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PORTICO INTERNATIONAL HOLDINGS LTD

Portico International Holdings Limited

寶國國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 0589)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

INTERIM RESULTS HIGHLIGHTS

- Total revenue for 1H2017 was RMB1,052.4 million, increased by 17.9% as compared with the corresponding period in 2016
- Gross profit margin for 1H2017 increased to 79.7% (1H2016: 78.9%)
- Profit attributable to equity shareholders for 1H2017 was RMB5.5 million (1H2016: RMB 4.5 million), increased by 22.2%
- Earnings per share remained at RMB0.01
- No interim dividend was declared

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (“1H2017”)

The board of directors (the “Board”) of Portico International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017 with comparative figures for the same period ended 2016 (“1H2016”) as follows:

**for identification purpose only*

**Consolidated statement of profit or loss and other comprehensive income
for the six months ended 30 June 2017 - unaudited**
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Revenue	3	1,052,436	892,696
Cost of sales		(213,882)	(188,500)
Gross profit		838,554	704,196
Other revenue	4(a)	10,861	4,859
Other net expense	4(b)	(157)	(351)
Selling and distribution expenses		(567,095)	(503,872)
Administrative expenses		(56,116)	(57,720)
Other operating expenses	4(c)	(176,944)	(115,902)
Profit from operations		49,103	31,210
Finance income		5,235	9,642
Finance costs		(3,426)	(3,960)
Net finance income	5(a)	1,809	5,682
Profit before taxation	5	50,912	36,892
Income tax	6	(43,375)	(30,932)
Profit for the period		7,537	5,960
Other comprehensive income for the period (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		5,608	(3,350)
Total comprehensive income for the period		13,145	2,610
Profit attributable to:			
Equity shareholders of the Company		5,456	4,465
Non-controlling interests		2,081	1,495
Profit for the period		7,537	5,960
Total comprehensive income attributable to:			
Equity shareholders of the Company		11,131	723
Non-controlling interests		2,014	1,887
Total comprehensive income for the period		13,145	2,610
Earnings per share (RMB cents)			
Basic	7(a)	1	1
Diluted	7(b)	1	1

Consolidated statement of financial position
at 30 June 2017 - unaudited
(Expressed in Renminbi)

	<i>Note</i>	<i>At 30 June</i> 2017 RMB'000	<i>At 31 December</i> 2016 RMB'000
Non-current assets			
Lease prepayments		22,003	22,251
Investment properties	8	13,484	-
Other property, plant and equipment	8	373,494	451,630
Intangible assets		2,325	2,447
Interest in an associate		3,019	3,121
Deferred tax assets		211,258	198,956
		<u>625,583</u>	<u>678,405</u>
		-----	-----
Current assets			
Other financial assets	9	59,799	1,661
Inventories		758,257	800,282
Trade and other receivables	10	455,176	445,592
Pledged bank deposits		78,830	59,487
Fixed deposits with banks with original maturity over three months		285,062	275,461
Cash and cash equivalents		351,331	374,472
		<u>1,988,455</u>	<u>1,956,955</u>
		-----	-----
Current liabilities			
Trade and other payables	12	366,676	404,377
Bank loans	13	1,688	1,688
Current taxation		30,144	41,210
		<u>398,508</u>	<u>447,275</u>
		-----	-----
Net current assets		<u>1,589,947</u>	<u>1,509,680</u>
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Total assets less current liabilities		<u>2,215,530</u>	<u>2,188,085</u>
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**Consolidated statement of financial position
at 30 June 2017 - unaudited (continued)**
(Expressed in Renminbi)

	<i>Note</i>	<i>At 30 June 2017 RMB'000</i>	<i>At 31 December 2016 RMB'000</i>
Non-current liabilities			
Trade and other payables	12	127,041	115,330
Bank loans	13	2,954	3,798
Deferred tax liabilities		9,072	6,289
		<hr/>	<hr/>
		139,067	125,417
		<hr/>	<hr/>
Net assets		<u>2,076,463</u>	<u>2,062,668</u>
 Capital and reserves			
Share capital		1,474	1,474
Reserves		2,048,013	2,036,882
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		2,049,487	2,038,356
Non-controlling interests		26,976	24,312
		<hr/>	<hr/>
Total equity		<u>2,076,463</u>	<u>2,062,668</u>

NOTES

(Expressed in Renminbi unless otherwise indicated)

1. Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 25 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Portico International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2017.

2. 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 developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the interim financial report.

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

3. Revenue and segment reporting

(a) Revenue

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

(b) Segment reporting

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

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

(i) Segment results and assets

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

Segment assets represent inventories only.

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

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

3. Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(i) Segment results and assets (continued)

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

	<i>Six months ended 30 June</i>					
	<i>Retail</i>		<i>Others*</i>		<i>Total</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	971,908	813,012	80,528	79,684	1,052,436	892,696
Reportable segment revenue	<u>971,908</u>	<u>813,012</u>	<u>80,528</u>	<u>79,684</u>	<u>1,052,436</u>	<u>892,696</u>
Reportable segment profit	<u>309,992</u>	<u>244,882</u>	<u>14,283</u>	<u>22,130</u>	<u>324,275</u>	<u>267,012</u>
Selling and distribution expenses	<u>502,031</u>	<u>437,184</u>	<u>12,248</u>	<u>-</u>	<u>514,279</u>	<u>437,184</u>
	<i>Retail</i>		<i>Others*</i>		<i>Total</i>	
	<i>30</i>	<i>31</i>	<i>30</i>	<i>31</i>	<i>30</i>	<i>31</i>
	<i>June</i>	<i>December</i>	<i>June</i>	<i>December</i>	<i>June</i>	<i>December</i>
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	<u>706,303</u>	<u>736,596</u>	<u>51,954</u>	<u>63,686</u>	<u>758,257</u>	<u>800,282</u>

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

3. Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	971,908	813,012
Other revenue	80,528	79,684
	<hr/>	<hr/>
Consolidated revenue	1,052,436	892,696
	<hr/> <hr/>	<hr/> <hr/>
Profit		
Reportable segment profit	309,992	244,882
Other profit	14,283	22,130
	<hr/>	<hr/>
	324,275	267,012
Other revenue and other net expense	10,704	4,508
Selling and distribution expenses	(52,816)	(66,688)
Administrative expenses	(56,116)	(57,720)
Other operating expenses	(176,944)	(115,902)
Net finance income	1,809	5,682
	<hr/>	<hr/>
Consolidated profit before taxation	50,912	36,892
	<hr/> <hr/>	<hr/> <hr/>
	<i>At 30 June</i>	<i>At 31 December</i>
	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000
Assets		
Reportable segment assets	706,303	736,596
Other inventories	51,954	63,686
	<hr/>	<hr/>
Consolidated inventories	758,257	800,282
Non-current assets	625,583	678,405
Trade and other receivables	455,176	445,592
Pledged bank deposits	78,830	59,487
Fixed deposits with banks with original maturity over three months	285,062	275,461
Other financial assets	59,799	1,661
Cash and cash equivalents	351,331	374,472
	<hr/>	<hr/>
Consolidated total assets	2,614,038	2,635,360
	<hr/> <hr/>	<hr/> <hr/>

4. Other revenue and other net expense

(a) Other revenue

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000
Design and decoration income	5,925	2,747
Insurance compensation	598	1,082
Government subsidy*	572	-
Rental income	2,304	282
Others	1,462	748
	<u>10,861</u>	<u>4,859</u>

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

(b) Other net expense

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000
Net unrealised gain on financial assets at fair value through profit or loss	(94)	-
Change in fair value of foreign exchange forward contracts	(356)	-
Net realised and unrealised (gain)/ losses on trading securities	(44)	197
Net losses on sales of property, plant and equipment	549	41
Share of losses of an associate	102	113
	<u>157</u>	<u>351</u>

(c) Other operating expenses

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000
Write-down of inventories	131,095	115,360
Impairment loss of property, plant and equipment (note 8(c))	45,849	542
	<u>176,944</u>	<u>115,902</u>

5. Profit before taxation

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

	<i>Six months ended 30 June</i>	
	2017 RMB'000	2016 RMB'000
(a) Net finance income		
Interest income	(5,235)	(4,678)
Net foreign exchange gain	-	(4,964)
	<u>(5,235)</u>	<u>(9,642)</u>
Finance income	(5,235)	(9,642)
	<u>147</u>	<u>2,367</u>
Interest expense on bank loans	147	2,367
Net foreign exchange loss	2,538	-
Others	741	1,593
	<u>3,426</u>	<u>3,960</u>
Finance costs	3,426	3,960
	<u>(1,809)</u>	<u>(5,682)</u>
Net finance income	(1,809)	(5,682)
(b) Staff costs		
Contributions to defined contribution retirement plans	11,380	10,635
Salaries, wages and other benefits	215,786	194,233
	<u>227,166</u>	<u>204,868</u>
Contributions to defined contribution retirement plans	11,380	10,635
Salaries, wages and other benefits	215,786	194,233
	<u>227,166</u>	<u>204,868</u>
(c) Other items		
Depreciation	46,572	46,099
Amortisation	370	253
Operating lease charges in respect of properties		
- minimum lease payments	121,299	113,131
- contingent rents	143,676	124,261
Cost of inventories [#]	344,977	303,860

[#] Cost of inventories for the six months ended 30 June 2017 includes RMB61,975,000 (six months ended 30 June 2016: RMB62,651,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each type of these expenses.

6. Income tax

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000
Current tax - PRC income tax	51,394	41,028
Deferred taxation	(8,019)	(10,096)
	<u>43,375</u>	<u>30,932</u>

- (i) Pursuant to the rules and regulations of Bermuda, the Company is not subject to any income tax in Bermuda. Also, certain subsidiaries located in British Virgin Islands and Samoa Islands are not subject to any income tax in their local jurisdictions.
- (ii) No provision for Hong Kong Profits Tax, 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 six months ended 30 June 2017 and 2016.
- (iii) All PRC subsidiaries are subject to income tax at 25% for the six months ended 30 June 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.

As at 30 June 2017, temporary differences relating to the undistributed profits of certain subsidiaries of the Group in the PRC amounted to RMB1,899,983,000 (31 December 2016: RMB1,851,604,000). Deferred tax liabilities of RMB94,999,000 (31 December 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.

7. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB5,456,000 (six months ended 30 June 2016: RMB4,465,000) and the weighted average number of 554,453,000 ordinary shares (six months ended 30 June 2016: 554,453,000 shares) in issue during the interim period.

(b) *Diluted earnings per share*

There were no diluted potential ordinary shares during each of the six months ended 30 June 2017 and 2016, and therefore, diluted earnings per share are the same as the basic earnings per share.

8. Investment properties, other property, plant and equipment

- (a) During the six months ended 30 June 2017, the Group acquired items of fixtures, fittings and other fixed assets with a cost of RMB31,962,000 (six months ended 30 June 2016: RMB32,786,000). Items of buildings with a net book value of RMB14,008,000 were transferred from buildings held for own use to investment properties during the six months ended 30 June 2017 (six months ended 30 June 2016: nil). Items of machinery, fixtures, fittings and other fixed assets with a net book value of RMB4,191,000 were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB1,049,000).
- (b) Buildings with net book value of RMB16,123,000 as at 30 June 2017 (31 December 2016: RMB16,610,000) were pledged as collateral of the Group's bank loans (note 13).
- (c) As at 30 June 2017, the Group reviewed the performance on its retail stores and identified that some retail stores are under-performing.

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

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

8. Investment properties, other property, plant and equipment (continued)

(c) Continued

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 RMB45,849,000 recognised for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB542,000), which was included in “other operating expenses” in the consolidated statement of profit or loss and other comprehensive income.

9. Other financial assets

	<i>At 30 June 2017</i>	<i>At 31 December 2016</i>
	RMB'000	RMB'000
Trading securities	1,705	1,661
Financial assets at fair value through profit or loss*	58,094	-
	<u>59,799</u>	<u>1,661</u>

* As at 30 June 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 RMB58,000,000 (31 December 2016: nil). There are no fixed or determinable returns of these wealth management products and trust products, and the returns of the principals are not guaranteed.

10. Trade and other receivables

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

	<i>At 30 June 2017</i>	<i>At 31 December 2016</i>
	RMB'000	RMB'000
Within 1 month	159,346	199,010
Over 1 month but within 3 months	52,223	27,316
Over 3 months but within 6 months	8,966	6,169
Over 6 months	7,235	8,055
Trade receivables net of allowance for doubtful debts	<u>227,770</u>	<u>240,550</u>
Amounts due from related parties (note 11)	8,827	7,635
Advances to suppliers	45,690	36,055
Other receivables, deposits and prepayments	172,889	161,352
	<u>455,176</u>	<u>445,592</u>

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

11. Amounts due from/to related parties

	<i>At 30 June 2017 RMB'000</i>	<i>At 31 December 2016 RMB'000</i>
Amounts due from related parties		
Ports International Retail Corporation	8,767	7,550
Beijing Scitech Holdings Limited and its subsidiaries	60	85
	<u>8,827</u>	<u>7,635</u>

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

	<i>At 30 June 2017 RMB'000</i>	<i>At 31 December 2016 RMB'000</i>
Amounts due to related parties		
Ports International Retail Corporation	7,765	6,337
Beijing Scitech Holdings Limited and its subsidiaries	1,439	162
	<u>9,204</u>	<u>6,499</u>

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

12. Trade and other payables

	<i>At 30 June 2017 RMB'000</i>	<i>At 31 December 2016 RMB'000</i>
Current		
Accounts payable	76,201	92,729
Amounts due to related parties (note 11)	9,204	6,499
Derivative financial liabilities – foreign exchange forward contracts	-	356
Other creditors and accruals	281,268	304,790
Dividends payable to the equity shareholders of the Company	3	3
	<u>366,676</u>	<u>404,377</u>
Non-current		
Other creditors and accruals	127,041	115,330
Total	<u>493,717</u>	<u>519,707</u>

12. Trade and other payables (continued)

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

	<i>At 30 June 2017</i>	<i>At 31 December 2016</i>
	RMB'000	RMB'000
Within 1 month	56,552	71,005
Over 1 month but within 3 months	5,806	10,415
Over 3 months but within 6 months	5,510	5,633
Over 6 months	8,333	5,676
	<u>76,201</u>	<u>92,729</u>

13. Bank loans

As at 30 June 2017, the bank loans were repayable as follow:

	<i>At 30 June 2017</i>	<i>At 31 December 2016</i>
	RMB'000	RMB'000
Bank loans repayable within one year or on demand	<u>1,688</u>	<u>1,688</u>
Non-current bank loans	4,642	5,486
Less: Repayable within one year	<u>(1,688)</u>	<u>(1,688)</u>
Bank loans repayable more than one year	<u>2,954</u>	<u>3,798</u>

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

As at 30 June 2017, the bank loans of the Group were secured by mortgages over buildings with an aggregate carrying amount of RMB16,123,000 (31 December 2016: RMB16,610,000) (note 8(b)).

14. Dividends

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

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2017 and 2016.

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

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

15. Commitments

(a) *Operating lease commitments*

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

	<i>At 30 June 2017</i>	<i>At 31 December 2016</i>
	RMB'000	RMB'000
Less than one year	221,386	232,717
Between one and five years	683,554	689,199
More than five years	202,434	283,285
	<u>1,107,374</u>	<u>1,205,201</u>

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

(b) *Capital commitments*

Capital commitments in respect of purchase of property, plant and equipment outstanding at 30 June 2017 and 31 December 2016 but not provided for in the consolidated financial statements were as follows:

	<i>At 30 June 2017</i>	<i>At 31 December 2016</i>
	RMB'000	RMB'000
Authorised but not contracted for	<u>57,000</u>	<u>88,500</u>

16. Material related party transactions

Transactions with the following entities are considered as significant related party transactions for the six months ended 30 June 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 Edward Tan Han Kiat and Alfred Chan Kai Tai have significant influence
Beijing Scitech Holdings Limited and its subsidiaries	Company controlled by Alfred Chan Kai Tai and Edward Tan Han Kiat

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

Particulars of significant transactions between the Group and the above related parties for the six months ended 30 June 2017 and 2016 are as follows:

(a) Transactions with key management personnel

	<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>
	RMB'000	RMB'000
Short-term employee benefits	2,822	1,160
Contributions to defined contribution retirement plans	18	10

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

16. Material related party transactions (continued)

(b) Sales, purchases and rental charges

	<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
Sales of goods to:		
Ports International Retail Corporation	3,299	3,430
Purchases of goods from:		
Ports International Retail Corporation	862	46
Rental fee charged to:		
Beijing Scitech Holdings Limited and its subsidiaries	2,304	282

(c) Other transactions

	<u>Six months ended 30 June</u>	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
Rental fee reimbursed to:		
PKL*	6,327	4,953

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

BUSINESS REVIEW AND OUTLOOK

In the first half of 2017, we have recorded a 17.9% increase in top line revenue as compared to the corresponding period in 2016. Our management considers that such positive result is attributable to the success in our distribution strategy in target markets, together with improvement in the performance across our retail store network.

Hard work has paid off with regard to our distribution business in newly established markets. Our distribution partners in certain target markets, for instance, Japan and South Korea, have offered us invaluable local knowledge and connection and at the same time, complement our distribution network. Such cooperation has reduced our business risks by minimizing our capital investments and administrative burden in locations which are relatively new to the Group. This is important from risk management perspective, given the uncertainty of the economic conditions and relatively weak consumption appetite across the globe. Credit must be given to our business team and marketing team which help to ensure that the operations and marketing works of our business partners are able to meet the high standard expected from, and consistently practiced by, the Group.

We are particularly pleased with our marketing exposure in South Korea, which is of growing importance to the luxury fashion industry, where fashion lovers and artists have often been spotted by press or their social media platforms wearing Ports 1961 collections, whether in private or in public functions. Their “Instagram”, “Facebook” and other local social media platforms have all served as important and effective marketing tools for the promotion and introduction of our labels and collections to the local target customers. At the same time, we have also witnessed the growing recognition of our Ports 1961 label in traditionally important fashion markets. For instance, the runway shows of our Ports 1961 FW 17 womenswear collection, designed by our creative director Natasa Cagalj, have attracted great attention during the London Fashion Week and has reinforced the status of Ports 1961 as an important member in the fashion industry.

Looking ahead to the second half of 2017, we aim to continually improve the overall efficiency of our operations to ensure that we can deliver and execute our strategies at a consistently high standard across and among different departments. We will invest our capital resources with the objectives of solidifying the position of Ports 1961 as a global international fashion label on one hand and introducing PortsPURE to address the growing popularity of the affordable luxury segment on the other hand. Our management considers that there are enormous potentials in both labels and coupled with our solid performance in the licensed brand divisions, we are cautiously optimistic about the overall performance of the Group in long term.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Revenue of the Group increased from RMB892.7 million in 1H2016 to RMB1,052.4 million in 1H2017, representing an increase of 17.9%. Revenue comprises one reportable segment under “retail” and revenue generated from other business activities. Please refer to note 3(b) under the section “Notes” for further details.

Retail Segment Revenue

Retail segment revenue increased from RMB813.0 million in 1H2016 to RMB971.9 million in 1H2017, representing an increase of 19.5%. Such increase was attributed to the gradual recovery of the luxury fashion retail environment and the increasing recognition of our core label “Ports 1961” and newly launched label “PortsPURE” among fashion lovers. As at 30 June 2017, the Group operated 356 retail stores in the mainland China, Hong Kong, the U.S. and Canada, as compared to 343 retail stores as at 31 December 2016. In light of the current economic environment, the management of the Group remains cautious about the growth of store network to maximize economic efficiency and the Group will continue to allocate resources to support and grow the online sales activities of the Group. The contribution of Retail segment to total revenue increased from 91.1% in 1H2016 to 92.4% in 1H2017.

Revenue from other business activities

Others revenue slightly increased by 1.0%, from RMB79.7 million in 1H2016 to RMB80.5 million in 1H2017. Such moderate increase was mainly due to the stable revenue generated from our wholesale business in the Euro denominated market and our traditional OEM business. The contribution from Others revenue to total revenue decreased from 8.9% in 1H2016 to 7.6% in 1H2017.

Gross Profit

Gross profit increased from RMB704.2 million in 1H2016 to RMB838.6 million in 1H2017, representing an increase of 19.1%. Gross profit margin slightly increased from 78.9% in 1H2016 to 79.7% in 1H2017.

Retail Segment Gross Profit

Retail segment gross profit increased by 19.0% from RMB682.1 million in 1H2016 to RMB812.0 million in 1H2017. Such increase was mainly attributed to the sales growth in our retail segment. Retail segment gross profit margin slightly decreased from 83.9% in 1H2016 to 83.5% in 1H2017.

Others Segment Gross Profit

Others segment gross profit increased from RMB22.1 million in 1H2016 to RMB26.5 million in 1H2017, representing an increase of 19.9% which resulted from an increase in our wholesale business in the Euro denominated markets. Others segment gross profit margin increased from 27.7% in 1H2016 to 32.9% in 1H2017.

Other Revenue

Other revenue consisted of design and decoration income, insurance compensation, government subsidy as well as rental income. Other revenue increased by 122.4%, from RMB4.9 million in 1H2016 to RMB10.9 million in 1H2017, primarily due to rental income received from the leasing of properties since the beginning of 2017 and the increase in design and decoration income as compared to the corresponding period in 2016.

Operating Expenses

Operating expenses increased from RMB677.5 million in 1H2016 to RMB800.2 million in 1H2017, representing an increase of 18.1%. 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 mainly comprised of retail store rental charges, salaries and benefits, store and mall expenses, depreciation charges and advertising or consultant service fees. Selling and distribution expenses increased from RMB503.9 million in 1H2016 to RMB567.1 million in 1H2017, representing an increase of 12.5% (1H2016 versus 1H2015: an increase of 1.3%). The increase was mainly due to the increase in retail store rental charges and salaries and benefits for retail sales staff, which were in line with the increase in retail sales of the Group. Selling and distribution expenses as a percentage of retail segment revenue decreased to 58.3% in 1H2017 (1H2016: 62.0%).

Salaries and benefits for retail sales staff increased from RMB113.7 million in 1H2016 to RMB134.0 million in 1H2017, representing an increase of 17.9% (1H2016 versus 1H2015: an increase of 8.3%). Salaries and benefits for retail sales staff as a percentage of retail segment revenue slightly decreased to 13.8% in 1H2017 (1H2016: 14.0%).

Administrative expenses

Administrative expenses decreased from RMB57.7 million in 1H2016 to RMB56.1 million in 1H2017, representing a decrease of 2.8%. Administrative expenses as a percentage of total revenue decreased to 5.3% in 1H2017 (1H2016: 6.5%). The management of the Group has adopted a prudent cost control policy across different departments to ensure that expenses were properly incurred.

Salaries and benefits for administrative staff, the single largest category of administrative expenses, increased from RMB33.3 million in 1H2016 to RMB34.2 million in 1H2017, representing an increase of 2.7%. Salaries and benefits for administrative staff as a percentage of total revenue decreased to 3.2% in 1H2017 (1H2016: 3.7%).

Other operating expenses

Other operating expenses increased from RMB115.9 million in 1H2016 to RMB176.9 million in 1H2017, representing an increase of 52.6% or RMB61.0 million, due to the increases in write-down of inventories and impairment loss of leasehold improvements of retail stores. During 1H2017, the write-down of inventories made as a percentage of retail segment revenue decreased to 13.5% (1H2016: 14.2%).

Profit from Operations

The Group's profit from operations increased from RMB31.2 million in 1H2016 to RMB49.1 million in 1H2017, representing an increase of 57.4% or RMB17.9 million. The Group's operating margin (i.e. profit from operations expressed as a percentage of total revenue) increased from 3.5% in 1H2016 to 4.7% in 1H2017. The financial performance of the Group has gradually improved due to the positive trend in our retail and distribution activities, although the significant increase in the impairment loss of leasehold improvements has restricted the growth of the profit from operations for the period.

Net Finance Income

Net finance income decreased from RMB5.7 million in 1H2016 to RMB1.8 million in 1H2017, representing a decrease of 68.4%. During 1H2017, the Group reported an interest income of RMB5.2 million, representing an increase of RMB0.5 million, from RMB4.7 million in 1H2016. On the other hand, interest expense for the Group decreased by RMB2.3 million, from RMB2.4 million in 1H2016 to RMB0.1 million in 1H2017, due to the reduction of bank loans. The Group recorded an exchange loss of RMB2.5 million in 1H2017, as compared to a gain of RMB5.0 million in 1H2016, as Euros, US\$, Canadian dollar and HK\$ denominated net assets depreciated against RMB during 1H2017.

Income Tax

The Group's income tax expense increased by 40.5% from RMB30.9 million in 1H2016 to RMB43.4 million in 1H2017. The effective income tax rate increased from 83.8% in 1H2016 to 85.3% in 1H2017 due to the fact that a higher portion of revenue is taxable during 1H2017.

Profit attributable to equity shareholders

As a result of the factors discussed above, profit attributable to equity shareholders of the Company increased from RMB4.5 million in 1H2016 to RMB5.5 million in 1H2017, representing an increase of 22.2%.

Financial Position, Liquidity and Gearing Ratio

As at 30 June 2017, the Group had RMB715.2 million (as at 31 December 2016: RMB709.4 million) in cash and cash equivalents, fixed deposits with banks with original maturity over three months and pledged bank deposits. As at 30 June 2017, the Group had bank loans of RMB4.6 million, representing a decrease of 16.4% from RMB5.5 million as at 31 December 2016. As such, interest expenses decreased by 95.8% to RMB0.1 million in 1H2017 (1H2016: RMB2.4 million).

Net cash generated from operations activities was RMB101.2 million in 1H2017 as compared with RMB66.2 million in 1H2016, representing an increase of 52.9% primarily due to the increase in profit before taxation resulted from the increase in retail revenue during 1H2017.

As at 30 June 2017, the Group's gearing ratio was 0.2% (as at 31 December 2016: 0.3%) based on outstanding borrowings and total equity of RMB2,076.5 million (as at 31 December 2016: RMB2,062.7 million). As at 30 June 2017, the current ratio was 4.99 (as at 31 December 2016: 4.38) based on current assets of RMB1,988.5 million (as at 31 December 2016: RMB1,957.0 million) and current liabilities of RMB398.5 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, US\$, Canadian dollar, HK\$ and Euros, with major banks in Hong Kong and the mainland China and hence, the Group is exposed to foreign exchange risk arising from the fluctuation of exchange rate among those currencies. The management will continue to monitor the foreign exchange risks of the Group on a regular basis. The Group does not employ any financial instruments for hedging purposes.

Capital Commitments and Contingent Liabilities

As at 30 June 2017, the Group had capital commitments of RMB57.0 million, as compared with RMB88.5 million as at 31 December 2016, which was authorized but not contracted for. The Group has no material contingent liabilities as at 30 June 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 30 June 2017, the Group had cash and cash equivalents, fixed deposits with banks with original maturity over three months and pledged bank deposits of RMB715.2 million (as at 31 December 2016: RMB709.4 million), denominated principally in RMB, US\$, Canadian dollar, HK\$ and Euros. The directors of the Company ("Directors") believe that the cash balances and net cash inflow from operating activities are sufficient to support the operating activities of the Group.

As at 30 June 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 RMB58.0 million (as at 31 December 2016: nil). There are no fixed or determinable returns for these wealth management products and trust products, and the returns of the principals are not guaranteed.

Charges on Assets

As at 30 June 2017, the Group's bank deposits in the amount of RMB78.8 million (as at 31 December 2016: RMB59.5 million) and buildings in the amount of RMB16.1 million (as at 31 December 2016: RMB16.6 million) were pledged to secure bank borrowings, letter of credit and letter of guarantee and foreign currency swap contracts granted to the Group in connection with its operation in the ordinary course of business.

Human Resources

As at 30 June 2017, the Group had approximately 4,500 employees (as at 31 December 2016: 4,500 employees). Total personnel expenses, comprised of wages, salaries, and benefits, amounted to RMB227.2 million in 1H2017, compared with RMB204.9 million in 1H2016, representing an increase of 10.9%. In 1H2017, total personnel expenses as a percentage of the Group's revenue was at 21.6% (1H2016: 23.0%).

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

Purchase, Sales or Redemption of Listed Securities

Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during 1H2017 (1H2016: nil).

Review of accounts

The audit committee of the Company (“Audit Committee”) consists of three independent non-executive Directors, namely, Mr. Lin Tao (Chairman), Mr. Zheng Wanhe and Mr. Antonio Delfin Gregorio with terms of reference in compliance with the rules governing the listing of securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “HKEx”). The Company has established the Audit Committee for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls.

The Audit Committee has reviewed the unaudited consolidated financial statements of the Company for 1H2017, which has also been reviewed by KPMG, external auditors of the Company.

Corporate Governance Code

The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules during 1H2017.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the 1H2017 (1H2016: nil).

Publication of Interim Report

This announcement is available for viewing on the websites of HKEX at <http://www.hkexnews.hk> and the Company at <http://www.portico-intl.com>. The interim report for 1H2017 containing all the information as required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and published on the websites of the HKEX and the Company on or before Tuesday, 26 September 2017.

By Order of the Board
Portico International Holdings Limited
Anthony P. Chan
*Chief Executive Officer and
Executive Director*

Hong Kong, 25 August 2017

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

Executive Directors:

Mr. Alfred Chan Kai Tai
Mr. Anthony P. Chan
Ms. Jenny Ching Ching Tan
Mr. He Kun

Independent Non-Executive Directors:

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