PORTICO INTERNATIONAL HOLDINGS LIMITED

# PORTICO INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 0589)

## ANNUAL REPORT 2017

# CONTENTS

# CORPORATE PROFILE

Portico International Holdings Limited (the "Company", together with its subsidiaries, the "Group") is primarily engaged in the wholesale and retail distribution of ladies' and men's fashion apparel and accessories such as shoes, handbags, eyewear, scarves and fragrances in mainland China, Hong Kong, the U.S., Canada and Europe. As at 31 December 2017, the Group operated 398 retail stores in mainland China, Hong Kong, the U.S. and Canada as compared with 343 retail stores as at 31 December 2016. The Group currently operates most of its business activities in the People's Republic of China ("PRC") market and is one of the leading international fashion companies in the PRC.

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

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

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

# CORPORATE INFORMATION

**Directors**

**Executive Directors:**

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

**Independent Non-executive Directors:**

Mr. Wanhe Zheng
Mr. Antonio Delfin Gregorio
Mr. Kevin De-Kang Yin

**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 2702, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

**Company Secretary**

Ms. Irene Fung Mei Wong

**Authorized Representatives**

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

**Audit Committee**

Mr. Kevin De-Kang Yin *(Chairman)*
Mr. Wanhe Zheng
Mr. Antonio Delfin Gregorio

**Remuneration Committee**

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

**Nomination Committee**

Mr. Alfred Chan Kai Tai *(Chairman)*
Mr. Antonio Delfin Gregorio
Mr. Kevin De-Kang Yin

**Principal Share Registrar and Transfer Office**

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

**Hong Kong Share Registrar**

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

**Principal Bankers**

Bank of China Limited
Xiamen Branch, PRC

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

**Company Website**

http://www.portico-intl.com

**Stock Code**

00589.HK

# FIVE-YEAR FINANCIAL SUMMARY

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

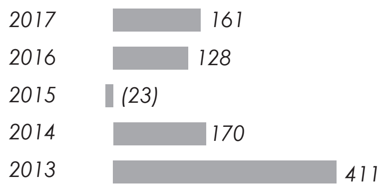
| | *For the year ended 31 December* | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| **Results** | | | | | |
| Revenue | **2,243** | 1,846 | 1,595 | 1,879 | 2,137 |
| Profit/(loss) from operations | **161** | 128 | (23) | 170 | 411 |
| Profit/(loss) attributable to equity shareholders | **57** | 40 | (73) | 73 | 293 |

| | *As at 31 December* | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| **Assets and liabilities** | | | | | |
| Non-current assets | **668** | 678 | 648 | 648 | 646 |
| Current assets | **2,261** | 1,957 | 2,062 | 2,401 | 2,383 |
| Current liabilities | **651** | 447 | 602 | 871 | 975 |
| Net current assets | **1,610** | 1,510 | 1,460 | 1,530 | 1,408 |
| Total assets less current liabilities | **2,278** | 2,188 | 2,108 | 2,177 | 2,054 |
| Non-current liabilities | **148** | 125 | 95 | 80 | 31 |
| Equity attributable to equity shareholders of the Company | **2,099** | 2,038 | 1,993 | 2,075 | 1,997 |

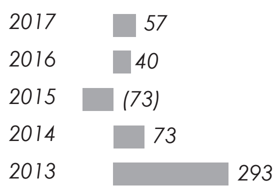
# FIVE-YEAR FINANCIAL SUMMARY

**Revenue (RMB million)**

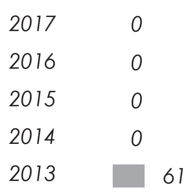

**Profit/(loss) from Operations (RMB million)**




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




**Dividend History* (RMB million)**




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

*No interim and final dividend was proposed for the financial year ended 31 December 2017 ("FY2017") and the financial year ended 31 December 2016 ("FY 2016").*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**Business Review and Outlook**

Following the turnaround of downfall in revenue since FY2016, the Group was able to sustain on the upward trend and recorded a 21.5% growth in the total revenue for the financial year ended 31 December 2017, as compared with the corresponding period in 2016. The increasing recognition and popularity of our PORTS labels among different target segments and a recovery in demand of the luxury fashion apparel in the midst of cyclical upswing in the global economies are the key contributing factors to such excellent results.

Since 2016 and continuing throughout 2017, we have undergone a thorough review and restructuring of our organizational structure with the objective of enhancing and optimizing the operational efficiency and decision-making process.

Our swift response to the growing demand in affordable luxury apparel and quick change in fashion trends has received encouraging feedback from our customers. In particular, PortsPURE and ISABELLA have been receiving increasing amount of attention in the market among our young female customers. The broadened and more diversified collections in our product portfolio will allow us to capture the growth momentum in different segments in the long run. It will also allow us to benefit from economies of scale across the operations, from sourcing, manufacturing, logistic and distribution.

Our wholesale and distribution activities in the up-and-coming markets across the globe continued to enjoy positive performance results in 2017. We have recorded a 4.2% growth in our wholesale revenue as compared with FY2016. We were able to utilize our distribution partners' strong expertise and connections with local peers and media to increase the awareness of the local fashion lovers about our brand, our collections and our fashion concepts. Going forward, we target to expand our retail network to cities with huge growing potentials in the fashion industry and we expect to open a Ports branded store in one of the leading shopping arcades in Macau in mid-2018. On our retail front, we cautiously expand our retail store network and dedicate to improve our e-commerce platform in order to maximize our exposure and enhance our customer's experience and enjoyment when shopping with us both online and offline.

As at 31 December 2017, the financial position of the Group remained very strong and solid, with approximately RMB714.5 million of cash and cash equivalents, fixed deposit with banks and pledged deposits and the current ratio was 3.47 (as at 31 December 2016: 4.38) based on the current assets of RMB2,261.3 million and current liabilities of RMB651.0 million. As part of the treasury management policy, the Group has purchased and/or subscribed certain wealth management products and trust products issued by reputable financial institutions in the PRC with aggregate principal amount of RMB162.0 million in order to enhance the financial return of capital with no immediate plan of application. We will continue to adopt a prudent approach towards the application of our capital with the primary objective of maintaining a solid financial foundation for the long-term development of our Group.

### Revenue

Revenue of the Group increased from RMB1,846.2 million in FY2016 to RMB2,243.0 million in FY2017, representing an increase of 21.5%; while the total revenue increased from RMB953.5 million in the second half of year 2016 to RMB1,190.6 million in the second half of year 2017, representing an increase of 24.9%. Revenue comprises one reportable segment under "Retail" and revenue generated from other business activities. Please refer to note 3(b) under section "Notes to the financial statements" for further details.

**Retail segment revenue**

Retail segment revenue increased from RMB1,695.1 million in FY2016 to RMB2,109.9 million in FY2017, representing an increase of 24.5%, while the retail segment revenue increased from RMB882.1 million in the second half of year 2016 to RMB1,138.0 million in the second half of year 2017, representing an increase of 29.0%, following a gradual recovery of the luxury fashion retail market and an increasing recognition of our core label "Ports 1961" and our diffusion label "PortsPURE" among fashion lovers of different segments. As at 31 December 2017, the Group operated 398 retail stores in Mainland China, Hong Kong, the U.S. and Canada as compared with 343 retail stores as at 31 December 2016, in light of a more positive market sentiment and our ability to secure appropriate locations which can further complement our retail network. The contribution from Retail segment to total revenue has increased from 91.8% in FY2016 to 94.1% in FY2017.

**Revenue from other business activities ("Others segment revenue")**

Others segment revenue decreased by 11.9%, from RMB151.1 million in FY2016 to RMB133.1 million in FY2017, as the Group has shifted its strategic focus away from the OEM business which generates a lower profit margin. The contribution from Others segment revenue to total revenue decreased from 8.2% in FY2016 to 5.9% in FY2017.

### Gross profit

Gross profit increased from RMB1,446.9 million in FY2016 to RMB1,739.8 million in FY2017, representing an increase of 20.2%, while the gross profit increased from RMB742.7 million in the second half of 2016 to RMB901.2 million in the second half of year 2017, representing an increase of 21.3%. Gross profit margin slightly decreased from 78.4% in FY2016 to 77.6% in FY2017.

**Retail segment gross profit**

Retail segment gross profit increased by 21.0% from RMB1,410.7 million in FY2016 to RMB1,707.6 million in FY2017, while the retail segment gross profit increased from RMB728.6 million in the second half of year 2016 to RMB895.6 million in the second half of year 2017, representing an increase of 22.9%. Retail segment gross profit margin slightly decreased to 80.9% in FY2017 (FY2016: 83.2%).

**Others segment gross profit**

Others segment gross profit decreased from RMB36.2 million in FY2016 to RMB32.2 million in FY2017, representing a decrease of 11.0%, which resulted from the diminishing transaction volume from our OEM business. Others segment gross profit margin increased from 24.0% in FY2016 to 24.2% in FY2017.

### Other income

Other income mainly consisted of design and decoration income, investment income as well as rental income. Other income increased by 190.2%, from RMB9.2 million in FY2016 to RMB26.7 million in FY2017, primarily contributed by the increase of investment income, the rental income received from the leasing of property since the beginning of 2017 and the subsidy from the landlord as compared to FY2016, due to the increasing popularity of our brand and a stronger negotiation power with the landlord.

### Operating expenses

Operating expenses increased from RMB1,328.2 million in FY2016 to RMB1,605.7 million in FY2017, representing an increase of 20.9%. Operating expenses consisted of selling and distribution expenses, administrative expenses and other operating expenses. A more detailed breakdown is set out as follows:

**Selling and distribution expenses**

Selling and distribution expenses were mainly comprised of rental charges, salaries and benefits, stores and mall expenses, depreciation charges and marketing expenses. Selling and distribution expenses increased from RMB1,044.8 million in FY2016 to RMB1,210.4 million in FY2017, representing an increase of 15.8% (FY2016: 6.0%). The increase was mainly due to the increase in rental charges and marketing expenses, as well as the increase in salaries and benefits for retail sales staff. Given that some of the rental arrangements with certain landlords were in the form of turnover rent and part of the salaries of the sales staff comprised of turnover linked commission, the increase in sales revenue would inevitably increase the selling and distribution expenses. However, the percentage of increment of expenses is lower than the increase in revenue, showing the improvement of store efficiency in general. Selling and distribution expenses as a percentage of retail segment revenue decreased to 57.4% in FY2017 (FY2016: 61.6%).

Rental charges increased by 13.0% (FY2016: 10.7%) from RMB492.8 million in FY2016 to RMB556.9 million in FY2017, mainly due to the increase in number of retail stores from 343 in FY2016 to 398 retail stores in FY2017 and the rent paid for certain retail stores has increased accordingly in FY2017. Rental charges as a percentage of retail segment revenue has dropped to 26.4% in FY2017 (FY2016: 29.1%).

Marketing expenses, mainly including advertising expenses and consultant service fees in relation to our brand development, have increased by 36.3% from RMB67.7 million in FY2016 to RMB92.3 million in FY2017. Brand building is an important strategy of the Group to further solidify the status of "Ports 1961" as an important member among the luxury fashion industry, which will stimulate our growth momentum in medium to long run. Marketing expenses as a percentage of retail segment revenue increased to 4.4% in FY2017 (FY2016: 4.0%).

Salaries and benefits for retail sales staff increased from RMB239.8 million in FY2016 to RMB286.6 million in FY2017, representing an increase of 19.5% (FY2016: 14.4%). As a percentage of retail segment revenue, it decreased from 14.1% in FY2016 to 13.6% in FY2017.

**Administrative expenses**

Administrative expenses increased from RMB123.4 million in FY2016 to RMB126.9 million in FY2017, representing an increase of 2.8%, due to increase in consulting expenses and salaries and benefits for administrative staff. Administrative expenses as a percentage of total revenue decreased to 5.7% in FY2017 (FY2016: 6.7%).

Salaries and benefits for administrative staff, the single largest category of administrative expenses, increased from RMB70.6 million in FY2016 to RMB71.4 million in FY2017, representing an increase of 1.1%. Salaries and benefits for administrative staff as a percentage of total revenue decreased to 3.2% in FY2017 (FY2016: 3.8%) due to our tight expenses control across the organization.

**Other operating expenses**

Other operating expenses increased from RMB160.0 million in FY2016 to RMB268.4 million in FY2017, representing an increase of 67.8% or RMB108.4 million, due to the increase in write-down of inventories and impairment loss of leasehold improvements of retail stores. In FY2017, the stock provision made as a percentage of retail segment revenue increased to 10.3% (FY2016: 8.8%). 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.

**Profit from operations**

The profit from operations of the Group increased from RMB127.9 million in FY2016 to RMB160.8 million in FY2017, representing an increase of RMB32.9 million, while the profit from operations increased from RMB96.7 million in second half of year 2016 to RMB111.7 million in second half of year 2017, representing an increase of RMB15.0 million, predominantly contributed by the increase in profit from the retail segment. The Group's operating margin (i.e. profit from operations expressed as a percentage of total revenue) increased from 6.9% in FY2016 to 7.2% in FY2017.

**Net finance income/(costs)**

Net finance income/(costs) increased from net finance costs of RMB1.7 million in FY2016 to net finance income of RMB5.8 million in FY2017, representing an increase of 441.2%. In FY2017, the Group reported an interest income of RMB12.3 million, representing an increase of RMB4.4 million from RMB7.9 million in FY2016. On the other hand, interest expense for the Group decreased by RMB2.2 million, from RMB2.5 million in FY2016 to RMB0.3 million in FY2017 due to the repayment of certain bank loans. The Group recorded an exchange loss of RMB4.8 million in FY2017 which is at a more or less the same level as compared with FY2016. The management team has adopted a very pragmatic and prudent financial management approach to ensure an appropriate application of capital in order to strike a balance of getting reasonable return and facilitating operational needs.

**Income tax**

The Group's income tax increased by 28.5% from RMB82.1 million in FY2016 to RMB105.5 million in FY2017. The effective income tax rate decreased to 63.3% in FY2017 (FY2016: 65.0%), mainly due to certain current year losses for which no deferred tax asset was recognized.

**Profit attributable to equity shareholders**

As a result of the factors discussed above, profit attributable to equity shareholders of the Company increased from RMB40.3 million in FY2016 to RMB56.9 million in FY2017, as a result of the increase in retail segment revenue.

**Financial position, liquidity and gearing ratio**

As at 31 December 2017, the Group had RMB714.5 million in cash and cash equivalents, fixed deposits with banks with original maturity over three months and pledged deposits, which had slightly increased by 0.7% as compared to RMB709.4 million as at 31 December 2016. As at 31 December 2017, the Group had bank loans of RMB3.8 million, representing a decrease of 30.9% from RMB5.5 million as at 31 December 2016. As such, the interest expenses decreased by 88.0% to RMB0.3 million in FY2017 (FY2016: RMB2.5 million).

Net cash generated from operations activities was RMB249.8 million in FY2017 as compared with RMB119.9 million in FY2016, representing an increase of 108.3% which was primarily contributed by the increase in profit before taxation resulted from the increase in retail segment revenue during FY2017.

As at 31 December 2017, the Group's gearing ratio was 0.2% (as at 31 December 2016: 0.3%) calculated as outstanding borrowings of RMB3.8 million (as at 31 December 2016: RMB5.5 million) over total equity of RMB2,130.5 million (as at 31 December 2016: RMB2,062.7 million). As at 31 December 2017, the current ratio was 3.47 (as at 31 December 2016: 4.38) based on current assets of RMB2,261.3 million (as at 31 December 2016: RMB1,957.0 million) and current liabilities of RMB651.0 million (as at 31 December 2016: RMB447.3 million).

### Currency risk management

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

### Capital commitments and contingent liabilities

As at 31 December 2017, the Group had capital commitments of RMB69.0 million, as compared with RMB88.5 million as at 31 December 2016, which was authorised but not contracted for. The Group has no material contingent liabilities as at 31 December 2017 (as at 31 December 2016: nil).

### Capital structure of the Group

The Group required working capital to support its manufacturing, retail and other operations. As at 31 December 2017, the Group had cash and cash equivalents, fixed deposits with banks with original maturity over three months and pledged deposits of RMB714.5 million (as at 31 December 2016: RMB709.4 million), denominated principally in RMB, United States Dollars, Hong Kong Dollars, Euro and JPY. As at 31 December 2017, the Group had bank loans of RMB3.8 million (as at 31 December 2016: RMB5.5 million), denominated in RMB. The directors of the Company ("Directors") believe that the cash balances and net cash inflow from operating activities are sufficient to support the operating activities of the Group.

As at 31 December 2017, the Group invested in wealth management products and trust products issued by reputable financial institutions in the PRC with the aggregate principals amount of RMB162.0 million. There are no fixed or determinable returns for these wealth management products and trust products.

### Charges on assets

As at 31 December 2017, the Group's bank deposits in the amount of RMB54.4 million (as at 31 December 2016: RMB59.5 million) and buildings in the amount of RMB15.6 million (as at 31 December 2016: RMB16.6 million) were mainly pledged to secure bank loans, 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 31 December 2017, the Group has approximately 4,471 employees (as at 31 December 2016: approximately 4,500 employees). Total personnel expenses, comprised of wages, salaries and benefits, amounted to RMB479.7 million in FY2017, compared with RMB432.0 million in FY2016, representing an increase of 11.0%. In FY2017, total personnel expenses as a percentage of the Group's revenue was at 21.4% (FY2016: 23.4%).

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

# CORPORATE GOVERNANCE REPORT

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

The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the financial year ended 31 December 2017 ("FY2017").

## The Board

During the year 2017 and up to the date of this report, the Directors are:

**Executive Directors**

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

**Independent Non-Executive Directors**

Mr. Tao Lin[1]
Mr. Wanhe Zheng
Mr. Antonio Delfin Gregorio
Mr. Kevin De-Kang Yin[2]

*Remarks:*

1. *Mr. Tao Lin resigned as an independent non-executive director of the Company with effect from 22 November 2017.*
2. *Mr. Kevin De-Kang Yin was appointed as an independent non-executive director of the Company with effect from 22 November 2017.*

The biographical information of the Directors and senior management are set out on pages 36 to 38 of this report.

As of 31 December 2017, the Board comprises seven Directors, including four executive Directors and three independent non-executive Directors. Therefore, the Company has complied with the requirement of the Listing Rules in having at least three independent non-executive Directors, representing at least one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or relating financial management expertise.

## Responsibilities of the Board and Senior Management

Mr. Alfred Chan Kai Tai, who is the Chairman of the Company, is responsible for managing and providing leadership to the Board, initiating communication with other Board members, in particular the independent non-executive Directors and, where appropriate, considering any matters proposed by other Directors for inclusion in the agenda of Board meeting.

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

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

During FY2017, the Board reviewed the Company's policies and practices on corporate governance and the compliance with legal and regulatory requirements. It also monitored and reviewed the code of conduct applicable to employees and Directors as well as the training and continuous professional development of Directors and senior management. In addition, the Board reviewed the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

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

Under Code Provision A.4.1., non-executive Directors should be appointed for a specific term, subject to re-election. Our independent non-executive Directors, Mr. Kevin De-Kang Yin entered into an appointment letter with the Company with an initial term of three years, commencing 22 November 2017, while Mr. Wanhe Zheng and Mr. Antonio Delfin Gregorio have entered into appointment letters with the Company with a renewal term of three years, commencing 23 August 2016 respectively. All of which subject to retirement and re-election in accordance with the bye-laws of the Company.

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

### Rotation and Retirement of Directors

Under the Code Provision A.4.2., every director should be subject to retirement by rotation at least every three years. Pursuant to bye-law 99 of the bye-laws of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not a multiple of three, the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. Mr. Kun He, Mr. Wanhe Zheng and Mr. Antonio Delfin Gregorio will retire by rotation in the forthcoming annual general meeting (the "AGM"). Mr. Kevin De-Kang Yin shall hold office only from his appointment as independent non-executive Director on 22 November 2017 until the AGM. All of the foregoing Directors, being eligible, will offer themselves for re-election at the AGM.

### Directors' Responsibility

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but be distinguished from, the "Independent Auditor's Report" on pages 39 to 44 of this report which states the reporting responsibilities of the Group's auditors.

**Annual Report and Accounts**

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

**Accounting Policies**

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

**Accounting Records**

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

**Safeguarding Assets**

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Company has also arranged appropriate insurance cover in respect of legal action against the Directors for the year 2017 and onwards.

**Directors' Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code in their securities transactions throughout the year ended 31 December 2017. Directors' interests in the shares of the Company are set out on pages 21 to 22 of this report.

**Remuneration of Directors**

In FY2017, the remuneration of Directors and senior management was determined by the Board with reference to the performance and profitability of the Group as well as remuneration benchmarks from other companies in the retail industry and the prevailing market conditions. Details of the remuneration and emoluments awarded are set out on pages 72 to 73 of this report.

**Board Committees**

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

**Nomination Committee**

The Nomination Committee is chaired by Mr. Alfred Chan Kai Tai, an executive Director and Chairman of the Board, and its other members are two independent non-executive Directors, namely Mr. Antonio Delfin Gregorio and Mr. Kevin De-Kang Yin. Mr. Kevin De-Kang Yin was appointed as member of the Nomination Committee with effect from 22 November 2017, while Mr. Tao Lin resigned as member of the Nomination Committee on the same date.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee is also responsible for the development of the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors when needed.

The Nomination Committee held one meeting during the financial year ended 31 December 2017, at which the structure, size and composition of the Board were considered, the policy for nomination of directors, the nomination procedures and the process and criteria adopted by the nomination committee to select and recommend candidates for directorship during the year were reviewed. Mr. Alfred Chan Kai Tai, Mr. Tao Lin and Mr. Antonio Delfin Gregorio attended the meeting held in 2017. No meeting was held after the appointment of Mr. Kevin De-Kang Yin as a member of the Nomination Committee took effect on 22 November 2017.

**Diversity Policy**

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

**Remuneration Committee**

The Board has established a Remuneration Committee which comprises three Board members. The Remuneration Committee is chaired by Mr. Wanhe Zheng, an independent non-executive Director. The other two members are Mr. Alfred Chan Kai Tai, executive Director and Chairman of the Board, and Mr. Antonio Delfin Gregorio, an independent non- executive Director.

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

The Remuneration Committee held one meeting during the financial year ended 31 December 2017, at which the policy for the remuneration of Directors and senior management of the Company, the terms of the executive's Directors' service contracts, the performance of Directors and the remuneration packages of Directors and senior management of the Company were considered. Mr. Wanhe Zheng, and Mr. Alfred Chan Kai Tai and Mr. Antonio Delfin Gregorio attended the meeting held in 2017.

**Audit Committee**

The Audit Committee consists of Mr. Kevin De-Kang Yin, Mr. Wanhe Zheng and Mr. Antonio Delfin Gregorio, all of whom are independent non-executive Directors. The Audit Committee is chaired by Mr. Kevin De-Kang Yin, who was appointed as chairman of the Audit Committee with effect from 22 November 2017, while Mr. Tao Lin resigned as chairman on the same date. All committee members possess appropriate business and financial experience. The Audit Committee is authorized to obtain external professional advice if it considers necessary.

The primary duties of the Audit Committee mainly include to: (a) monitor and review the preparation of financial statements of the Company; (b) monitor and maintain the relationship with the Company's external auditors; and (c) oversee the Company's financial reporting system, internal control and risk management procedures. With respect to the Audit Committee's review of the Group's results for the financial year ended 31 December 2017, the Audit Committee has discussed with the senior management and the external auditors their respective audit findings, the accounting principles and practices adopted by the Group as well as the internal controls, risk management and financial reporting matters and provided comments.

The Audit Committee held two meetings during the financial year ended 31 December 2017, at which the Company's interim and annual results, internal controls and risk management systems, and the Audit Committee's other duties under the Corporate Governance Code were considered. Mr. Tao Lin, Mr. Wanhe Zheng and Mr. Antonio Delfin Gregorio attended all the meetings held in 2017. No meeting was held after the appointment of Mr. Kevin De-Kang Yin as chairman of the Audit Committee took effect on 22 November 2017.

### Auditors' Remuneration

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

During the year ended 31 December 2017, the fees payable to KPMG in respect of its audit services and review of unaudited interim results were RMB1.6 million and RMB0.5 respectively (2016: RMB1.6 million and RMB0.5 million).

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year ended 31 December 2017.

### Company Secretary

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

In accordance with Rule 3.29 of the Listing Rules, Ms. Wong has taken no less than 15 hours of relevant professional training during the year ended 31 December 2017.

### Internal Controls and Risk Management

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

The Directors confirm that they have reviewed the effectiveness of risk management and internal controls systems of the Company and its subsidiaries in FY2017 and that they consider that such systems are reasonably effective and adequate although they cannot provide absolute assurance that all material risks are appropriately identified, evaluated and managed. The annual review covered all material controls of the Group, including financial, operational, compliance and risk management controls. Whilst the Group's risk management and internal control system, as outlined by the various procedures described below, are designed to identify and manage rather than eliminate risks that could potentially adversely affect the Group's ability to meet its business objectives and to properly record and report financial information, they can only provide reasonable and not absolute assurance against material misstatement or loss.

**Risk management process**

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

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

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

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

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

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

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

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

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

In view of the above procedures and measures taken or to be taken by the Company, the Directors consider that the Company has complied with the code provisions on risk management and internal control for FY2017 and consider that the risk management and internal controls systems of the Company and its subsidiaries are effective.

### Board and Shareholders' Meetings

During 2017, the Board held four board meetings through telephone conference. At each of the Board meetings, Directors could suggest matters for inclusion into the agenda for discussion at the Board meetings. All Directors have access to Board's papers and relevant materials from the Company so that they are able to make informed decisions on matters placed before them. When a Director is unable to attend a meeting, he would be informed of the content and results of the Board meeting.

The number of full Board Committee and Shareholders' meetings attended by each Director during the financial year ended 31 December 2017 are as follows:

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

*Remarks:*

1. *Mr. Tao Lin resigned as an independent non-executive Director, chairman of Audit Committee and member of Nomination Committee with effect from 22 November 2017.*
2. *Mr. Kevin De-Kang Yin was appointed as an independent non-executive Director, chairman of Audit Committee and member of Nomination Committee with effect from 22 November 2017.*

### Continuous Professional Development

Professional and continuous training of directors is essential for the purposes of developing and refreshing their knowledge and skills, which in turn facilitates their contribution to the Board. Pursuant to Code Provision A.6.5., all existing Directors, namely Mr. Alfred Chan Kai Tai, Mr. Anthony Paul Chan, Ms. Jenny Ching Ching Tan, Mr. Kun He, Mr. Wanhe Zheng, Mr. Antonio Delfin Gregorio and Mr. Kevin De-Kang Yin, have attended professional training in December 2017 provided by the Company's external legal advisors, in relation to the risk management and internal control disclosure under the Corporate Governance Code and Report under Appendix 14 of the Listing Rules, regulatory development and other relevant topics.

| | Attended Professional Training |
|---|---|
| **Executive Directors** | |
| Mr. Alfred Chan Kai Tai | ✓ |
| Mr. Anthony Paul Chan | ✓ |
| Ms. Jenny Ching Ching Tan | ✓ |
| Mr. Kun He | ✓ |
| **Independent Non-executive Directors** | |
| Mr. Wanhe Zheng | ✓ |
| Mr. Antonio Delfin Gregorio | ✓ |
| Mr. Kevin De-Kang Yin | ✓ |

## Investor Relations

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

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

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

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

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

### Making Enquiry to the Board

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

Portico International Holdings Limited
Suite 2702, 27/F., Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

Fax: (852) 2790 4815/(852) 2506 0908
Email: irene.wong@portico-intl.com
Attention: Ms. Irene Fung Mei Wong

### Putting Forward Proposals at General Meetings

Shareholders shall deposit a written notice at the Company's principal place of business in Hong Kong at Suite 2702, 27/F., Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details, and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

## Amendments to Constitutional Documents

No change was made in the Company's constitutional documents during the financial year ended 31 December 2017.

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders the annual report together with the audited consolidated financial statements of the Group for FY2017.

### Principal Activities

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

The principal activities and other particulars of the Company's principal subsidiaries are set out in note 13 on page 77 of the consolidated financial statements.

### Results, Dividends and Appropriations

The profits of the Group for the year ended 31 December 2017 and the state of affairs of the Company and the Group are set out in the consolidated financial statements.

The Directors did not recommend the payment of any final dividend for the year ended 31 December 2017. As far as the Company is aware, as at the date of this report, there was no arrangement under which any shareholder has waived or agreed to waive any dividend proposed to be distributed for the year 2017. (2016: Nil)

### Business Review

The business review of the Group for the year ended 31 December 2017, including a fair review of the business and a description of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, are set out in the section headed "Management's Discussion and Analysis" on pages 6 to 10 of this report. A discussion on the Company's environmental policies and performance, an account of the key relationships with the Company's employees, customers and suppliers, and a discussion on the compliance with the relevant laws and regulations that have a significant impact on the Group can be found in the "Environmental, Social and Governance Report" set out on pages 26 to 35 of this report. This discussion forms part of this "Report of the Directors".

### Major Customers & Suppliers

For the year ended 31 December 2017, the Group purchased approximately 17% and 35% of its goods (primarily being finished goods) from its largest supplier and five largest suppliers respectively. The percentages of the five largest customers combined were less than 30% of the Group's total revenue.

None of the Directors, their close associates or any shareholder of the Company (which to the best knowledge of the Directors own more than 5% of the Company's share capital) had any interest at any time in FY2017 in the five largest suppliers of the Group.

### Distributable Reserves

As at 31 December 2017, the aggregate amount of reserves available for distribution to shareholders of the Company was RMB137,835 thousand (2016: RMB154,223 thousand). Details of distributability of reserves are outlined on page 86 of this report.

# REPORT OF THE DIRECTORS

### Financial Summary

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

### Share Capital

Details of the share capital of the Company are set out on page 87 of this report.

### Equity-linked Agreements

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

### Property, plant and equipment

Details of the movements of property, plant and equipment of the Group during the year ended 31 December 2017 are set out on page 75 of this report.

### Directors

The Directors of the Company in FY2017 were:

**Executive Directors**

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

**Independent Non-Executive Directors**

Mr. Tao Lin[1]
Mr. Wanhe Zheng
Mr. Antonio Delfin Gregorio
Mr. Kevin De-Kang Yin[2]

1 *Mr. Tao Lin resigned as an independent non-executive Director of the Company with effect from 22 November 2017*
2 *Mr. Kevin De-Kang Yin was appointed as an independent non-executive Director of the Company with effect from 22 November 2017*

A brief biography information of each Director and senior management of the Company can be found on pages 36 to 38 of this report.

### Directors' Service Contracts

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

### Change in Information of Directors

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

Mr. Tao Lin has resigned as an independent non-executive Director, chairman of the Audit Committee and a member of Nomination Committee of the Company, with effect from 22 November 2017.

Mr. Kevin De-Kang Yin was appointed as an independent non-executive Director, chairman of the Audit Committee and a member of Nomination Committee of the Company, with effect from 22 November 2017.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the interim report of the Company for the six months ended 30 June 2017.

### Permitted Indemnity Provision

Pursuant to the Bye-laws of the Company, the Directors, Managing Directors, alternate Directors, Auditors, Secretary and other officers for the time being of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses incurred by him in the execution and discharge of his duties or in relation thereto. Such provisions were in force during FY2017 and remained in force as of the date of this report.

### Directors' and Chief Executives Interests

As at 31 December 2017, the interests or short positions of each Director or chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code, were as follows:

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

| Name of Directors | Personal Interest | Corporate Interest | Total Interest | Percentage of total issued Shares |
|---|---|---|---|---|
| Mr. Alfred Chan Kai Tai[1] | 400,000(L) | 412,893,389(L) | 413,293,389(L) | 74.54(L) |
| Mr. Anthony Paul Chan | 1,113,500(L) | 0 | 1,113,500(L) | 0.20(L) |
| Ms. Jenny Ching Ching Tan | 0 | 0 | 0 | 0 |
| Mr. Kun He | 1,100,000(L) | 0 | 1,100,000(L) | 0.20(L) |
| Mr. Wanhe Zheng | 0 | 0 | 0 | 0 |
| Mr. Antonio Delfin Gregorio | 0 | 0 | 0 | 0 |
| Mr. Kevin De-Kang Yin | 0 | 0 | 0 | 0 |

*(L)— Long Position*

*Note:*

1. *Mr. Alfred Chan Kai Tai owns 50% of the shareholding interest of Ports International Enterprises Limited ("PIEL"). As at 31 December 2017, PIEL held a long position of 162,705,752 Shares directly. 250,187,637 Shares were owned by CFS International Inc. ("CFS"), a direct subsidiary of PIEL. Mr. Alfred Chan Kai Tai was deemed to be interested in 74.47% of the issued share capital of the Company by virtue of his interests in PIEL pursuant to Part XV of the SFO;*

As at 31 December 2017, other than the holdings disclosed above, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### Substantial Shareholders

The Company has been notified that, as at 31 December 2017, the persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

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

*Notes:*

1. *PIEL is deemed to be interested in the 250,187,637 Shares held by CFS by virtue of PIEL's interest in CFS. Please also see Note 1 under the paragraph headed "Directors and Chief Executives' Interests" on page 21 of this report.*

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

Save as disclosed above, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares of the Company as at 31 December 2017 as recorded in the register required to be kept under section 336 of the SFO.

### Directors' Interest in Transactions, Arrangements and Contracts

There were no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, during FY2017, save as disclosed in the paragraphs below headed "Connected Transactions".

### Directors' Rights to Acquire Shares or Debentures

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

### Controlling Shareholders' Interests in Contracts of Significance

There were no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a controlling shareholder had a material interest, whether directly or indirectly, during FY2017, save as disclosed in the paragraphs below headed "Connected Transactions".

### Management Contracts

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during FY2017.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed or redeemable securities during FY2017.

### Pre-emptive Rights

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

### Connected Transactions

**Continuing Connected Transactions**

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

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

The aggregate annual caps for the maximum aggregate rental receivable under the Lease Agreements for each of the three years ending 31 December 2017, 2018, 2019 and one month ending 31 January 2020 are approximately RMB5.3 million, RMB5.5 million, RMB5.1 million and RMB0.4 million, respectively, which have been determined by reference to the aggregate rentals to be received by Ports Beijing under the transactions contemplated under the Lease Agreements. During FY2017, the rental received amounted to RMB5.1 million.

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

The Group has sold ladies' and men's fashion garments and accessories and other merchandise or products branded with the PORTS INTERNATIONAL and PORTS 1961 brands ("PORTS Products") to PIRC, a wholly-owned subsidiary of the Company's controlling shareholder, CFS, which resells them in Europe and North America. Mr. Alfred Chan Kai Tai, an executive Director, is the ultimate controlling shareholder (as defined in the Listing Rules) of CFS. The Group supplies PORTS Products to PIRC on a contract basis, with each contract specifying the quantity to be sold, the price and the date of delivery (the "Sales Transactions"). On 1 November 2006, the Company and PIRC entered into an agreement for the supply of PORTS Products to PIRC Group and its affiliated companies (the "Master Agreement"). The Master Agreement was subsequently renewed on 1 September 2009, 29 December 2011, 29 December 2014 and 27 December 2017, respectively and shall be expired on 31 December 2020 (the "Renewed Master Agreement"). The annual cap in respect of the aggregate amount of the Sales Transactions under the Renewed Master Agreement for each of the three years ending 31 December 2018, 2019 and 2020 is RMB10.0 million, RMB12.0 million and RMB14.0 million respectively, which have been determined by reference to the previous transaction amounts and anticipated improvement and growth on the European operations, which expect to be benefited from the growing reputation of PORTS 1961 and the optimization of the business cycles of the PORTS Products. During FY2017, the Sales Transactions was amounted to RMB6.0 million (2016: RMB9.5 million).

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

The independent non-executive Directors have also reviewed the above continuing connected transactions of the Company for FY2017 and have confirmed that:

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

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

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

In respect of the connected transactions and continuing connected transactions entered into by the Group in FY2017, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

**Significant Events**

There have been no significant events affecting the Group which have occurred since 31 December 2017.

**Pledging of Shares by Controlling Shareholders**

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

**Corporate Governance**

The "Corporate Governance Report" of the Company is outlined on pages 11 to 18 of this report.

**Auditors**

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

**Public Float**

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

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

29 March 2018

## OVERVIEW

The Group has been committed to a high level of corporate social responsibility. We actively contribute to the community in different aspects and strive to integrate sustainability into our daily operations. As of 31 December 2017, the Group operated 398 retail stores across our operational regions, predominantly located in the PRC.

**Materiality Assessment**

In this report, the Company prioritizes and highlights the key Environmental, Social and Governance ("**ESG**") subject areas, aspects and the key performance indicators that are material in strategic, operation and financial terms. The information disclosed in this report is specific and tailored to our organization, taking into account of our business activities in the wholesale and retail distribution of ladies' and men's fashion apparel and accessories, our stakeholders' views, priorities, values and overall business strategy. In view of our management's opinion, we will adopt the materiality test by focusing and reporting only on our main operation at the headquarter in Xiamen, the PRC, which account for over 90% of the Group's total revenue. The management and staff of our key subsidiary of different functions were involved in the preparation of the ESG report, assisted the Group to review its operations, identified relevant ESG issues, and assessed their materiality to our business as well as to the stakeholders.

**Reporting Framework and Reporting period**

The information published in this ESG report covers the period from 1 January 2017 to 31 December 2017 ("**FY2017**" or the "**Reporting Period**") and is prepared with reference to ESG Reporting Guide as described in Appendix 27 of the Listing Rules. Save as otherwise indicated, the disclosure of this report covers the environmental and social performance within the operational boundaries of the Group, mainly including the business of wholesale and retail distribution of ladies' and men's fashion apparel and accessories and the administrative activities at the headquarter in Xiamen, the PRC.

## I. ENVIRONMENTAL

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

During the Reporting Period, the Group has complied with requirements under the relevant environmental laws and regulations in the PRC and has continuously monitored the existing policies on the handling of hazardous and non-hazardous waste. The Group has also adopted effective measures to promote efficient use of resources, energy saving and waste reduction.

**A1: Emissions**

*Pollutant Emissions*

The types of vehicles used by the Group include small cars, mid-size cars and trucks. The coordination of the using of vehicles, either for administrative purposes or logistics purpose, are centralized by relevant department. The Company reasonably plans to evaluate the loading capacity of the trucks and pre-planned driving routes prior to the delivery of our products to reduce emissions. During the Reporting Period, the emission of pollutant gas of the Group was as follows:

| | **2017** |
|---|---|
| Gasoline consumption (litres) | 37,383.41 |
| Sulfur oxide (SOx) emissions (gram/litres) | 588.31 |

*Notes:*

1. *The sulfur oxide (SOx) emissions generated by the Group are mainly due to the use of vehicles for operational needs and calculated based on the emission factor from EMFAC-HK Vehicle Emission Calculation Model;*

2. *The nitrogen oxides and particulate matter emissions data were not available, due to the administrative constraints to collect the Group's mileage information for the purpose of calculating the above emissions.*

*Greenhouse Gas Emissions*

During the Reporting Period, the data on the Group's direct and indirect greenhouse gas emissions from its production and operations are as follows:

| Greenhouse gas ("GHG") emissions data | **2017** |
|---|---|
| **Total GHG emissions (Scopes 1, 2, 3) (tons)** | **7,746.46** |
| Direct GHG emissions (Scope 1) (tons) | |
| Including: Gasoline (tons) | 8.05 |
| Diesel (tons) | 3.00 |
| Natural gas (tons) | 75.30 |
| Indirect GHG emissions (Scope 2) (tons) | |
| Including: Electricity (tons) | 7,674.23 |
| Indirect GHG emissions (Scope 3) (tons) | |
| Including: Paper consumption (tons) | 3.88 |
| **Total GHG emissions per employee (tons per employee)** | **1.73** |
| **Total GHG emissions per floor area (tons per square metre)** | **0.07** |

*Notes:*

1. *The direct GHG emissions (Scope 1) are mainly gasoline and diesel consumed for official business vehicles of the Group and the natural gas used by the Group for operational needs.*

2. *The indirect GHG emission (Scope 2) are from purchased electricity for procurement needs of the Group.*

3. *The indirect GHG emission (Scope 3) refers to office paper consumption of the Group, excluding packaging paper.*

4. *The Group's GHG emissions data is presented in carbon dioxide equivalent and is based on the "2016 Baseline Emission Factors for Regional Power Grids in China" (2016中國區域電網基準線排放因子編制説明) issued by the National Development and Reform Commission of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" issued by the Intergovernmental Panel on Climate Change (IPCC).*

The Company has adopted several energy-saving measures to reduce the emissions, such as:

- maintaining office temperatures at not less than 26 degrees Celsius to minimize energy use;
- turning off half of the lights in the office whenever there is sufficient daylight, and turning off the lights completely in the office for one hour during lunch break;

- highly encouraging duplex printing and copying as well as paper recycling across the entire organization;
- regularly reviewing our packaging reuse, waste paper, and fabric scrap recycling procedures to minimize the potential harmful effects caused to the environment;
- Using FSC-certified paper for the bulk-printing of the Company's annual report to further support environmental protection.

*Waste management*

The hazardous waste refers to the waste listed in the National Directory of Hazardous Waste 《國家危險廢棄物名錄》, identified according to the standards and methods for hazardous waste stipulated by the PRC government authorities or those that are designated to be of hazardous nature by clients. Non-hazardous waste refers to solid wastes such as rags and cardboards. Controlling and reducing emissions of both hazardous and non-hazardous waste have become a matter of increasing urgency both globally and in our fashion operations.

In FY2017, our operating subsidiaries in the PRC have engaged waste disposal contractors to handle hazardous waste for incineration treatment and non-hazardous waste to undergo recycling processes and have achieved satisfactory results. During the Reporting Period, the Group had generated hazardous liquid wastes of 0.77 tons (an intensity of 0.0002 tons/employee) and non-hazardous solid wastes of 91.58 tons (an intensity of 0.2048 tons/employee) respectively.

**A2: Use of Resources**

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

*Energy Consumption*

In FY2017, energy consumed by the Group includes, purchased electricity (excluding those that the Group was unable to control directly), natural gas and the fuel consumed by vehicles for operational needs, and are shown as follows:

| **Energy consumption data** | **2017** |
|---|---|
| Electricity consumption (kWh) | 9,490,762 |
| Electricity consumption per floor area (kWh/square meter) | 82.06 |
| Electricity consumption per employee (kWh/employee) | 2,122.74 |
| Natural gas consumption (cubic meters) | 356,202 |
| Natural gas per floor area (cubic meters per square meter) | 3.08 |
| Natural gas per employee (cubic meters/employee) | 79.67 |
| Vehicles fuel consumption (litres) | 37,383 |
| Vehicles fuel consumption per employee (litres/employee) | 8.36 |

*Note:*

1. *The electricity and natural gas consumption per floor area and the water consumption per floor area (per below) are calculated based on our total floor area of 115,662.28m2 at our Xiamen office in the PRC.*

*Water Management*

The Group consumes water mainly for the domestic production and greenbelt use. During the Reporting Period, the total running water consumption data of the Group is as follows:

| | **2017** |
|---|---:|
| Running water consumption (tons) | 81,594 |
| Running water consumption per employee (tons/employee) | 18.25 |

The Company has implemented a number of water-saving measures, such as water recycling, promotion of water preservation at water sources by encouraging employees to save water and perform regular inspection.

*Use of packaging materials*

The Group uses a mixed types of packaging materials which include carton boxes, plastic and paper bags and all kinds of shopping bags, packaging foams, and bubble films, etc. The Group uses different packaging materials for different products, on the basis that products safety can be ensured, so as to avoid the wastage of resources caused by over-packaging.

Packaging materials are measured in terms of types and quantity, so weight of packaging materials is not available. In FY2017, the packaging materials consumed by the Company was approximately 8,033,515 pieces with an intensity of 10.15 pieces of packaging materials used per finished products of clothing per unit of 791,282 pieces. The Group recycles packaging materials through professional recycling firms.

**A3: Environmental and Natural Resources**

The main impact of the Group's operations on the environment is the use of energy (electricity, gasoline, diesel fuel, and natural gas). The Group has reduced its impact on the environment by decreasing energy consumption and switching to the use of more environmental-friendly fuel sources, such as by using gasoline-powered vehicles instead of diesel-powered vehicles to reduce pollutant emissions. The Group also uses an online office automation system to improve its administrative functions, such as using an online platform to publish the Group's notices, policies and regulations to share information, which not only improves work efficiency but also significant conserves energy and is more environmental-friendly.

The Group aims for sustainable development by constantly monitoring the environmental impact of its operations and implementing appropriate measures to minimize harm to the environment, while at the same time integrating the concepts of conserving natural resources and reducing waste into the corporate culture.

## II. WORKPLACE QUALITY

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

**B1: Employment**

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

As at 31 December 2017, in terms of materiality, the Company had a total workforce of approximately 4,471 employees (2016: 4,347) based mainly in the PRC, which are divided into the following categories:

- *By Gender*

| | **2017** | 2016 |
|---|---|---|
| Male | **921** | 946 |
| Female | **3,550** | 3,401 |

- *By Age Groups*

| | **2017** | 2016 |
|---|---|---|
| 16–20 | **24** | 60 |
| 21–30 | **1,311** | 1,606 |
| 31–40 | **1,867** | 1,640 |
| 41–50 | **1,085** | 917 |
| Over 50 | **184** | 124 |

- *By Employment type*

| | **2017** | 2016 |
|---|---|---|
| Full-time or contract staff | **4,456** | 4,345 |
| Part-time staff | **15** | 2 |

- *Employee turnover rate by gender*

| Gender | Number of new joiners 2017 | 2016 |
|---|---|---|
| Male | **302** | 271 |
| Female | **1,751** | 1,629 |
| Total | **2,053** | 1,900 |

| Gender | Number of leavers 2017 | 2016 |
|---|---|---|
| Male | **315** | 331 |
| Female | **1,614** | 1,552 |
| Total | **1,929** | 1,883 |
| **Employee turnover rate^** | **44.4%** | 43.5% |

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

**B2: Health and Safety**

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

During FY2017, the Group has implemented various measures with the aim of providing a safe, healthy and respectful workplace among our offices and production facilities, as reported below:

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

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

- the Group pay close attention to the health of its employees and their family members and provide assistant to them by setting up "Ke Xiude Charity Foundation ("KXC Foundation"). The KXC Foundation was established by the Company in 2010, and continued to provide financial and other relevant support to our employees that suffer from serious diseases and/or those experience financial difficulties within their family such as education funding. During 2017, KXC Foundation has sponsored our employees a total of RMB 77,700. The support from KXC Foundation has been highly valuable to and appreciated by our employees and the Company.

**B3. Development and Training**

Our Group has a clear vision and strategy for long-term business sustainability. The focus is on the building of the employees' competencies, which ultimately benefits and aligns with the development of the Company. Below is a brief recap of what the Company has done in this area during FY2017:

- The Company provided 14 in-house learning programs relating to new employee induction training, safety production knowledge training as well as sales and services skills training. Over 2,000 employees participated those trainings in 2017, with an average of over two training hours per staff. The percentage of employees trained by employee category are as follows:

| | No. of employees trained | Total number of employees | % of employees trained |
|---|---|---|---|
| Top management | 75 | 167 | 44.91% |
| Senior Management | 104 | 530 | 19.62% |
| General staff | 1,926 | 3,774 | 51.03% |
| Total | 2,105 | 4,471 | 47.08% |

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

**B4. Labour Standard**

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

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

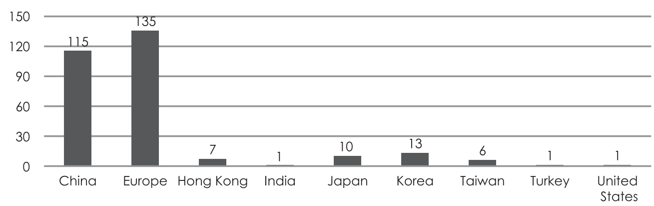
## III. OPERATING PRACTICES

### B5. Supply Chain Management and Our Partnership

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

As at 31 December 2017, a total of 289 suppliers were spread among the below geographical regions and among which, 105 of them were first engaged in FY2017.

**NUMBER OF SUPPLIERS (BY GEOGRAPHICAL REGIONS) AS AT 31 DEC 2017**




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

We adopt strict criteria and policy in connection with the screening and engagement of new suppliers and undergo a stringent due diligence process by conducting pre-qualification and factory inspection. The Group maintains ongoing interactions with suppliers with regard to industry trends and market risks and performs assessments of the supply chain to ensure that it is up to standard. For instance, we have requested potential suppliers to provide united business license (統一營業執照) for pre-qualification screening purposes. Further, we have conducted inspection checks where necessary against our suppliers to ensure their compliance with those principles and standards as adopted by our Group. Through a stringent pre-engagement screening and ongoing interactions, the Group is able to establish a solid supplier management practice, which minimizes the supply chain risk and enhances the efficiency of our supply chain management.

### B6. Product Responsibility

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

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

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

- we commit to sell 100% authentic products at our official stores, official website, Lynx flagship store and Jingdong official website;
- we guarantee that all goods purchased through our physical and online stores that meet our return policy are entitled to our seven days return services;
- our products sold or shipped that are subject to recall for safety and health reasons are promptly returned to the production line for secondary processing to ensure compliance with relevant requirements on specifications for national textile products. The whole process is specifically handled by a dedicated team within our retail operations; and
- we regularly monitor and protect the intellectual property rights, such as the use of trademarks attached to our products, across our global distribution network.

**B7. Anti-corruption**

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

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

During FY2017, there was no reported material breaches of or non-compliance with relevant laws and regulations, including provisions on anti-corruption, anti-bribery and conflict of interest, gift policy, data confidentiality and security and fund management policy, that have a significant impact on the Group.

## IV. COMMUNITY CARE

**(a) Music Peers For Love**

On 12 October 2017, we jointly organized with the Shanghai Youth Development Centre a charity event called "Music Peers For Love" at our flagship store at Shanghai Nanjing West Road, where we were pleased to invite the leading Chinese rock band "Overload" and its band singer Gao Qi to participate in showing the beauty of poetry from the Song Dynasty to primary school children from Chuansha town.

Following the official kick-start of "Music Peers For Love", we have initiated a campaign in Shanghai with four schools selected from the Youth Development Centre for a period of two months, with the objective of letting more children to enjoy poetry from the Song Dynasty and the charms of the Chinese culture.

**(b) Charity donation**

We have donated our PORTS clothing and apparels to various charity campaigns and events which we support, for example, we sponsored the price for life auction for the Gala of Hong Kong Dog Rescue held at Aberdeen Marina Club in Hong Kong in September 2017.

**(c) Sponsorship program**

As an important member in the fashion apparel community, we are very supportive of the grooming of future elites and professionals for the continuing development of the industry. In this connection, we have provided a sponsorship to selected candidates and subsidize their tuition fees in the Master of Arts fashion course at UAL constituent College, Central Saint Martins, which is widely recognized as the breeding ground for fashion designers and practitioners in the industry.

# DIRECTORS AND SENIOR MANAGEMENT

### Executive Directors

**Alfred Chan Kai Tai**, aged 70, is the Chairman, executive Director and authorized representative of the Company, and one of the founders of the Group. He is also the chairman of the Nomination Committee and member of the Remuneration Committee. Mr. Alfred Chan holds directorships in certain subsidiaries of the Company, including Ports Asia Holdings Limited, Ports International Marketing Limited, Smythe Trading Company Limited, Ports Asia Holding (Hong Kong) Limited, Ports Retail (H.K.) Limited, Ports 1961 Macau Limited, Portico Strategic Limited, Portico Investments HK Limited, Ever Fit Assets Management Limited, Cpax Limited (世紀寶姿(廈門)實業有限公司) and Ports Fashion (Xiamen) Ltd. (黛美服飾(廈門)有限公司). Mr. Alfred Chan also holds directorships in substantial shareholders of the Company within the meaning of Part XV of the SFO and certain subsidiaries of the Company. Mr. Alfred Chan has over 30 years' experience in the garment and fashion industry in North America and Asia. He was named as one of the 200 top chief executive officers in Canada by the Financial Post of Canada in 1992. He is responsible for the overall management and operations of the Group. Mr. Alfred Chan graduated from McGill University in Canada with a Bachelor of Science degree in physics in 1970 and a master's degree in electrical engineering in 1972. He is the younger brother of Mr. Edward Tan Han Kiat, the substantial shareholder of the Company; the father of Mr. Anthony P. Chan, the chief executive officer and executive Director of the Company; and the uncle of Ms. Jenny Ching Ching Tan, the president and chief operating officer of the Company.

**Anthony Paul Chan**, aged 38, is the chief executive officer and executive Director of the Company. Mr. Anthony P. Chan has over 15 years of experience in corporate strategy, operations, private investments and corporate finance. He was an executive vice president of PCD Stores (Group) Limited which was delisted from the main board of the Stock Exchange in December 2013 and the chairman of Beijing Scitech Holdings Limited and its subsidiaries ("Beijing Scitech Group"), a private family real estate development and investment company based in Beijing. Mr. Anthony P. Chan also held prior positions at Bain & Company, the Government of Singapore Investment Corporation and Credit Suisse First Boston. Mr. Anthony P. Chan obtained a Bachelor Degree in Government and Economics, magna cum laude with distinction in all subjects, from Cornell University in 2001 and received a Master of Business Administration from University of Pennsylvania in 2006. Mr. Anthony P. Chan is the son of Mr. Alfred Chan Kai Tai, the Chairman and executive Director of the Company; the nephew of Mr. Edward Tan Han Kiat, the substantial shareholder of the Company; and the cousin of Ms. Jenny Ching Ching Tan, the president and chief operating officer of the Company.

**Jenny Ching Ching Tan**, aged 47, is the president, chief operating officer, executive Director and authorized representative of the Company. Ms. Jenny Tan also holds directorships in certain subsidiaries of the Company, including Cpax Ltd. (世紀寶姿(廈門)實業有限公司), and Ports 1961 USA Inc. Ms. Jenny Tan has over 15 years of experience in marketing and retail and she was the general manager of operation in PCD Xiamen, the subsidiary department store chain in Xiamen of PCD Stores (Group) Limited, which was delisted from the main board of the Stock Exchange in December 2013. She was also the publisher of Rouge Media, a luxury fashion magazine. Ms. Jenny Tan holds the certification of the American Institute of Certified Public Accountants. She obtained a Bachelor Degree in Commerce from University of Toronto in 1993. Ms. Jenny Tan is the daughter of Mr. Edward Tan Han Kiat, substantial shareholder of the Company; the niece of Mr. Alfred Chan Kai Tai, the Chairman and executive Director of the Company; and the cousin of Mr. Anthony P. Chan, the chief executive officer and executive Director of the Company.

**Kun He**, aged 47, is the financial controller of the Group and an executive Director of the Company. Mr. He also holds directorship in one of the subsidiaries of the Company, Xiamen Unicorn Network Technology Company Limited (廈門優尼康網路科技有限公司). He is responsible for budget control and financial reporting of the Group. Mr. He joined the Group in 1992. He graduated from Xiamen University with a Professional Accounting degree in 1992 and a Master of Business Administration degree in 2004.

### Independent Non-Executive Directors

**Wanhe Zheng**, aged 65, is the independent non-executive Director and the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. Mr. Zheng joined the Group in August 2013. He is a senior economist, who was graduated from the Beijing Institute of Economics in 1982. Mr. Zheng is currently the honorary Chairman of Wangfujing Group Co., Ltd. (王府井集團股份有限公司, 600859.SH) (the "Wangfujing Group"), formerly known as Beijing Wangfujing Department Store (Group) Co., Ltd. (the "Wangfujing Department Store"), a company listed on the Shanghai Stock Exchange. Prior to the above appointments, Mr. Zheng was the Vice-General Manager for Beijing City Department Store in 1984, and began his career at Wangfujing Department Store as Vice-President and General Manager from 1993. He had then been appointed as President and General Manager of Wangfujing Department Store since September 2003, until he resigned from the board of Wangfujing Department Store and Beijing Wangfujing International Commercial Development Co. Ltd (北京王府井國際商業發展有限公司), respectively in June 2013.

**Antonio Delfin Gregorio**, aged 54, is the independent non-executive Director and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Gregorio joined the Group in August 2013. He is currently working as a design consultant in the fashion design industry, developing creative concepts for his clients since 2009. He is also an entrepreneur and freelance photographer. Prior to being an entrepreneur and photographer, Mr. Gregorio was the co-founder and President of G.H. Interiors Incorporated from 1993 to 2009. He was also the Designer for Britches (Menswear Collection) and Head Designer for Alfred Sung Design (Alfred Collection) from 1990 to 1992 and from 1992 to 1993, respectively. Mr. Gregorio completed his fashion design and merchandizing program at Ryerson University in Toronto, and he has extensive knowledge of the fashion and design industry in North America and Europe.

**Kevin De-Kang Yin**, aged 42, is the independent non-executive Director of the Company, the chairman of the Audit Committee and member of Nomination Committee of the Company. Mr. Yin is currently the managing Director, partner and investment committee member of GSR United Capital, a venture capital firm based in the PRC, as well as an affiliated partner with GSR Ventures. Since joining GSR Ventures and GSR United Capital in 2008 and 2009 respectively, Mr. Yin has been serving on the board of directors of portfolio companies that GSR United Capital or GSR Ventures have invested in, and has been involving in reviewing internal controls, preparing, reviewing and analysing audited financial statements and performing financial planning for those portfolio companies. Mr. Yin currently serves on the board of Directors of eight portfolio companies invested by GSR United Capital or GSR Ventures. Mr. Yin has over 20 years of international experience in technology development, marketing, sales, corporate finance, venture capital and private equity investments. Mr. Yin previously held positions at Nortel Networks and Grand River Capital Management. Mr. Yin graduated from the University of Toronto with Bachelor of Applied Science and Master of Engineering degrees in Mechanical Engineering in 1997 and 1999 respectively, and obtained a Master of Business Administration degree from the Massachusetts Institute of Technology in 2003.

### Senior Management

**Michelle Chen**, aged 49, is the executive vice president of the Group. Ms. Chen also holds directorship in certain of the subsidiaries of the Company, including Cpax Ltd. (世紀寶姿(廈門)實業有限公司) and Xiamen Unicorn Network Technology Company Limited (廈門優尼康網路科技有限公司). Ms. Chen is all-rounder and responsible for the major activities of the retail business of the Group, including retail, marketing, customer relationship management, purchasing, product development, quality assurance, merchandise distribution, logistics, Armani, Versace, OEM, uniform and customization, production management, information technology and administration. Ms. Chen first joined the Group in 1997 and left in 2004 before rejoining the Group in 2006. She graduated from Xiamen University, majoring in international journalism in 1991, and graduated from the Paris ESSEC Business School Luxury Brand Management Program with a Master of Business Administration degree in 2005.

**Natasa Cagalj**, aged 48, is the creative director for Ports 1961 Womenswear. Ms. Cagalj joined the Group in 2014. Prior to joining the Group, Ms. Cagalj was the Head of Design at Stella McCartney in London. In 2001, Ms. Cagalj left Cerruti Arte in Paris to join Lanvin as designer. She graduated with distinction from the Central Saint Martins MA program in 1997.

**Milan Vukmirovic**, aged 48, is the creative director for Ports 1961 Menswear. Mr. Vukmirovic joined the Group in 2014. He was the co-founder of Colette Store in 1997. In 2000, Mr. Vukmirovic became design director for Gucci group, then moved to Jil Sander as creative director. In 2005, internationally acclaimed menswear magazine L'Officiel Hommes enlisted him as their editor-in-chief and in 2007 he joined Trussardi 1911 as their creative director. Mr. Vukmirovic is now editor-in-chief and founder of Fashion for Men bookazine.

**Irene Fung Mei Wong**, aged 65, is the company secretary of the Company. Ms. Wong joined the Group in September 2003. Ms. Wong is an associate member of the Institute of Chartered Secretaries and Administrators, a fellow member of the Association of Chartered Certified Accountants (UK) and a member of the Hong Kong Institute of Certified Public Accountants. She is also a practicing certified public accountant in Hong Kong and has been practicing accounting for over 20 years.

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

**Opinion**

We have audited the consolidated financial statements of Portico International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 45 to 102, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

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

**Key audit matters** *(continued)*

***Revenue recognition***

*Refer to note 3 to the consolidated financial statements and the accounting policies on page 62.*

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

**Key audit matters** *(continued)*

***Valuation of inventories***

*Refer to note 14 to the consolidated financial statements and the accounting policies on page 58.*

| The Key Audit Matter | How the matter was addressed in our audit |
| --- | --- |
| Sales of inventories in the fashion industry can be volatile with consumer demand changing according to current fashion trends.<br><br>The Group typically does not dispose of off-season inventories but sells off-season inventories at a markdown from the original price through outlets and other channels to maintain the strength of the brand and make room for new season inventories in its stores. Accordingly, there is a risk that actual future selling prices of inventories may fall below their cost. Inventories are carried in the consolidated financial statements at the lower of cost and net realisable value. The estimation of net realisable value of inventories in the fashion industry involves management judgement due to the uncertainties of consumer demand.<br><br>We identified the valuation of inventories as a key audit matter because of the significant judgement exercised by management in determining the appropriate levels of provisions for inventories which involves predicting the amounts of inventories which are unlikely to be sold at current prices and the markdowns necessary to sell such off-season inventories on a discounted basis in the foreseeable future. Both of these factors can be inherently uncertain and may involve management bias. | Our audit procedures to assess the valuation of inventories included the following:<br><br>• assessing whether the provisions for inventories at the reporting date were calculated in a manner consistent with the Group's inventory provision policy by recalculating the provisions for inventories based on the percentages and other parameters in the Group's inventory provision policy and assessing the Group's inventory provision policy with reference to the requirements of the prevailing accounting standards;<br><br>• assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing bracket by utilising our internal information technology risk management specialists to assess the logic and controls over the inputs in the relevant computer system;<br><br>• assessing the Group's inventory provision policy by comparing management's forecasts of the amounts of inventories which are unlikely to be sold in the foreseeable future at current prices and the corresponding forecast markdowns with historical sales amounts and markdown data for the current and prior years;<br><br>• comparing, on a sample basis, the carrying amounts of the Group's inventories as at 31 December 2017 with selling prices (less costs of manufacturing and costs necessary to make the sale) achieved after 31 December 2017; and<br><br>• enquiring of the Chief Executive Officer and the senior management team about any expected changes in plans for markdowns or any disposals of off-season inventories and comparing their representations with actual sales transactions subsequent to the financial year end. |

**Key audit matters** *(continued)*

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

*Refer to note 12 to the consolidated financial statements and the accounting policies on pages 53 to 54.*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| During 2017, the fashion market competition in Mainland China was fierce, particularly from the rapid growth of online retail, all of which have negatively impacted the forecast sales for certain of the Group's stores. Certain stores of the Group have sustained operating losses or net cash outflows.<br><br>The Group invests a significant amount of capital in its retail store portfolio through leasehold improvements. There is a risk that the value of leasehold improvements in certain of the Group's stores may not be recoverable in full through the future cash flows to be generated from the trading operations of these stores or from disposal of the related assets if the profitability expectations for the related stores are adversely impacted by trading and other conditions that were not anticipated in the initial business case. Management is required to exercise significant judgement in determining if indicators of potential impairment of retail stores exist.<br><br>Where indicators of potential impairment were identified, management determined the recoverable amounts of the relevant assets. The recoverable amount of property, plant and equipment is determined by management at the greater of the value in use and the fair value less costs of disposal of these assets. In order to assess the value in use of under-performing stores, management prepared discounted cash flow forecasts which involved the exercise of significant management judgement, particularly in estimating future revenue, future margins and future cost growth rates.<br><br>We identified the valuation of property, plant and equipment of the Group's stores as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement in forecasting future cash flows for potentially impaired stores, which can be inherently uncertain and could be subject to management bias. | Our audit procedures to assess the valuation of property, plant and equipment of the Group's stores included the following:<br><br>• evaluating the methodology applied by management in its preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards;<br><br>• assessing and challenging the Group's impairment assessment model, which included assessing the impairment indicators identified by management, evaluating the discounted cash flow forecasts on a store-by-store basis and considering whether these supported the carrying value of the relevant assets, as well as whether this indicated that a reversal of a past impairment was required;<br><br>• comparing the most significant inputs used in the discounted cash flow forecasts, including future revenue, future margins and future cost growth rates, with the historical performance of these stores, management's forecasts, industry reports and any agreements signed subsequent to the reporting date, which included, where relevant, any changes to the terms of leases for store premises;<br><br>• assessing the discount rate used in the cash flow forecasts by benchmarking against those of other similar retailers;<br><br>• performing a sensitivity analysis of the discount rate, sales growth rates and cost inflation rates and considering the resulting impact on the impairment charge for the year (if any) and whether there were any indicators of management bias; and<br><br>• considering the disclosures in the consolidated financial statements in respect of impairment testing of property, plant and equipment of the Group's stores, including the key assumptions and sensitivities to changes in such assumptions, with reference to the requirements of the prevailing accounting standards. |

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

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

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

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

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

**Responsibilities of the directors for the consolidated financial statements**

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

29 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*for the year ended 31 December 2017*
*(Expressed in Renminbi)*

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Revenue** | 3 | **2,243,045** | 1,846,179 |
| Cost of sales | | **(503,206)** | (399,298) |
| **Gross profit** | | **1,739,839** | 1,446,881 |
| Other income | 4 | **26,727** | 9,177 |
| Selling and distribution expenses | | **(1,210,374)** | (1,044,846) |
| Administrative expenses | | **(126,924)** | (123,398) |
| Other operating expenses | 5 | **(268,423)** | (159,952) |
| **Profit from operations** | | **160,845** | 127,862 |
| Finance income | | **12,286** | 7,857 |
| Finance costs | | **(6,472)** | (9,536) |
| **Net finance income/(costs)** | 6(a) | **5,814** | (1,679) |
| **Profit before taxation** | 6 | **166,659** | 126,183 |
| Income tax | 7(a) | **(105,499)** | (82,074) |
| **Profit for the year** | | **61,160** | 44,109 |
| **Other comprehensive income for the year (after tax and reclassification adjustments):** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | **5,388** | 5,138 |
| **Total comprehensive income for the year** | | **66,548** | 49,247 |
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | | **56,885** | 40,265 |
| Non-controlling interests | | **4,275** | 3,844 |
| **Profit for the year** | | **61,160** | 44,109 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **62,366** | 45,004 |
| Non-controlling interests | | **4,182** | 4,243 |
| **Total comprehensive income for the year** | | **66,548** | 49,247 |
| **Earnings per share (RMB cents)** | | | |
| Basic | 10(a) | **10** | 7 |
| Diluted | 10(b) | **10** | 7 |

*The notes on pages 50 to 102 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(b).*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*at 31 December 2017*
*(Expressed in Renminbi)*

| | Note | **At 31 December 2017 RMB'000** | At 31 December 2016 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Lease prepayments | *11* | **21,755** | 22,251 |
| Investment property | *12* | **12,855** | — |
| Other property, plant and equipment | *12* | **404,508** | 451,630 |
| Intangible assets | | **2,202** | 2,447 |
| Interest in an associate | | **3,255** | 3,121 |
| Deferred tax assets | *23(b)* | **223,177** | 198,956 |
| | | **667,752** | 678,405 |
| **Current assets** | | | |
| Inventories | *14* | **782,633** | 800,282 |
| Trade and other receivables | *15* | **599,886** | 445,592 |
| Other financial assets | *16* | **164,246** | 1,661 |
| Pledged deposits | *17* | **54,350** | 59,487 |
| Fixed deposits with banks with original maturity over three months | | **413,625** | 275,461 |
| Cash and cash equivalents | *18* | **246,516** | 374,472 |
| | | **2,261,256** | 1,956,955 |
| **Current liabilities** | | | |
| Trade and other payables | *19* | **599,096** | 404,377 |
| Bank loans | *21* | **1,688** | 1,688 |
| Current taxation | *23(a)* | **50,171** | 41,210 |
| | | **650,955** | 447,275 |
| **Net current assets** | | **1,610,301** | 1,509,680 |
| **Total assets less current liabilities** | | **2,278,053** | 2,188,085 |

| | Note | At 31 December 2017 RMB'000 | At 31 December 2016 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Trade and other payables | 19 | **131,818** | 115,330 |
| Bank loans | 21 | **2,110** | 3,798 |
| Deferred tax liabilities | 23(b) | **13,609** | 6,289 |
| | | **147,537** | 125,417 |
| **Net assets** | | **2,130,516** | 2,062,668 |
| **Capital and reserves** | | | |
| Share capital | 24(c) | **1,474** | 1,474 |
| Reserves | | **2,097,981** | 2,036,882 |
| **Total equity attributable to equity shareholders of the Company** | | **2,099,455** | 2,038,356 |
| **Non-controlling interests** | | **31,061** | 24,312 |
| **Total equity** | | **2,130,516** | 2,062,668 |

Approved and authorised for issue by the board of directors on 29 March 2018.

**Alfred Chan Kai Tai**
*Chairman and Executive Director*

**Anthony P. Chan**
*Chief Executive Officer and Executive Director*

The notes on pages 50 to 102 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2017*
*(Expressed in Renminbi)*

| | Attributable to equity shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | Share premium | General reserve fund | Exchange reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 1 January 2016** | 1,474 | 61,419 | 443,348 | 61,012 | (1,033) | 1,427,132 | 1,993,352 | 20,069 | 2,013,421 |
| **Changes in equity for 2016** | | | | | | | | | |
| Profit for the year | — | — | — | — | — | 40,265 | 40,265 | 3,844 | 44,109 |
| Other comprehensive income | — | — | — | — | 4,739 | — | 4,739 | 399 | 5,138 |
| Total comprehensive income | — | — | — | — | 4,739 | 40,265 | 45,004 | 4,243 | 49,247 |
| Liquidation of a subsidiary | — | — | — | (4,474) | — | 4,474 | — | — | — |
| Appropriation to statutory reserve | — | — | — | 498 | — | (498) | — | — | — |
| **Balance at 31 December 2016 and 1 January 2017** | 1,474 | 61,419 | 443,348 | 57,036 | 3,706 | 1,471,373 | 2,038,356 | 24,312 | 2,062,668 |
| **Changes in equity for 2017** | | | | | | | | | |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **56,885** | **56,885** | **4,275** | **61,160** |
| Other comprehensive income | **—** | **—** | **—** | **—** | **5,481** | **—** | **5,481** | **(93)** | **5,388** |
| Total comprehensive income | **—** | **—** | **—** | **—** | **5,481** | **56,885** | **62,366** | **4,182** | **66,548** |
| Changes in interests in a subsidiary | **—** | **—** | **—** | **—** | **—** | **(1,267)** | **(1,267)** | **1,267** | **—** |
| Capital injection from non-controlling interests | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **1,300** | **1,300** |
| Appropriation to statutory reserve | **—** | **—** | **—** | **1,292** | **—** | **(1,292)** | **—** | **—** | **—** |
| **Balance at 31 December 2017** | **1,474** | **61,419** | **443,348** | **58,328** | **9,187** | **1,525,699** | **2,099,455** | **31,061** | **2,130,516** |

The notes on pages 50 to 102 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

*for the year ended 31 December 2017*
*(Expressed in Renminbi)*

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 18(b) | **363,228** | 194,422 |
| Income tax paid | 23(a) | **(113,439)** | (74,569) |
| **Net cash generated from operating activities** | | **249,789** | 119,853 |
| **Investing activities** | | | |
| Payment for the purchase of property, plant and equipment | | **(98,608)** | (91,557) |
| Proceeds from disposal of property, plant and equipment | | **3,922** | 56 |
| Payment for the purchase of intangible assets | | **—** | (2,447) |
| Payment for acquisition of financial assets at fair value through profit or loss | | **(242,000)** | — |
| Proceeds from sale of financial assets at fair value through profit or loss | | **82,826** | — |
| Payment for the purchase of trading securities | | **—** | (1,047) |
| Proceeds from sale of trading securities | | **—** | 646 |
| Placement of fixed deposits at banks with original maturity over three months | | **(357,184)** | (587,834) |
| Withdrawn of fixed deposits at banks with original maturity over three months | | **219,020** | 664,145 |
| Placement of pledged deposits | | **(38,279)** | (53,074) |
| Withdrawn of pledged deposits | | **43,416** | 104,515 |
| Interest received | | **11,269** | 11,138 |
| Other cash flows arising from investing activities | | **933** | 47 |
| **Net cash (used in)/generated from investing activities** | | **(374,685)** | 44,588 |
| **Financing activities** | | | |
| Capital contribution by non-controlling interests of a subsidiary | | **1,300** | — |
| Repayment of bank loans | 18(c) | **(1,688)** | (301,044) |
| Interest paid | | **(269)** | (2,687) |
| **Net cash used in financing activities** | | **(657)** | (303,731) |
| **Net decrease in cash and cash equivalents** | | **(125,553)** | (139,290) |
| **Cash and cash equivalents at 1 January** | 18(a) | **374,472** | 507,958 |
| **Effect of foreign exchange rate changes** | | **(2,403)** | 5,804 |
| **Cash and cash equivalents at 31 December** | 18(a) | **246,516** | 374,472 |

The notes on pages 50 to 102 form part of these financial statements.

## 1 Significant accounting policies

### (a) Statement of compliance

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

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

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as trading securities or as financial assets at fair value through profit or loss (see note 1(f)); and

— derivative financial instruments (see note 1(g)).

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

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

**1 Significant accounting policies** *(continued)*

***(b) Basis of preparation of the financial statements*** *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

***(c) Changes in accounting policies***

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 18(c) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

***(d) Subsidiaries and non-controlling interests***

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

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

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

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

**1 Significant accounting policies** *(continued)*

***(d) Subsidiaries and non-controlling interests*** *(continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no gain or loss is recognised.

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

***(e) Associates***

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

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

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

***(f) Other investments in debt and equity securities***

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

**1 Significant accounting policies** *(continued)*

***(f) Other investments in debt and equity securities*** *(continued)*

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

Financial assets at fair value through profit or loss represented investments in wealth management products and trust products. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. Investment income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(u)(iv).

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

***(g) Derivative financial instruments***

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

***(h) Investment property***

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(l)(ii)). Depreciation is calculated to write off the cost of investment properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives of 20 years. Both the useful life of an asset and its residual value, if any, are reviewed annually.

***(i) Other property, plant and equipment***

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

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

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

**1 Significant accounting policies** *(continued)*

***(i) Other property, plant and equipment*** *(continued)*

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

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

— Machinery 10 years

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

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

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

***(j) Intangible assets***

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

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

— patents 10 years

Both the period and method of amortisation are reviewed annually.

***(k) Leased assets***

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

1 **Significant accounting policies** *(continued)*

***(k) Leased assets*** *(continued)*

*(i) Classification of assets leased to the Group*

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

*(ii) Operating leases charges*

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

*(iii) Lease prepayments*

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

***(l) Impairment of assets***

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

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

— significant financial difficulty of the debtor;

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

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

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

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

**1 Significant accounting policies** *(continued)*

***(l) Impairment of assets*** *(continued)*

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

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

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

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

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

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

**1 Significant accounting policies** *(continued)*

***(l) Impairment of assets*** *(continued)*

*(ii) Impairment of other assets*

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

— investment properties;

— other property, plant and equipment;

— construction in progress;

— lease prepayments;

— intangible assets; and

— investments in subsidiaries and an associate.

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversal of impairment losses

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

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

**1 Significant accounting policies** *(continued)*

***(l) Impairment of assets*** *(continued)*

*(iii) Interim financial reporting and impairment*

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

***(m) Inventories***

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

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

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

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

***(n) Trade and other receivables***

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

***(o) Interest-bearing borrowings***

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

**1 Significant accounting policies** *(continued)*

***(p) Trade and other payables***

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

***(q) Cash and cash equivalents***

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

***(r) Employee benefits***

Short term employee benefits and contributions to defined contribution retirement plans

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

***(s) Income tax***

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

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

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

**1 Significant accounting policies** *(continued)*

***(s) Income tax*** *(continued)*

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

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

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

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

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

**1 Significant accounting policies** *(continued)*

***(s) Income tax*** *(continued)*

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

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

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

  — the same taxable entity; or

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

***(t) Provisions and contingent liabilities***

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

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

**1 Significant accounting policies** *(continued)*

***(u) Revenue recognition***

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

*(i) Sale of goods*

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

*(ii) Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit and loss as an integral part of the aggregate net lease payments receivable.

*(iii) Dividends*

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

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

*(iv) Investment income*

Investment income is recognised when the entitlement of the income is ascertained by the relevant banks and other financial institutions.

*(v) Interest income*

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

*(vi) Government grants*

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

***(v) Translation of foreign currencies***

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

**1 Significant accounting policies** *(continued)*

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

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

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

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

***(w) Borrowing costs***

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

***(x) Related parties***

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

**1 Significant accounting policies** *(continued)*

***(y) Dividends***

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

***(z) Segment reporting***

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

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

**2 Accounting judgement and estimates**

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

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

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

***(a) Net realisable value of inventories***

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

***(b) Impairment of property, plant and equipment***

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

**2 Accounting judgement and estimates** *(continued)*

***(c) Depreciation***

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

***(d) Impairment of trade and other receivables***

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

***(e) Provision for deferred tax***

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

**3 Revenue and segment reporting**

***(a) Revenue***

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

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

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

**3 Revenue and segment reporting** *(continued)*

***(b) Segment reporting***

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

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

*(i) Segment results and assets*

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

Segment assets represent inventories only.

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

The measure used for reporting segment profit/(loss) is gross profit less selling and distribution expenses directly attributable to the segment.

Information regarding the Group's reportable segment as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

| | **Retail** | | **Others*** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenue from external customers | **2,109,908** | 1,695,100 | **133,137** | 151,079 | **2,243,045** | 1,846,179 |
| Segment revenue | **2,109,908** | 1,695,100 | **133,137** | 151,079 | **2,243,045** | 1,846,179 |
| Segment profit/(loss) | **567,920** | 484,776 | **(3,962)** | 9,774 | **563,958** | 494,550 |
| Selling and distribution expenses | **1,139,665** | 925,917 | **36,216** | 26,414 | **1,175,881** | 952,331 |

**3 Revenue and segment reporting** *(continued)*

***(b) Segment reporting*** *(continued)*

*(i) Segment results and assets (continued)*

| | Retail | | Others* | | Total | |
|---|---|---|---|---|---|---|
| | **31 December 2017 RMB'000** | 31 December 2016 RMB'000 | **31 December 2017 RMB'000** | 31 December 2016 RMB'000 | **31 December 2017 RMB'000** | 31 December 2016 RMB'000 |
| Segment assets | **684,454** | 736,596 | **98,179** | 63,686 | **782,633** | 800,282 |

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

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

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Revenue for reportable segment | **2,109,908** | 1,695,100 |
| Revenue for other segments | **133,137** | 151,079 |
| **Consolidated revenue** | **2,243,045** | 1,846,179 |
| **Profit** | | |
| Profit for reportable segment | **567,920** | 484,776 |
| (Loss)/profit for other segments | **(3,962)** | 9,774 |
| | **563,958** | 494,550 |
| Other income | **26,727** | 9,177 |
| Selling and distribution expenses | **(34,493)** | (92,515) |
| Administrative expenses | **(126,924)** | (123,398) |
| Other operating expenses | **(268,423)** | (159,952) |
| Net finance income/(costs) | **5,814** | (1,679) |
| **Consolidated profit before taxation** | **166,659** | 126,183 |

**3 Revenue and segment reporting** *(continued)*

***(b) Segment reporting*** *(continued)*

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

| | **At 31 December 2017** | At 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Assets for reportable segment | **684,454** | 736,596 |
| Assets for other segments | **98,179** | 63,686 |
| Consolidated inventories | **782,633** | 800,282 |
| Non-current assets | **667,752** | 678,405 |
| Trade and other receivables | **599,886** | 445,592 |
| Other financial assets | **164,246** | 1,661 |
| Pledged deposits | **54,350** | 59,487 |
| Fixed deposits with banks with original maturity over three months | **413,625** | 275,461 |
| Cash and cash equivalents | **246,516** | 374,472 |
| **Consolidated total assets** | **2,929,008** | 2,635,360 |

*(iii) Geographic information*

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

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

| | **Revenues from external Customers** | | **Specified non-current assets** | |
|---|---|---|---|---|
| | | | **31 December** | 31 December |
| | **2017** | 2016 | **2017** | 2016 |
| | ***RMB '000*** | *RMB '000* | ***RMB '000*** | *RMB '000* |
| Mainland China | **2,083,178** | 1,673,104 | **435,935** | 468,070 |
| Others | **159,867** | 173,075 | **8,640** | 11,379 |
| | **2,243,045** | 1,846,179 | **444,575** | 479,449 |

## 4 Other income

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Design and decoration income | **13,265** | 6,995 |
| Government grants* | **1,950** | 320 |
| Rental income | **3,815** | 555 |
| Net realised and unrealised gains on financial assets at fair value through profit or loss | **3,267** | — |
| Net realised and unrealised gains/(losses) on trading securities | **144** | (330) |
| Net loss on sales of property, plant and equipment | **(642)** | (175) |
| Share of profits of an associate | **134** | 170 |
| Investment income/(loss) on other short-term investments | **1,266** | (356) |
| Others | **3,528** | 1,998 |
| | **26,727** | 9,177 |

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

## 5 Other operating expenses

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Write-down of inventories (note 14(b)) | **217,495** | 149,737 |
| Impairment loss of property, plant and equipment (note 12) | **50,928** | 10,215 |
| | **268,423** | 159,952 |

**6 Profit before taxation**

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

***(a) Net finance (income)/costs***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **(12,286)** | (7,857) |
| Finance income | **(12,286)** | (7,857) |
| Interest expense on bank loans | **269** | 2,537 |
| Net foreign exchange loss | **4,836** | 4,829 |
| Others | **1,367** | 2,170 |
| Finance costs | **6,472** | 9,536 |
| Net finance (income)/costs | **(5,814)** | 1,679 |

***(b) Staff costs***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contributions to defined contribution retirement plans | **22,344** | 21,641 |
| Salaries, wages and other benefits | **457,380** | 410,363 |
| | **479,724** | 432,004 |

***(c) Other items***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Amortisation | | |
| — lease prepayments (note 11) | **496** | 519 |
| — intangible assets | **245** | — |
| Depreciation (note 12) | **93,801** | 93,326 |
| Operating lease charges in respect of properties | | |
| — minimum lease payments | **242,169** | 232,344 |
| — contingent rents | **314,768** | 260,423 |
| Auditors' remuneration — audit services | **2,100** | 2,100 |
| Cost of inventories[#] (note 14(b)) | **720,701** | 549,035 |
| Impairment losses | | |
| — trade and other receivables (note 15(b)) | **1,878** | 2,562 |
| — property, plant and equipment (note 12) | **50,928** | 10,215 |

[#] *Cost of inventories includes RMB127,873,000 (2016: RMB129,483,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each type of these expenses.*

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

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current tax — PRC Corporate Income Tax** | | |
| Provision for the year | **120,856** | 90,026 |
| (Over)/under provision in respect of prior years | **(967)** | 560 |
| | **119,889** | 90,586 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 23(b)) | **(14,390)** | (8,512) |
| | **105,499** | 82,074 |

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

(ii) No provision for Hong Kong Profits Tax, Macau Complementary (Profits) Tax, USA Income Tax, Italy Income Tax and Canada Income Tax as the Group did not earn any assessable income subject to Hong Kong Profits Tax, Macau Complementary (Profits) Tax, USA Income Tax, Italy Income Tax and Canada Income Tax during the years ended 31 December 2017 and 2016.

(iii) All PRC subsidiaries are subject to income tax at 25% for the years ended 31 December 2017 and 2016 under the PRC Corporate Income Tax Law which was enacted on 16 March 2007.

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

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

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **166,659** | 126,183 |
| Notional tax on profit before taxation, calculated at the applicable rates in the tax jurisdictions concerned | **32,761** | 28,128 |
| Tax effect of non-deductible expenses | **195** | 129 |
| Tax effect of non-taxable income | **(92)** | (43) |
| Tax effect of unused tax losses not recognised | **58,642** | 41,212 |
| Utilisation of previously unrecognised tax losses | **(1,156)** | (1,252) |
| Withholding tax | **16,441** | 13,340 |
| (Over)/under provision in prior years | **(967)** | 560 |
| Others | **(325)** | — |
| Actual tax expense | **105,499** | 82,074 |

**8 Directors' emoluments**

Directors' emoluments are as follows:

| | **Directors' fees** | **Salaries, allowances and benefits in kind** | **Contributions to defined contribution retirement plans** | **Total 2017** |
|---|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Executive directors** | | | | |
| Mr. Alfred Chan Kai Tai* | **—** | **852** | **—** | **852** |
| Mr. Anthony Paul Chan | **483** | **—** | **10** | **493** |
| Ms. Jenny Ching Ching Tan | **457** | **655** | **16** | **1,128** |
| Mr. Kun He | **—** | **577** | **17** | **594** |
| **Independent non-executive directors** | | | | |
| Mr. Tao Lin (resigned on 22 November 2017) | **67** | **—** | **—** | **67** |
| Mr. Wanhe Zheng | **94** | **—** | **—** | **94** |
| Mr. Antonio Delfin Gregorio | **107** | **—** | **—** | **107** |
| Mr. Kevin De-Kang Yin (appointed on 22 November 2017) | **7** | **—** | **—** | **7** |
| | **1,215** | **2,084** | **43** | **3,342** |

**8 Directors' emoluments** *(continued)*

| | Directors' fees *RMB'000* | Salaries, allowances and benefits in kind *RMB'000* | Contributions to defined contribution retirement plans *RMB'000* | Total 2016 *RMB'000* |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Mr. Alfred Chan Kai Tai* | — | 852 | — | 852 |
| Mr. Anthony Paul Chan (appointed on 14 October 2016) | 118 | — | — | 118 |
| Ms. Jenny Ching Ching Tan (appointed on 14 October 2016) | 118 | 162 | — | 280 |
| Mr. Kun He | — | 298 | 20 | 318 |
| Mr. Pierre Frank Bourque (resigned on 14 October 2016) | — | 654 | — | 654 |
| **Independent non-executive directors** | | | | |
| Mr. Tao Lin (resigned on 22 November 2017) | 108 | — | — | 108 |
| Mr. Wanhe Zheng | 95 | — | — | 95 |
| Mr. Antonio Delfin Gregorio | 82 | — | — | 82 |
| | 521 | 1,966 | 20 | 2,507 |

*Note:*

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

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

**9 Individuals with highest emoluments**

Of the five individuals with the highest emoluments, none of them (2016: nil) is a director whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five (2016: five) individuals are as follows:

| | **2017** ***RMB'000*** | 2016 *RMB'000* |
|---|---|---|
| Basic salaries, allowances and other benefits | **7,987** | 8,272 |

**9 Individuals with highest emoluments** *(continued)*

The emoluments of the five (2016: five) individuals with the highest emoluments are within the following bands:

| | **2017** **_Number of individuals_** | 2016 *Number of individuals* |
|---|---|---|
| HKD1,000,001–1,500,000 | **2** | 2 |
| HKD1,500,001–2,000,000 | **2** | 1 |
| HKD2,000,001–4,000,000 | **1** | 2 |

**10 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 RMB56,885,000 (2016: RMB40,265,000) and the weighted average number of 554,453,492 ordinary shares (2016: 554,453,492 ordinary shares) in issue during the year.

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

For the years ended 31 December 2017 and 2016, diluted earnings per share are the same as the basic earnings per share as the Company did not have dilutive potential shares outstanding during the years.

**11 Lease prepayments**

| | **2017** **_RMB'000_** | 2016 *RMB'000* |
|---|---|---|
| **Cost** | | |
| Balance at the beginning and end of the year | **25,340** | 25,340 |
| **Accumulated amortisation** | | |
| Balance at the beginning of the year | **(3,089)** | (2,570) |
| Charge for the year | **(496)** | (519) |
| Balance at the end of the year | **(3,585)** | (3,089) |
| **Net book value** | | |
| At the end of the year | **21,755** | 22,251 |

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

## 12 Investment property, other property, plant and equipment

| | Plant and buildings *RMB'000* | Machinery *RMB'000* | Fixtures, fittings and other fixed assets *RMB'000* | Construction in progress *RMB'000* | Sub-total *RMB'000* | Investment property *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2016 | 316,273 | 41,848 | 654,629 | 17,761 | 1,030,511 | — | 1,030,511 |
| Additions | — | 1,717 | 30,148 | 84,633 | 116,498 | — | 116,498 |
| Transfer from construction in progress | 16,679 | — | 84,674 | (101,353) | — | — | — |
| Disposals | — | (202) | (96,941) | — | (97,143) | — | (97,143) |
| At 31 December 2016 | 332,952 | 43,363 | 672,510 | 1,041 | 1,049,866 | — | 1,049,866 |
| At 1 January 2017 | **332,952** | **43,363** | **672,510** | **1,041** | **1,049,866** | **—** | **1,049,866** |
| Additions | **—** | **4,379** | **28,754** | **81,893** | **115,026** | **—** | **115,026** |
| Transfer from construction in progress | **—** | **—** | **79,939** | **(79,939)** | **—** | **—** | **—** |
| Reclassification to investment property | **(27,946)** | **—** | **—** | **—** | **(27,946)** | **27,946** | **—** |
| Disposals | **—** | **(2,620)** | **(100,840)** | **—** | **(103,460)** | **—** | **(103,460)** |
| At 31 December 2017 | **305,006** | **45,122** | **680,363** | **2,995** | **1,033,486** | **27,946** | **1,061,432** |
| **Accumulated depreciation and impairment losses:** | | | | | | | |
| At 1 January 2016 | 65,409 | 29,947 | 496,251 | — | 591,607 | — | 591,607 |
| Charge for the year | 10,787 | 2,056 | 80,483 | — | 93,326 | — | 93,326 |
| Impairment loss | — | — | 10,215 | — | 10,215 | — | 10,215 |
| Written back on disposals | — | (182) | (96,730) | — | (96,912) | — | (96,912) |
| At 31 December 2016 | 76,196 | 31,821 | 490,219 | — | 598,236 | — | 598,236 |
| At 1 January 2017 | **76,196** | **31,821** | **490,219** | **—** | **598,236** | **—** | **598,236** |
| Charge for the year | **10,468** | **1,858** | **80,322** | **—** | **92,648** | **1,153** | **93,801** |
| Impairment loss | **—** | **—** | **50,928** | **—** | **50,928** | **—** | **50,928** |
| Reclassification to investment property | **(13,938)** | **—** | **—** | **—** | **(13,938)** | **13,938** | **—** |
| Written back on disposals | **—** | **(2,209)** | **(96,687)** | **—** | **(98,896)** | **—** | **(98,896)** |
| At 31 December 2017 | **72,726** | **31,470** | **524,782** | **—** | **628,978** | **15,091** | **644,069** |
| **Net book value:** | | | | | | | |
| At 31 December 2017 | **232,280** | **13,652** | **155,581** | **2,995** | **404,508** | **12,855** | **417,363** |
| At 31 December 2016 | 256,756 | 11,542 | 182,291 | 1,041 | 451,630 | — | 451,630 |

**12 Investment property, other property, plant and equipment** *(continued)*

Buildings with net book value of RMB15,637,000 as at 31 December 2017 (31 December 2016: RMB16,610,000) were pledged as collateral of the Group's bank loans (note 21).

The Group's investment property represents a factory situated in the PRC. The fair value of the investment property was RMB23,374,000 as at 31 December 2017 based on the valuation performed by a qualified independent real estate appraisal company in the PRC.

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

***Impairment loss***

As at 31 December 2017, the Group reviewed the performance on its retails stores and identified that some retail stores are under-performing.

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

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

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

Based on the assessment results, the carrying amount of leasehold improvement of certain stores was written down to their recoverable amount (value in use) with an impairment loss of RMB50,928,000 recognised for the year ended 31 December 2017 (2016: RMB10,215,000), which was included in "other operating expenses" in the consolidated statement of profit or loss and other comprehensive income.

*(Expressed in Renminbi unless otherwise indicated)*

### 13 Investments in subsidiaries

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

| | | | | Ownership interest | | |
|---|---|---|---|---|---|---|
| **Name of company** | **Place of incorporation and business** | **Particulars of issued and paid up capital** | **Particulars of Group's effective interest** | **Held by the Company** | **Held by a subsidiary** | **Principal activity** |
| Ports Asia Holdings Limited | BVI | USD10,556 | 100% | 100% | — | Investment holding |
| Ports International Marketing. Ltd. | BVI | USD100 | 100% | 100% | — | Sales of garments |
| Smythe Trading Company Limited | Samoa Islands | USD1,000 | 100% | 99.9% | 0.1% | Sales of garments |
| Ports Asia Holding (Hong Kong) Limited | Hong Kong | 300,000 shares | 100% | — | 100% | Sales of garments and investment holding |
| Ports Retail (H.K.) Limited | Hong Kong | 300,000 shares | 100% | — | 100% | Sales of garments |
| PRHK Limited (formerly known as Ports 1961 Retail Limited) | Hong Kong | 300,000 shares | 100% | — | 100% | Sales of garments |
| Ports 1961 Macau Limited | Macau | MOP25,000 | 100% | — | 100% | Sales of garments |
| Ports International (Beijing) Co., Ltd. (note (i) and (ii)) 寶姿時裝 (北京) 有限公司 | PRC | USD8,380,000 | 100% | — | 100% | Sales of garments |
| Cpax Ltd. (note (i) and (ii)) 世紀寶姿 (廈門) 實業有限公司 | PRC | RMB20,000,000 | 100% | — | 100% | Manufacturing and sales of garments |
| Ports Fashion (Xiamen) Ltd. (note (i) and (iii)) 黛美服飾 (廈門) 有限公司 | PRC | RMB322,000,000 | 100% | — | 100% | Manufacturing and sales of garments |
| Xiamen Weijue Optical Co., Ltd. (note (i) and (iii)) 廈門唯覺光學有限公司 | PRC | RMB28,000,000 | 51% | — | 51% | Manufacturing of glasses |
| Xiamen Baozhan Trading Co., Ltd. (note (i) and (iii)) 廈門寶瞻商貿有限公司 | PRC | RMB2,000,000 | 51% | — | 51% | Sales of glasses |
| Vivienne Tam Fashion (Xiamen) Ltd. (note (i) and (ii)) 賽特投資管理諮詢有限公司 | PRC | HKD10,000,000 | 100% | — | 100% | Sales of garments |
| Xiamen Tabi Limited (note (i) and (iii)) 廈門帝柏服飾有限公司 | PRC | RMB10,000,000 | 100% | — | 100% | Sales of garments |
| Xiamen Unicorn Network Technology Limited (note (i) and (iii)) 廈門優尼康網絡科技有限公司 | PRC | RMB10,000,000 | 74% | — | 74% | Sales of garments |
| Ports 1961 USA Inc. | USA | USD200,000 | 100% | — | 100% | Sales of garments |
| Ports 1961 Italia SPA | Italy | EUR1,000,000 | 100% | — | 100% | Manufacturing and sales of garments |
| Ports 1961 Retail Distribution Inc. | Canada | CAD100 | 100% | — | 100% | Sales of garments |

**13 Investments in subsidiaries** *(continued)*

*Notes:*

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

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

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

The directors are of the view that the Group had no individually material non-controlling interest as at 31 December 2017 and 2016.

**14 Inventories**

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **87,619** | 72,157 |
| Work in progress | **26,635** | 37,324 |
| Finished goods | **667,870** | 690,452 |
| Goods in transit | **509** | 349 |
| | **782,633** | 800,282 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount of inventories sold | **503,206** | 399,298 |
| Write-down of inventories (note 5) | **217,495** | 149,737 |
| | **720,701** | 549,035 |

**15 Trade and other receivables**

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **344,864** | 248,112 |
| Less: allowance for doubtful debts (note 15(b)) | **(9,440)** | (7,562) |
| | **335,424** | 240,550 |
| Amounts due from related parties (note 20) | **8,571** | 7,635 |
| Advances to suppliers | **74,918** | 36,055 |
| Other receivables, deposits and prepayments | **180,973** | 161,352 |
| | **599,886** | 445,592 |

**15 Trade and other receivables** *(continued)*

Trade and other receivables of the Group included deposits of RMB94,132,000 (31 December 2016: RMB81,121,000) which are expected to be recovered or recognised as expense after more than one year. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

***(a) Ageing analysis***

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **267,164** | 199,010 |
| Over 1 month but within 3 months | **49,693** | 27,316 |
| Over 3 months but within 6 months | **5,269** | 6,169 |
| Over 6 months | **13,298** | 8,055 |
| Total | **335,424** | 240,550 |

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

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

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

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| As at 1 January | **7,562** | 5,000 |
| Impairment loss recognised | **1,878** | 2,562 |
| As at 31 December | **9,440** | 7,562 |

As at 31 December 2017, the Group's trade receivables of RMB8,985,000 (31 December 2016: RMB11,176,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and the management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB8,985,000 (2016: RMB7,446,000) were recognised.

**15 Trade and other receivables** *(continued)*

***(c) Trade receivables that are not impaired***

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired | **289,534** | 199,010 |
| Less than 1 month past due | **24,462** | 27,316 |
| 1 to 3 months past due | **6,099** | 6,169 |
| Over 3 months but less than 12 months past due | **6,628** | 1,672 |
| Over 12 months | **63** | 438 |
| Total | **326,786** | 234,605 |

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

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

**16 Other financial assets**

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trading securities (note 25(e)(i)) | **1,805** | 1,661 |
| Financial assets at fair value through profit or loss (note 25(e)(i))* | **162,441** | — |
| | **164,246** | 1,661 |

* *As at 31 December 2017, financial assets at fair value through profit or loss represented investments in wealth management products and trust products issued by reputable financial institutions in the PRC with the aggregate principals amount of RMB162,000,000 (31 December 2016: nil). There are no fixed or determinable returns of these wealth management products and trust products.*

**17 Pledged deposits**

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Security for letter of credit and letter of guarantee issued by banks | **36,798** | 59,487 |
| Others | **17,552** | — |
| | **54,350** | 59,487 |

## 18 Cash and cash equivalents and other cash flow information

### *(a) Cash and cash equivalents comprise:*

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cash at bank and on hand | **162,362** | 174,889 |
| Fixed deposits with banks with original maturity within three months | **14,054** | 199,583 |
| Short-term investments | **70,100** | — |
| | **246,516** | 374,472 |

At 31 December 2017, cash and cash equivalents, pledged deposits and fixed deposits at banks with original maturity over three months with aggregate amount of RMB619,123,000 (2016: RMB549,915,000) were placed with banks and other financial institutions in Mainland China. Remittance of funds out of Mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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

| | *Note* | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Profit before taxation | | **166,659** | 126,183 |
| Adjustments for: | | | |
| Depreciation | *6(c)* | **93,801** | 93,326 |
| Impairment loss of property, plant and equipment | *5* | **50,928** | 10,215 |
| Amortisation of lease prepayments | *6(c)* | **496** | 519 |
| Amortisation of intangible assets | *6(c)* | **245** | — |
| Net loss on sales of property, plant and equipment | *4* | **642** | 175 |
| Share of profits of an associate | *4* | **(134)** | (170) |
| Interest expense on bank loans | *6* | **269** | 2,537 |
| Dividends earned on trading securities | | **(23)** | (47) |
| Interest income | *6* | **(12,286)** | (7,857) |
| Net realised and unrealised gains on financial assets at fair value through profit or loss | *4* | **(3,267)** | — |
| Net realised and unrealised (gains)/losses on trading securities | *4* | **(144)** | 330 |
| Investment (income)/loss on other short-term investments | *4* | **(1,266)** | 356 |
| **Changes in working capital** | | | |
| Decrease/(increase) in inventories | | **17,649** | (56,780) |
| Increase in trade and other receivables | | **(153,280)** | (102,161) |
| Increase in trade and other payables | | **202,939** | 127,796 |
| **Cash generated from operations** | | **363,228** | 194,422 |

**18 Cash and cash equivalents and other cash flow information** *(continued)*

***(c) Reconciliation of liabilities arising from financing activities***

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

| | **Bank loans** *RMB'000* (Note 21) |
|---|---|
| **At 1 January 2017** | **5,486** |
| **Changes from financing cash flows:** | |
| Repayment of bank loans | **(1,688)** |
| Total changes from financing cash flows | **(1,688)** |
| **At 31 December 2017** | **3,798** |

**19 Trade and other payables**

| | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|
| **Current** | | |
| Trade payables | **123,742** | 92,729 |
| Amounts due to related parties (note 20) | **8,111** | 6,499 |
| Derivative financial liabilities — forward foreign exchange contracts (note 25(e)(i)) | **—** | 356 |
| Other creditors and accruals | **467,243** | 304,793 |
| | **599,096** | 404,377 |
| ***Non-Current*** | | |
| Other creditors and accruals | **131,818** | 115,330 |
| Total | **730,914** | 519,707 |

The amount of deposits expected to be settled after more than one year is RMB2,594,000 (31 December 2016: RMB3,755,000). All the other current trade and other payables (including amounts due to related parties) are expected to be settled within one year or repayable on demand.

**19 Trade and other payables** *(continued)*

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **61,933** | 71,005 |
| Over 1 month but within 3 months | **41,524** | 10,415 |
| Over 3 months but within 6 months | **14,910** | 5,633 |
| Over 6 months | **5,375** | 5,676 |
| | **123,742** | 92,729 |

**20 Amounts due from/to related parties**

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Amounts due from related parties** | | |
| Ports International Retail Corporation | **8,536** | 7,550 |
| Beijing Scitech Holdings Limited and its subsidiaries | **35** | 85 |
| | **8,571** | 7,635 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Amounts due to related parties** | | |
| Ports International Retail Corporation | **6,639** | 6,337 |
| Beijing Scitech Holdings Limited and its subsidiaries | **1,472** | 162 |
| | **8,111** | 6,499 |

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

**21 Bank loans**

At 31 December 2017, the bank loans were repayable as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank loans repayable within one year or on demand | **1,688** | 1,688 |
| Non-current bank loans | **3,798** | 5,486 |
| Less: Repayable within one year | **(1,688)** | (1,688) |
| Bank loans repayable more than one year | **2,110** | 3,798 |

**21 Bank loans** *(continued)*

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

As at 31 December 2017, the bank loans of the Group were secured by mortgages over buildings with aggregate carrying amount of RMB15,637,000 (31 December 2016: RMB16,610,000) (note 12).

**22 Employee retirement benefits**

***Defined contribution retirement plans***

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 12% to 20% of the eligible employees' salaries to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

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

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

**23 Income tax in the consolidated statement of financial position**

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Balance at the beginning of the year | **41,210** | 18,593 |
| Provision for PRC corporate income tax (note 7(a)) | **119,889** | 90,586 |
| Transfer from deferred taxation (note 23(b)(i)) | **2,511** | 6,600 |
| Paid during the year | **(113,439)** | (74,569) |
| Balance at the end of the year | **50,171** | 41,210 |

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

***(b) Deferred tax assets and liabilities recognised***

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

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

| Deferred tax arising from: | Impairment of trade receivables | Write-down of inventories | Undistributed profits of subsidiaries | Deferred income | Property, plant and equipment | Accrued expenses | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2016 | 1,250 | 170,411 | (5,745) | — | 11,639 | — | 177,555 |
| Credited/(charged) to profit or loss (note 7(a)) | — | 7,084 | (7,144) | — | 6,157 | 2,415 | 8,512 |
| Transfer to current tax (note 23(a)) | — | — | 6,600 | — | — | — | 6,600 |
| At 31 December 2016 | 1,250 | 177,495 | (6,289) | — | 17,796 | 2,415 | 192,667 |
| At 1 January 2017 | **1,250** | **177,495** | **(6,289)** | **—** | **17,796** | **2,415** | **192,667** |
| Credited/(charged) to profit or loss (note 7(a)) | **300** | **16,692** | **(9,831)** | **7,494** | **(3,052)** | **2,787** | **14,390** |
| Transfer to current tax (note 23(a)) | **—** | **—** | **2,511** | **—** | **—** | **—** | **2,511** |
| At 31 December 2017 | **1,550** | **194,187** | **(13,609)** | **7,494** | **14,744** | **5,202** | **209,568** |

*(ii) Reconciliation to the consolidated statement of financial position*

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net deferred tax asset recognised in the consolidated statement of financial position | **223,177** | 198,956 |
| Net deferred tax liability recognised in the consolidated statement of financial position | **(13,609)** | (6,289) |
| | **209,568** | 192,667 |

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

***(c) Deferred tax assets not recognised***

In accordance with the accounting policy set out in note 1(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB224,463,000 (2016: RMB167,086,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Cumulative tax losses of RMB167,994,000 (2016: RMB88,146,000) will expire within 5 years under current tax legislation.

***(d) Deferred tax liabilities not recognised***

As at 31 December 2017, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,914,329,000 (2016: RMB1,851,604,000). Deferred tax liabilities of RMB95,716,000 (2016: RMB92,580,000) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

**24 Capital, reserves and dividends**

***(a) Movements in components of equity***

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

| | **Share capital** *RMB'000* | **Share premium** *RMB'000* | **Contributed surplus** *RMB'000* | **Retained profits** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|
| Balance at 1 January 2016 | 1,474 | 443,348 | 9,578 | 138,644 | 593,044 |
| Total comprehensive income for the year | — | — | — | 6,001 | 6,001 |
| Balance at 31 December 2016 | 1,474 | 443,348 | 9,578 | 144,645 | 599,045 |
| Balance at 1 January 2017 | **1,474** | **443,348** | **9,578** | **144,645** | **599,045** |
| Total comprehensive income for the year | **—** | **—** | **—** | **(16,388)** | **(16,388)** |
| Balance at 31 December 2017 | **1,474** | **443,348** | **9,578** | **128,257** | **582,657** |

**24 Capital, reserves and dividends** *(continued)*

***(b) Dividends***

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2017 and 2016.

***(c) Share capital***

*(i) Authorised and issued share capital*

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount** | Number of shares | Amount |
| | | ***HK$'000*** | | *HK$'000* |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.0025 each | **3,600,000,000** | **9,000** | 3,600,000,000 | 9,000 |
| **Issued and fully paid:** | | | | |
| At the beginning and end of the year | **554,453,492** | **1,386** | 554,453,492 | 1,386 |
| | | ***RMB'000 equivalent*** | | *RMB'000 equivalent* |
| | | **1,474** | | 1,474 |

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

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

*(i) Capital reserve*

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

*(ii) Share premium*

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

**24 Capital, reserves and dividends** *(continued)*

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

*(iii) General reserve fund*

General reserve fund mainly represented:

PRC statutory reserves

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

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

Contributed surplus

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

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

*(iv) Exchange reserve*

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

***(e) Capital management***

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

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

**24 Capital, reserves and dividends** *(continued)*

***(e) Capital management*** *(continued)*

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

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain the debt-to-equity ratio and gearing ratio at a level considered reasonable by the Group's management from time to time with reference to the prevailing market conditions and in compliance with financial covenants imposed by the bankers. In order to maintain or adjust the ratios, the Group may adjust the amount of dividends paid to shareholders, issue new shares or raise new debt financing.

The Group's debt-to-equity ratio and gearing ratio at 31 December 2017 and 2016 were as follows:

| | *Note* | **2017** **RMB'000** | 2016 *RMB'000* |
|---|---|---|---|
| Trade and other payables | *19* | **730,914** | 519,707 |
| Bank loans | *21* | **3,798** | 5,486 |
| Current taxation | *23(a)* | **50,171** | 41,210 |
| Total debt | | **784,883** | 566,403 |
| Total equity | | **2,130,516** | 2,062,668 |
| ***Debt-to-equity ratio*** | | **36.8%** | 27.5% |
| ***Gearing ratio*** | | **0.2%** | 0.3% |

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

**25 Financial risk management and fair values of financial instruments**

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

***(a) Credit risk***

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

*(i) Trade and other receivables*

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as to the economic environment. Normally, the Group does not obtain collateral from customers. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

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

***(a) Credit risk*** *(continued)*

*(i) Trade and other receivables (continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or debtor and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers or debtors. At the end of the reporting period, 4% (2016: 2%) and 10% (2016: 8%) of the total trade and other receivables was due from the Group's largest debtor and the five largest debtors respectively.

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

*(ii) Deposits with banks and other financial institutions, short-term investments and other financial assets*

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit rating. Given the high credit ratings of the banks and other financial institutions, management does not expect any counterparty to fail to meet its obligation.

Transactions involving wealth management products, trust products, derivative financial instruments and other short-term, highly liquid investments with fixed returns are with counterparties of sound credit standing. The management has set in place credit limits for each individual counterparty and regular periodic reviews are conducted to ensure that the limits are strictly adhered to. The management considers that the default risk is remote given that the investments are held with counterparties operating under regulatory bodies and the Group does not expect any significant counterparty risk.

***(b) Liquidity risk***

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

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

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

***(b) Liquidity risk*** *(continued)*

| | **2017** | | | | |
|---|---|---|---|---|---|
| | **Contractual undiscounted cash outflow** | | | | |
| | **Within 1 year or on demand** | **More than 1 year but less than 2 years** | **More than 2 years** | **Total** | **Carrying amount at 31 December** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Trade and other payables excluding advance receipts from customers and deferred income | **413,248** | **25,187** | **106,631** | **545,066** | **545,066** |
| Bank loans | **1,899** | **1,805** | **426** | **4,130** | **3,798** |
| Total | **415,147** | **26,992** | **107,057** | **549,196** | **548,864** |

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

***(c) Interest rate risk***

The Group's interest rate risk arises primarily from pledged deposits, fixed deposits with banks, cash at banks and bank loans. Interest-bearing financial instruments at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Overall speaking, the Group's exposure to interest rate risk is not significant.

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

***(d) Currency risk***

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

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

*(i) Exposure to currency risk*

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

| | **Exposure to foreign currencies (expressed in Renminbi) As at 31 December 2017** | | | |
|---|---|---|---|---|
| | **United States Dollars** *RMB'000* | **Hong Kong Dollars** *RMB'000* | **Euro** *RMB'000* | **JPY** *RMB'000* |
| Trade and other receivables | **10,677** | **37,010** | **22,927** | **—** |
| Cash and cash equivalents | **14,032** | **10,156** | **5,200** | **—** |
| Pledged deposits | **19,820** | **—** | **—** | **13,802** |
| Trade and other payables | **(7,312)** | **(118,323)** | **(971)** | **—** |
| Overall net exposure | **37,217** | **(71,157)** | **27,156** | **13,802** |

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

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

***(d) Currency risk*** *(continued)*

*(ii) Sensitivity analysis*

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in net profit or loss** ***RMB'000*** | **Increase/ (decrease) in retained profits** ***RMB'000*** | Increase/ (decrease) in net profit or loss *RMB'000* | Increase/ (decrease) in retained profits *RMB'000* |
| United States Dollars | | | | |
| — 5% strengthening of RMB | **(1,624)** | **(1,624)** | (3,635) | (3,635) |
| — 5% weakening of RMB | **1,624** | **1,624** | 3,635 | 3,635 |
| Hong Kong Dollars | | | | |
| — 5% strengthening of RMB | **2,978** | **2,978** | 2,138 | 2,138 |
| — 5% weakening of RMB | **(2,978)** | **(2,978)** | (2,138) | (2,138) |
| Euro | | | | |
| — 5% strengthening of RMB | **(1,048)** | **(1,048)** | (405) | (405) |
| — 5% weakening of RMB | **1,048** | **1,048** | 405 | 405 |
| JPY | | | | |
| — 5% strengthening of RMB | **(576)** | **(576)** | — | — |
| — 5% weakening of RMB | **576** | **576** | — | — |

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.

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

***(e) Fair value measurement***

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

Fair value hierarchy

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

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

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

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

| | | **Fair value measurement as at 31 December 2017 categorised into** | | |
|---|---|---|---|---|
| | **Fair value at 31 December 2017** | **Level 1** | **Level 2** | **Level 3** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Recurring fair value measurement | | | | |
| Assets: | | | | |
| Trading securities (note 16) | **1,805** | **1,805** | **—** | **—** |
| Financial assets at fair value through profit or loss (note 16) | **162,441** | **—** | **162,441** | **—** |

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

***(e) Fair value measurement*** *(continued)*

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

| | Fair value at 31 December 2016 | Fair value measurement as at 31 December 2016 categorised into | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Recurring fair value measurement | | | | |
| Assets: | | | | |
| Trading securities (note 16) | 1,661 | 1,661 | — | — |
| Liabilities: | | | | |
| Derivative financial liabilities — forward foreign exchange contracts (note 19) | (356) | — | (356) | — |

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of financial assets at fair value through profit or loss in Level 2 is determined by discounting the expected future cash flows at prevailing market interest rates as at the end of the reporting period. The discounting rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2017 and 2016.

**26 Commitments**

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

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 year | **205,731** | 232,717 |
| After 1 year but within 5 years | **688,109** | 689,199 |
| After 5 years | **123,606** | 283,285 |
| | **1,017,446** | 1,205,201 |

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

***(b) Capital commitments***

Capital commitments in respect of purchase of property, plant and equipment outstanding at 31 December 2017 and 2016 but not provided for in the consolidated financial statements were as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Authorised but not contracted for | **69,000** | 88,500 |

**27 Material related party transactions**

Transactions with the following entities are considered as significant related party transactions for the years ended 31 December 2017 and 2016.

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

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

**27 Material related party transactions** *(continued)*

Particulars of significant transactions between the Group and the above related parties for the years ended 31 December 2017 and 2016 are as follows:

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short-term employee benefits | **3,744** | 4,209 |
| Contribution to defined contribution retirement plans | **67** | 34 |

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

***(b) Sales, purchases and rental charges***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Sales of goods to:** | | |
| Ports International Retail Corporation | **6,009** | 9,499 |
| **Purchases of goods from:** | | |
| Ports International Retail Corporation | **863** | 505 |
| **Rental fee charged to:** | | |
| Beijing Scitech Holdings Limited and its subsidiaries | **5,054** | 565 |

***(c) Other transactions***

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Rental fee reimbursed to:** | | |
| PKL* | **12,768** | 12,326 |

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

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

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

## 28 Company-level statement of financial position

| | *Note* | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| ***Non-current assets*** | | | |
| Investments in subsidiaries | *13* | **329,092** | 329,092 |
| | | **329,092** | 329,092 |
| **Current assets** | | | |
| Trade and other receivables | | **262,361** | 278,387 |
| Cash and cash equivalents | | **1,013** | 1,549 |
| | | **263,374** | 279,936 |
| **Current liabilities** | | | |
| Trade and other payables | | **9,809** | 9,983 |
| | | **9,809** | 9,983 |
| **Net current assets** | | **253,565** | 269,953 |
| **Net assets** | | **582,657** | 599,045 |
| **Capital and reserves** | *24* | | |
| Share capital | | **1,474** | 1,474 |
| Reserves | | **581,183** | 597,571 |
| **Total equity** | | **582,657** | 599,045 |

## 29 Immediate and ultimate controlling party

At 31 December 2017, the directors consider the immediate parent and ultimate controlling party of the Group to be CFS International Inc. and Ports International Enterprises Limited respectively, which are incorporated in Canada and British Virgin Islands respectively. These entities do not produce financial statements available for public use.

*(Expressed in Renminbi unless otherwise indicated)*

**30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017**

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| • IFRS 9, Financial Instruments | 1 January 2018 |
| • IFRS 15, Revenue from contracts with customers | 1 January 2018 |
| • Amendments to IAS 40, Investment property: Transfers of investment property | 1 January 2018 |
| • IFRIC 22, Foreign currency transactions and advance consideration | 1 January 2018 |
| • IFRS 16, Leases | 1 January 2019 |

The Group is in the process of making an assessment on what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the assessment completed to date is based on the information currently available to the Group, the actual impacts upon the initial adoption of the standards may differ, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

***IFRS 9, Financial instruments***

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

**30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017** *(continued)*

***IFRS 9, Financial instruments*** *(continued)*

Expected impacts of the new requirements on the Group's financial statements are as follows:

*(a) Classification and measurement*

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

— The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

— For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

*(b) Impairment*

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. However, a more detailed analysis is required to determine the extent of the impact.

**30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017** *(continued)*

***IFRS 15, Revenue from contracts with customers***

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

*(a) Timing of revenue recognition*

The Group's revenue recognition policies are disclosed in note 1(u). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue.

*(b) Significant financing component*

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers.

Advance payments are not common in the Group's arrangements with its customers, and the length of the time between the payment date and the completion date of legal assignment (i.e. the date when the customers obtain control of the goods) is usually a few months.

The Group has assessed that this component in the Group's advance payment schemes is not likely to be significant to the contact.

**30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017** *(continued)*

***IFRS 15, Revenue from contracts with customers*** *(continued)*

*(c) Sales with a right of return*

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

***IFRS 16, Leases***

As disclosed in 1(k), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 26(a), at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB1,017,446,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.