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PORTICO INTERNATIONAL HOLDINGS LTD

Portico International Holdings Limited

寶國國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 589)

INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

HIGHLIGHTS OF INTERIM RESULTS

- Total revenue was RMB 892.7 million, increased by 5.3% as compared with the corresponding period in 2015
- Gross profit margin decreased to 78.9% (1H2015: 81.5%)
- Profit attributable to equity shareholders was RMB 4.5 million, declined by 72.4%
- Earnings per share was RMB 0.01
- No interim dividend was declared

INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016 (“1H2016”)

The board of directors (the “Board”) of Portico International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the period ended 30 June 2016 with comparative figures for the same period ended 2015 (“1H2015”) as follows:

**for identification purpose only*

**Consolidated statement of profit or loss and other comprehensive income
for the six months ended 30 June 2016 - unaudited**
(Expressed in Renminbi)

	Note	<i>Six months ended 30 June</i>	
		2016 RMB'000	2015 RMB'000
Revenue	3	892,696	847,786
Cost of sales		(188,500)	(156,567)
Gross profit		704,196	691,219
Other revenue	4(a)	4,859	5,450
Other net expense	4(b)	(351)	(111)
Distribution costs		(503,872)	(497,383)
Administrative expenses		(57,720)	(55,149)
Other operating expenses	4(c)	(115,902)	(87,699)
Profit from operations		31,210	56,327
Net finance income	5(a)	5,682	1,344
Profit before taxation	5	36,892	57,671
Income tax	6	(30,932)	(40,014)
Profit for the period		5,960	17,657
Other comprehensive income for the period (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
- financial statements of overseas subsidiaries		(3,350)	(1,027)
Total comprehensive income for the period		2,610	16,630
Profit attributable to:			
Equity shareholders of the Company		4,465	16,280
Non-controlling interests		1,495	1,377
Profit for the period		5,960	17,657
Total comprehensive income attributable to:			
Equity shareholders of the Company		723	14,836
Non-controlling interests		1,887	1,794
Total comprehensive income for the period		2,610	16,630
Earnings per share (RMB cents)			
Basic	7(a)	1	3
Diluted	7(b)	1	3

Consolidated statement of financial position
at 30 June 2016 - unaudited
(Expressed in Renminbi)

	<i>Note</i>	<i>At 30 June</i> 2016 RMB'000	<i>At 31 December</i> 2015 RMB'000
Non-current assets			
Lease prepayments		22,516	22,770
Property, plant and equipment		424,677	438,904
Interest in an associate		2,838	2,951
Deferred tax assets		196,694	183,300
		<u>646,725</u>	<u>647,925</u>
Current assets			
Trading securities		1,375	1,590
Inventories		717,641	743,502
Trade and other receivables	8	342,340	346,713
Pledged bank deposits		19,048	110,928
Fixed deposits with banks with original maturity over three months		324,678	351,772
Cash and cash equivalents		354,124	507,958
		<u>1,759,206</u>	<u>2,062,463</u>
Current liabilities			
Trade and other payables	10	265,422	282,587
Bank loans	11	1,688	301,015
Current taxation		22,364	18,593
		<u>289,474</u>	<u>602,195</u>
Net current assets		<u>1,469,732</u>	<u>1,460,268</u>
Total assets less current liabilities		<u>2,116,457</u>	<u>2,108,193</u>
Non-current liabilities			
Trade and other payables	10	90,041	83,512
Bank loans	11	4,642	5,515
Deferred tax liabilities		5,743	5,745
		<u>100,426</u>	<u>94,772</u>
Net assets		<u>2,016,031</u>	<u>2,013,421</u>
Capital and reserves			
Share capital		1,474	1,474
Reserves		1,992,601	1,991,878
Total equity attributable to equity shareholders of the Company		<u>1,994,075</u>	<u>1,993,352</u>
Non-controlling interests		21,956	20,069
Total equity		<u>2,016,031</u>	<u>2,013,421</u>

NOTES

(Expressed in Renminbi unless otherwise indicated)

1. Basis of preparation

The 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 26 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any 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 Portico International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) since the 2015 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 (“IFRSs”).

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”).

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2016.

2. 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. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*

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.

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 People's Republic of China ("the PRC"), the United States, Canada and Europe. Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

(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 the following 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.

3. Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(i) Segment results 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.

	<i>Six months ended 30 June</i>					
	<i>Retail</i>		<i>Others (*)</i>		<i>Total</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	813,012	778,497	79,684	69,289	892,696	847,786
Reportable segment revenue	813,012	778,497	79,684	69,289	892,696	847,786
Reportable segment profit	244,882	260,594	22,130	23,553	267,012	284,147
	<i>Retail</i>		<i>Others (*)</i>		<i>Total</i>	
	<i>30 June</i>	<i>31 December</i>	<i>30 June</i>	<i>31 December</i>	<i>30 June</i>	<i>31 December</i>
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	654,932	687,106	62,709	56,396	717,641	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.

3. Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

	<i>Six months ended 30 June</i>	
	2016	2015
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	813,012	778,497
Other revenue	79,684	69,289
	<hr/>	<hr/>
Consolidated revenue	892,696	847,786
	<hr/> <hr/>	<hr/> <hr/>
Profit		
Reportable segment profit	244,882	260,594
Other profit	22,130	23,553
	<hr/>	<hr/>
	267,012	284,147
Other revenue and other net expense	4,508	5,339
Distribution costs	(66,688)	(90,311)
Administrative expenses	(57,720)	(55,149)
Other operating expenses	(115,902)	(87,699)
Net finance income	5,682	1,344
	<hr/>	<hr/>
Consolidated profit before taxation	36,892	57,671
	<hr/> <hr/>	<hr/> <hr/>
	At 30 June	At 31 December
	2016	2015
	RMB'000	RMB'000
Assets		
Reportable segment assets	654,932	687,106
Other inventories	62,709	56,396
	<hr/>	<hr/>
Consolidated inventories	717,641	743,502
Non-current assets	646,725	647,925
Trade and other receivables	342,340	346,713
Pledged bank deposits	19,048	110,928
Fixed deposits with banks with original maturity over three months	324,678	351,772
Trading securities	1,375	1,590
Cash and cash equivalents	354,124	507,958
	<hr/>	<hr/>
Consolidated total assets	2,405,931	2,710,388
	<hr/> <hr/>	<hr/> <hr/>

4. Other revenue and other net expense

(a) Other revenue

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000
Liaison service income	989	2,273
Design and decoration income	2,747	1,464
Insurance compensation	1,082	462
Government subsidy	-	950
Others	41	301
	<u>4,859</u>	<u>5,450</u>

(b) Other net expense

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000
Net realised and unrealised losses on trading securities	197	132
Net loss/(gain) on sales of property, plant and equipment	41	(21)
Share of losses of an associate	113	-
	<u>351</u>	<u>111</u>

(c) Other operating expenses

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000
Inventory provision	115,360	87,699
Impairment loss of property, plant and equipment	542	-
	<u>115,902</u>	<u>87,699</u>

5. Profit before taxation

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

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	<i>RMB'000</i>	<i>RMB'000</i>
(a) Net finance income		
Interest income	(4,678)	(14,710)
Interest expense on bank loans	2,367	4,930
Net foreign exchange (gain)/loss	(4,964)	6,786
Others	1,593	1,650
	<hr/>	<hr/>
Net finance income	(5,682)	(1,344)
	<hr/> <hr/>	<hr/> <hr/>
(b) Staff costs		
Contributions to defined contribution retirement plans	10,635	9,129
Salaries, wages and other benefits	194,233	185,363
	<hr/>	<hr/>
	204,868	194,492
	<hr/> <hr/>	<hr/> <hr/>
(c) Other items		
Depreciation	46,099	54,687
Amortisation	253	253
Operating lease charges in respect of properties		
- minimum lease payments	113,131	111,487
- contingent rents	124,261	122,764
Cost of inventories [#]	303,860	244,266
	<hr/> <hr/>	<hr/> <hr/>

[#] Cost of inventories for the six months ended 30 June 2016 includes RMB62,651,000 (six months ended 30 June 2015: RMB62,903,000) 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 5(b) for each type of these expenses.

6. Income tax

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000
Current tax - PRC income tax	41,028	44,307
Deferred taxation	(10,096)	(4,293)
	<u>30,932</u>	<u>40,014</u>

- (i) Pursuant to the rules and regulations of Bermuda, the Group 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 2016 and 2015 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 at 25% for the six months ended 30 June 2016 and 2015 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 2016, deferred tax liabilities of RMB97,422,000 (31 December 2015: RMB98,987,000) 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.

7. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB4,465,000 (six months ended 30 June 2015: RMB16,280,000) and the weighted average number of 554,453,492 ordinary shares (six months ended 30 June 2015: 554,453,492 shares) in issue during the interim period.

(b) *Diluted earnings per share*

No share option was outstanding and exercisable as at 30 June 2016 and 2015, and therefore, diluted earnings per share are the same as the basic earnings per share.

8. Trade and other receivables

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

	<i>At 30 June</i> 2016 RMB'000	<i>At 31 December</i> 2015 RMB'000
Within 1 month	118,414	147,637
Over 1 but within 3 months	40,451	9,875
Over 3 months but within 6 months	14,252	4,242
Over 6 months	5,338	6,200
	<hr/>	<hr/>
Trade receivables net off allowance for doubtful debts	178,455	167,954
Amounts due from related parties (note 9)	3,446	3,989
Advances to suppliers	22,024	19,248
Other receivables, deposits and prepayments	138,415	155,522
	<hr/>	<hr/>
	342,340	346,713
	<hr/> <hr/>	<hr/> <hr/>

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

9. Amounts due from/to related parties

	<i>At 30 June</i> 2016 RMB'000	<i>At 31 December</i> 2015 RMB'000
Amounts due from related parties		
Ports International Retail Corporation	3,284	3,801
Beijing Scitech Holdings Limited and its subsidiaries	162	188
	<hr/>	<hr/>
	3,446	3,989
	<hr/> <hr/>	<hr/> <hr/>

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

9. Amounts due from/to related parties (continued)

	<i>At 30 June</i> 2016 RMB'000	<i>At 31 December</i> 2015 RMB'000
Amounts due to related parties		
Ports International Retail Corporation	5,747	7,087

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

10. Trade and other payables

	<i>At 30 June</i> 2016 RMB'000	<i>At 31 December</i> 2015 RMB'000
<i>Current</i>		
Accounts payable	62,039	75,341
Amounts due to related parties (note 9)	5,747	7,087
Other creditors and accruals	197,633	200,156
Dividends payable to the equity shareholders of the Company	3	3
	<u>265,422</u>	<u>282,587</u>
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<i>Non-current</i>		
Other creditors and accruals	90,041	83,512
Total	<u>355,463</u>	<u>366,099</u>

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

	<i>At 30 June</i> 2016 RMB'000	<i>At 31 December</i> 2015 RMB'000
Within 1 month	45,958	50,555
Over 1 but within 3 months	9,819	10,045
Over 3 months but within 6 months	1,051	8,438
Over 6 months	5,211	6,303
	<u>62,039</u>	<u>75,341</u>

11. Bank loans

As at 30 June 2016, the bank loans were repayable as follow:

	<i>At 30 June 2016</i> RMB'000	<i>At 31 December 2015</i> RMB'000
Bank loans repayable within one year or on demand	1,688	301,015
Non-current bank loans	6,330	7,175
Less: Repayable within one year	(1,688)	(1,660)
Bank loans repayable more than one year	4,642	5,515

As at 30 June 2016, the bank loans were secured as follow:

	<i>At 30 June 2016</i> RMB'000	<i>At 31 December 2015</i> RMB'000
Bank loans		
- Secured	6,330	180,554
- Unsecured	-	125,976
	6,330	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:

	<i>At 30 June 2016</i> RMB'000	<i>At 31 December 2015</i> RMB'000
Pledged bank deposits	-	104,125
Construction in progress [#]	16,679	16,679
	16,679	120,804

[#] As at 30 June 2016, certain bank loans of the Group were secured by mortgages over buildings with an aggregate carrying amount of RMB16,679,000 (31 December 2015: RMB16,679,000).

12. Dividends

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

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2016 and 2015.

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

The directors of the Company did not recommend the payment of a final dividend for the financial year ended 31 December 2015 and 2014.

13. Material related party transactions

Transactions with the following entities are considered as significant related party transactions for the six months ended 30 June 2016 and 2015.

Name of party	Relationship
Ports International Enterprises Limited	Ultimate parent company
Ports International Retail Corporation	Fellow subsidiary company
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
Beijing Scitech Holdings Limited and its subsidiaries	Company controlled by Alfred Chan and Edward Tan

13. Material 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 2016 and 2015 are as follows:

(a) Transactions with key management personnel

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000
Short-term employee benefits	1,160	1,049
Contributions to defined contribution retirement plans	10	9

Total remuneration is included in “staff costs” (note 5(b)).

(b) Sales, purchases and rental charges

	<i>Six months ended 30 June</i>	
	<i>2016</i>	<i>2015</i>
	RMB'000	RMB'000
Sales of goods to:		
Ports International Retail Corporation	3,430	1,940
Purchases of goods from:		
Ports International Retail Corporation	46	2,983
Rental fee charged to:		
Beijing Scitech Holdings Limited and its subsidiaries	282	-

13. Material related party transactions (continued)

(c) Other transactions

	<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Rental fee reimbursed to:		
PKL*	4,953	4,752

- * 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.

BUSINESS REVIEW AND OUTLOOK

In the first half of 2016, there was an upturn in our top line revenue as compared to the corresponding period in 2015, amid continuing mixed signals about the economy's growth prospect in most countries. We attribute this encouraging result to the collective efforts of our colleagues across our organization.

With the objective of strengthening the brand image and recognition among the community of fashionistas, we have hosted series of marketing events to bring unique experience to our supporters. One of the highlights is the presentation of our menswear collection in conjunction with a special exhibition showcasing the photography series "Skin" and "Drive Me Crazy" of PORTS 1961 menswear's creative director, Milan Vukmirovic. Milan personally attended the event and explained to the participants the inspirations behind our PORTS 1961 Spring Summer 2016 collections through his photography series.

On the other hand, our business development team has also been working tremendously hard to maintain and solidify the relationship with our retail partners, who constitute a solid channel that complements our existing store network. In this connection, we have launched an exclusive capsule collection for our wholesale partner, which was a huge success with positive feedback from our customers and peers in the fashion industry.

As of the end of June 2016, we have established points of sales in 30 nations across 97 retailers worldwide, bringing PORTS 1961 collections to almost all important fashion cities in the world.

Looking ahead to the second half of 2016, we will continue to diversify our collections to target different customers segments. A new store dedicated to our PortsPURE label, a younger sister of PORTS 1961 combining elegance and playfulness, is expected to be opened in the 3rd quarter this year in Harbour City, Hong Kong. In addition, we look to extend our footprint in Taiwan and potentially South Korea and the Middle East to cement the status of PORTS 1961 as an important international fashion label. The management reckons the enormous potential in these regions and we are optimistic that our newly established operations will offer growing contribution to our revenue stream in the long term.

Since the change of our name to "Portico International Holdings Limited", our management's strategy of business and investment diversification has been progressing in an active but prudent manner. We consider that attractive opportunities may become available at good investment value in the midst of global economic uncertainties, in particular with weak currencies in many countries as well as the unenthusiastic market expectations following the "Brexit" referendum in June 2016. With the extensive network and experience of our management in various areas, the Group will continue to explore and identify appropriate investment or collaboration opportunities with parties across the globe that will bring sustainable value and return to the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group increased from RMB 847.8 million in 1H2015 to RMB 892.7 million in 1H2016, representing an increase of 5.3%. Revenue comprises two different segments: Retail and Others.

Retail Segment Revenue

Retail segment revenue increased from RMB 778.5 million in 1H2015 to RMB 813.0 million in 1H2016, representing an increase of 4.4%. Such increase was attributable to the increase of sales volume throughout 1H2016. As at 30 June 2016, the Group operated 318 retail stores in the PRC, Hong Kong, the U.S. and Canada, as compared to 313 retail stores as at 31 December 2015. A sluggish luxury retail demand in general has resulted in a decline of rental in certain prime space in core locations and in response to this, we have taken up locations which are prominent and fit our positioning. In light of the current economic environment, the management remains cautious in the management of the distribution network to ensure that it is overall economically efficient. The contribution from Retail segment to total revenue slightly decreased from 91.8% in 1H2015 to 91.1% in 1H2016.

Others Segment Revenue

Others segment revenue increased by 15.0%, from RMB 69.3 million in 1H2015 to RMB 79.7 million in 1H2016. While OEM business remains to be a stable revenue stream and has recorded a slight increase in revenue, the improvement in the revenue of this segment was primary driven by the increasing contribution from our wholesale business, following a stronger partnership with existing wholesale partners and the establishment of new partnerships in other Asian countries such as Japan, which offsets the effect of a reduction in income from the eye-glasses business. The contribution from Others segment to total revenue increased from 8.2% in 1H2015 to 8.9% in 1H2016.

Gross Profit

Gross profit increased from RMB 691.2 million in 1H2015 to RMB 704.2 million in 1H2016, representing an increase of 1.9%. Gross profit margin decreased from 81.5% in 1H2015 to 78.9% in 1H2016.

Retail Segment Gross Profit

Retail segment gross profit increased by 2.2% from RMB 667.5 million in 1H2015 to RMB 682.1 million in 1H2016. Retail segment gross profit margin slightly decreased from 85.7% in 1H2015 to 83.9% in 1H2016 due to a higher contribution from the sales of discounted merchandize.

Others Segment Gross Profit

Others segment gross profit decreased from RMB 23.7 million in 1H2015 to RMB 22.1 million in 1H2016, representing a decrease of 6.8%. Although we have recorded an encouraging expansion in our wholesale business, however, there was a reduction in gross profit in this segment due to a decrease in the revenue from the eyeglasses business, which carries a higher profit margin than the wholesale business. However, the management considers that a growing and successful wholesale business is an important element for the promotion and penetration of PORTS 1961 merchandize to the target segments across the globe. Others segment gross profit margin decreased from 34.2% in 1H2015 to 27.7% in 1H2016.

Other Revenue

Other revenue consisted of government subsidy, insurance compensation, design and decoration income as well as commission on liaison services. Other revenue decreased by 10.9%, from RMB 5.5 million in 1H2015 to RMB 4.9 million in 1H2016, mainly due to the decrease in government subsidy and commission on liaison services.

Operating Expenses

Operating expenses increased from RMB 640.2 million in 1H2015 to RMB 677.5 million in 1H2016, representing an increase of 5.8%. 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 RMB 497.4 million in 1H2015 to RMB 503.9 million in 1H2016, representing an increase of 1.3% (1H2015 versus 1H2014: a decrease of 6.9%). The increase was mainly due to the increase in salaries and benefits for retail sales staff. Distribution costs as a percentage of retail segment revenue decreased to 62.0% in 1H2016 (1H2015: 63.9%).

Salaries and benefits for retail sales staff increased from RMB 105.0 million in 1H2015 to RMB 113.7 million in 1H2016, representing an increase of 8.3% (1H2015 versus 1H2014: 0.8%). Salaries and benefits for retail sales staff as a percentage of retail segment revenue slightly increased to 14.0% in 1H2016 (1H2015: 13.5%).

Administrative expenses

Administrative expenses increased from RMB 55.1 million in 1H2015 to RMB 57.7 million in 1H2016, representing an increase of 4.7%. Administrative expenses as a percentage of total revenue stood at 6.5% in 1H2016 (1H2015: 6.5%).

Salaries and benefits for administrative staff, the single largest category of administrative expenses, increased from RMB 30.7 million in 1H2015 to RMB 33.3 million in 1H2016, representing an increase of 8.5%. Salaries and benefits for administrative staff as a percentage of total revenue increased slightly to 3.7% in 1H2016 (1H2015: 3.6%).

Other operating expenses

Other operating expenses increased from RMB 87.7 million in 1H2015 to RMB 115.9 million in 1H2016, representing an increase of 32.2% or RMB 28.2 million pre-dominantly attributed by the increase in the stock provision for the aging inventories. In 1H2016, the stock provision made as a percentage of retail segment revenue increased to 14.2% (1H2015: 11.3%).

Profit from Operations

The Group's profit from operations decreased from RMB 56.3 million in 1H2015 to RMB 31.2 million in 1H2016, representing a decrease of 44.6% or RMB 25.1 million. The Group's operating margin (i.e. profit from operations expressed as a percentage of total revenue) declined from 6.6% in 1H2015 to 3.5% in 1H2016.

Net Finance Income

Net finance income increased from RMB 1.3 million in 1H2015 to RMB 5.7 million in 1H2016, representing an increase of 338.5%. In 1H2016, the Group reported an interest income of RMB 4.7 million, representing a decrease of RMB 10.0 million, from RMB 14.7 million in 1H2015. On the other hand, interest expense for the Group decreased by RMB 2.5 million, from RMB 4.9 million in 1H2015 to RMB 2.4 million in 1H2016, due to the reduction of bank loans. The Group recorded an exchange gain of RMB 5.0 million in 1H2016, as compared to a loss of RMB 6.8 million in 1H2015, as Euros, US\$ and HK\$ denominated net assets appreciated against RMB during 1H2016.

Income Tax

The Group's income tax expense decreased by 22.8% from RMB 40.0 million in 1H2015 to RMB 30.9 million in 1H2016. The effective income tax rate increased from 69.4% in 1H2015 to 83.8% in 1H2016 due to certain current period losses for which no deferred tax assets was recognized.

Profit attributable to equity shareholders

As a result of the factors discussed above, profit attributable to equity shareholders of the Company decreased from RMB 16.3 million in 1H2015 to RMB 4.5 million in 1H2016, representing a decrease of 72.4%.

Financial Position, Liquidity and Gearing Ratio

As at 30 June 2016, the Group had RMB 697.9 million (as at 31 December 2015: RMB 970.7 million) in cash and cash equivalents, fixed deposits with banks with original maturity over three months and pledged bank deposits. As at 30 June 2016, the Group had bank loans of RMB 6.3 million, representing a decrease of 97.9% from RMB 306.5 million as at 31 December 2015. As such, interest expenses decreased by 51.0% to 2.4 million in 1H2016 (1H2015: RMB 4.9 million).

Net cash generated from operations activities was RMB 66.2 million in 1H2016 as compared with RMB 49.7 million in 1H2015, representing an increase of 33.2% primarily due to the decrease in income tax expense.

As at 30 June 2016, the Group's gearing ratio was 0.3% based on outstanding borrowings and total equity of RMB 2,016.0 million (as at 31 December 2015: 15.2%). As at 30 June 2016, the current ratio was 6.08 based on current assets of RMB 1,759.2 million and current liabilities of RMB 289.5 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, HK\$, Euros and US\$, 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 2016, the Group had capital commitments of RMB 51.0 million, as compared with RMB 57.0 million as at 31 December 2015, which was authorized but not contracted for. The Group has no material contingent liabilities as at 30 June 2016.

Capital Structure of the Group

The Group required working capital to support its manufacturing, retail and other operations. As at 30 June 2016, the Group had cash, cash equivalents, fixed deposits with banks with original maturity over three months and pledged bank deposits of RMB 697.9 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 2016, the Group’s bank deposits in the amount of RMB 19.0 million and buildings in the amount of RMB 16.7 million were pledged to secure bank borrowings, letter of credit and letter of guarantee granted to the Group in connection with its operation in the ordinary course of business.

Human Resources

As at 30 June 2016, the Group had approximately 4,500 employees. Total personnel expenses, comprised of wages, salaries, and benefits, amounted to RMB 204.9 million in 1H2016, compared with RMB 194.5 million in 1H2015, representing an increase of 5.4%. In 1H2016, total personnel expenses as a percentage of the Group’s revenue was at 23.0% (1H2015: 22.9%).

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.

Purchase, Sales or Redemption of Listed Securities

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during 1H2016.

Review of Accounts

The audit committee of the Company (“Audit Committee”) consists of three independent non-executive Directors, namely, Mr. Lin Tao, Mr. Zheng Wanhe and Mr. Antonio Gregorio with terms of reference in compliance with the rules governing the listing of securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “HKEx”).

The Audit Committee has reviewed the unaudited consolidated financial statements of the Company for 1H2016, which is also reviewed by KPMG, external auditors of the Company.

Corporate Governance Code

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 to the Listing Rules during 1H2016.

Since the resignation of Mr. Edward Tan, the former Chairman of the Company, the Company has been in the search of personnel to be the Chairman of the Company. Mr. Pierre Bourque, an executive Director since the listing of the Company, is assuming the duties of the Chairman. Mr. Pierre Bourque is responsible for managing and providing leadership to the Board, initiating communication with other Board members, in particular the non-executive Directors and, where appropriate, and considering any matters proposed by other Directors for inclusion in the agenda of Board meeting. The Company will continue to look for an appropriate candidate to take up the position as the Chairman and will notify our shareholders and the public as appropriate.

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 overall execution, 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.

Publication of Interim Report

This announcement is available for viewing on the websites of HKEx and the Company. The interim report for 1H2016 containing all the information as required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the websites of the HKEx and the Company on or before 30 September 2016. The website of the Company may be accessed at <http://www.portico-intl.com>.

By Order of the Board
Portico International Holdings Limited
Alfred Chan
Executive Director

Hong Kong, 26 August 2016

As at the date of this announcement, the Directors are:

Executive Directors:

Mr. Alfred Chan
Mr. Pierre Bourque
Mr. He Kun

Independent Non-executive Directors:

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