **216,159** | 160,095 |
| Between one and five years | **658,349** | 390,903 |
| More than five years | **668,061** | 317,242 |
| | **1,542,569** | 868,240 |

The leases normally run for an initial period of one to five 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 of a proportion of turnover 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.

***(b) Capital commitments***

Capital commitments in respect of purchases of property, plant and equipment outstanding at 30 June 2014 and 31 December 2013 but not provided for in the interim financial report were as follows:

| | **30 June 2014** | 31 December 2013 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Authorised but not contracted for | **55,600** | 58,842 |


BMW Lifestyle
Sheer
Driving Pleasure