

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer, or other registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Portico International Holdings Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)**

**BLUESTONE GLOBAL HOLDINGS LIMITED**

*(Incorporated in the British Virgin Islands with limited liability)*

**PROPOSED PRIVATISATION OF  
PORTICO INTERNATIONAL HOLDINGS LIMITED  
BY**

**BLUESTONE GLOBAL HOLDINGS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA),  
AT THE CANCELLATION PRICE OF HK\$4.10 PER SCHEME SHARE**

**Financial Adviser to Bluestone Global Holdings Limited**



**SOMERLEY CAPITAL LIMITED**

**Independent Financial Adviser to the Independent Board Committee of  
Portico International Holdings Limited**



**Halcyon Capital Limited**

A letter from the Board (as defined herein) is set out on pages 9 to 14 of this Scheme Document. An Explanatory Statement (as defined herein) regarding the Scheme (as defined herein) is set out on pages 46 to 66 of this Scheme Document. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in relation to the Proposal is set out on pages 15 to 16 of this Scheme Document. A letter from Halcyon Capital Limited, the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 17 to 45 of this Scheme Document.

The action to be taken by the Independent Shareholders and the Scheme Shareholders (each as defined herein) is set out on page 65 of this Scheme Document.

Notices convening the Court Meeting (as defined herein) and the SGM (as defined herein) to be held at Dorsett Wanchai, Hong Kong at 387-397 Queen's Road East, Wan Chai, Hong Kong on the same date of Friday, 27 July 2018 at 4:00 p.m. and 4:30 p.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned), respectively, are set out on pages 136 to 140 of this Scheme Document. Whether or not you are able to attend the Court Meeting and/or the SGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited, the branch share registrar of Portico International Holdings Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than the times and dates as stated under the paragraph headed "Action to be taken" on page 65 of this Scheme Document. In the case of the pink form of proxy in respect of the Court Meeting, it may alternatively be returned by facsimile at number (852) 2506 0908 (marked for the attention of "the Company Secretary") up to the time of the Court Meeting or it may be handed to the chairman of the Court Meeting at the Court Meeting, if it is not so lodged.

\* For identification purpose only

4 July 2018

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## IMPORTANT NOTICE

### NOTICE TO US SHAREHOLDERS

The Proposal is being made for the Shares of PIHL, a company incorporated in Bermuda, the Shares of which are listed on the Stock Exchange, and is proposed to be implemented under a scheme of arrangement provided for under the Companies Act. A transaction effected by means of a scheme of arrangement is not subject to the proxy solicitation nor the tender offer rules under the United States Securities Exchange Act of 1934. Accordingly, the Proposal will be subject to disclosure requirements and practices in Bermuda and Hong Kong, which are different from the disclosure requirements of the US proxy solicitation rules and tender offer rules. The financial information included in this Scheme Document has been prepared in accordance with accounting standards in Hong Kong and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States. In addition, the settlement procedure with respect to the Proposal will comply with the rules of the Takeovers Code and the Companies Act, which differ from US domestic settlement procedures in certain material respects, particularly with regard to the date of payment of consideration.

It may be difficult for US holders of Shares to enforce their rights and any claim arising out of the US federal securities laws, since the Offeror and PIHL are located in a non-US jurisdiction, and some or all of their officers and directors may be residents of non-US jurisdictions. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.

## DEFINITIONS

*In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:*

“acting in concert”	has the meaning given in the Takeovers Code
“Announcement”	the announcement dated 7 June 2018 issued jointly by the Offeror and PIHL in relation to the Proposal
“Associate(s)”	has the meaning given in the Takeovers Code
“Authorisations”	all necessary notifications, registrations, applications, filings, authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions, no-action relief, exemption relief orders and approvals, and all appropriate waiting periods (including extensions thereof), in connection with the Proposal
“Board”	the board of Directors of PIHL
“Business Day”	a day (excluding Saturday and Sunday) on which banks in Hong Kong are open for business
“Cancellation Price”	a price of HK\$4.10 per Scheme Share payable in cash to the Scheme Shareholders pursuant to the Scheme
“CFS”	CFS International Inc, a company established in the Province of Alberta, Canada which is owned as to 97.52% by PIEL, as to 1.70% by Mr. Alfred Chan and as to 0.78% by Mr. Edward Tan and holds 250,187,637 Shares, representing approximately 45.12% of the issued share capital of PIHL
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Conditions”	the conditions to which the Proposal is subject, as set out in the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 47 to 49 of this Scheme Document
“Court”	the Supreme Court of Bermuda
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Court at which the Scheme will be voted upon which will be held at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong on Friday, 27 July 2018 at 4:00 p.m., the notice of which is set out on pages 136 to 137 of this Scheme Document, or any adjournment thereof

## DEFINITIONS

“Court Order”	the order of the Court confirming the sanction of the Scheme as required by Section 99 of the Companies Act
“Director(s)”	the director(s) of PIHL, including the independent non-executive directors on the Independent Board Committee
“Effective Date”	the date on which a copy of the Court Order has been delivered to the Registrar of Companies in Bermuda for registration (as required by Section 99(3) of the Companies Act)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement set out on pages 46 to 66 of this Scheme Document issued in compliance with Section 100 of the Companies Act
“Halcyon Capital”	Halcyon Capital Limited, the independent financial adviser to the Independent Board Committee in respect of the Proposal and a corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) of the regulated activity under the SFO
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of PIHL, comprising Mr. Wanhe Zheng, Mr. Antonio Delfin Gregorio and Mr. Kevin De-Kang Yin, all of whom are independent non-executive directors of PIHL, which has been established to advise the Independent Shareholders in connection with the Proposal
“Independent Shareholders”	Shareholders other than the Offeror, PIEL, CFS, Mr. Alfred Chan, Mr. Edward Tan, Mr. Anthony Paul Chan, Mr. Kun He and any other persons acting in concert with the Offeror
“Latest Practicable Date”	29 June 2018, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	21 December 2018

## DEFINITIONS

“Mr. Alfred Chan”	Mr. Alfred Chan Kai Tai, Chairman of the Board of Directors and Executive Director of PIHL and 50% ultimate beneficial owner of the Offeror
“Mr. Anthony Paul Chan”	Mr. Anthony Paul Chan, Chief Executive Officer and Executive Director of PIHL and the son of Mr. Alfred Chan
“Mr. Edward Tan”	Mr. Edward Tan Han Kiat, 50% ultimate beneficial owner of the Offeror and the brother of Mr. Alfred Chan
“Ms. Jenny Tan”	Ms. Jenny Ching Ching Tan, President, Chief Operating Officer and Executive Director of PIHL and the daughter of Mr. Edward Tan
“Offeror”	Bluestone Global Holdings Limited, a company established under the laws of the British Virgin Islands which is indirectly ultimately beneficially owned as to 50% by Mr. Alfred Chan and as to 50% by Mr. Edward Tan
“Offer Period”	the period from the date of the Announcement until the later of (i) the Effective Date; (ii) the date on which the Scheme lapses; or (iii) the date on which an announcement is made of the withdrawal of the Scheme
“PIEL”	Ports International Enterprises Limited, a company established under the laws of the British Virgin Islands which is owned as to 50% by Mr. Alfred Chan, and as to 50% by Mr. Edward Tan, which directly holds 162,705,752 Shares representing approximately 29.35% of the issued share capital of PIHL and also holds 97.52% of the issued share capital of CFS
“PIHL” or “Company”	Portico International Holdings Limited, a company incorporated in Bermuda with limited liability and having its shares listed on the Main Board of the Stock Exchange with Stock Code 0589
“PIHL Group”	PIHL and its subsidiaries
“PRC”	the People’s Republic of China
“Pre-Announcement Last Trading Day”	25 May 2018, being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement

## DEFINITIONS

“Previous Offer”	has the meaning given in the section of the Explanatory Statement headed “Reasons for and Benefits of the Proposal”, on page 29 of this Scheme Document
“Proposal”	the proposal for the privatisation of PIHL by the Offeror by way of the Scheme as described in this Scheme Document
“Record Date”	the Business Day immediately preceding the Effective Date, being the record date for the purpose of determining the entitlement of the Scheme Shareholders under the Scheme
“Register”	the register of members of PIHL
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions (including the SFC and the Stock Exchange)
“Relevant Period”	the period commencing on the date falling six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date
“Scheme”	a scheme of arrangement under Section 99 of the Companies Act between PIHL and the Scheme Shareholders involving the cancellation of all the Scheme Shares, details of which are set out on pages 130 to 135 of this Scheme Document, with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Share(s)”	Share(s) held by the Scheme Shareholder(s) on the Record Date
“Scheme Shareholder(s)”	Shareholders other than PIEL, CFS, Mr. Alfred Chan, Mr. Edward Tan and Mr. Anthony Paul Chan
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time



## DEFINITIONS

“SGM”	the special general meeting of PIHL to be held at 4:30 p.m. (or as soon thereafter as the Court Meeting convened for the same date and place shall have been concluded or adjourned) at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong on Friday, 27 July 2018, for the approval and implementation of the Scheme, the notice of which is set out on pages 138 to 140 of this Scheme Document, or any adjournment thereof
“Share(s)”	share(s) of par value HK\$0.0025 each in the share capital of PIHL
“Shareholder(s)”	holder(s) of the Shares
“Somerley Capital”	Somerley Capital Limited, a licensed corporation under the SFO, registered to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO, the financial adviser to the Offeror in connection with the Proposal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“US”	United States of America
“V-Grass”	V-Grass Fashion Co. Ltd (維格娜絲時裝股份有限公司), a company established under the laws of the PRC and principally engaged in the design, manufacture and distribution of ladies apparel. The shares of V-Grass are listed on the Shanghai Stock Exchange
“V-Grass Irrevocable Undertaking”	the irrevocable undertaking to vote in favour of the Scheme given by V-Grass, as described in the section of the Explanatory Statement headed “V-Grass Irrevocable Undertaking”, on page 64 of this Scheme Document
“%”	percent

## **DEFINITIONS**

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant times and dates in Bermuda. For reference only, Bermuda time is 11 hours behind Hong Kong time as at the date of this Scheme Document.

<b>EXPECTED TIMETABLE</b>
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**Hong Kong time**

Latest time for lodging transfers of Shares to qualify for attending and voting at the Court Meeting and the SGM. . . . .	4:30 p.m. on Monday, 23 July 2018
Register of members closed for determination of entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the SGM. . . . .	Tuesday, 24 July 2018 to Friday, 27 July 2018 (both days inclusive)
Latest time for lodging forms of proxy in respect of the Court Meeting ( <i>Note 1</i> ) . . . . .	4:00 p.m. on Wednesday, 25 July 2018
Latest time for lodging forms of proxy in respect of the SGM ( <i>Note 1</i> ). . . . .	4:30 p.m. on Wednesday, 25 July 2018
Court Meeting ( <i>Note 1</i> ) . . . . .	4:00 p.m. on Friday, 27 July 2018
SGM ( <i>Note 1</i> ). . . . .	4:30 p.m. on Friday, 27 July 2018
Announcement of the results of the Court Meeting and the SGM. . . . .	no later than 7:00 p.m. on Friday, 27 July 2018
Expected last day for trading in the Shares on the Stock Exchange . . . . .	Friday, 3 August 2018
Latest time for lodging transfers of Shares to qualify for entitlements under the Scheme . . . . .	4:30 p.m. on Wednesday, 8 August 2018
Closure of the register of member of the Company for determining the entitlement of the Scheme Shareholders under the Scheme. . . . .	4:30 p.m. on Thursday, 9 August 2018 onwards
Court hearing of the petition to sanction the Scheme ( <i>Note 2 and Note 3</i> ) . . . . .	Friday, 17 August 2018
Announcement of (i) the result of the Court hearing of the petition to sanction the Scheme, (ii) the expected Effective Date and (iii) the expected date of withdrawal of the listing of the Shares. . . . .	no later than 7:00 p.m. on Monday, 20 August 2018
Record Date for determining the entitlement of the Scheme Shareholders under the Scheme . . . . .	Tuesday, 21 August 2018

## EXPECTED TIMETABLE

Effective Date ( <i>Note 3</i> ) . . . . .	Tuesday, 21 August 2018
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange . . . . .	Wednesday, 22 August 2018
Withdrawal of the listing of the Shares on the Stock Exchange becomes effective. . . . .	4:00 p.m. on Thursday, 23 August 2018
Cheques for cash entitlements under the Scheme to be despatched. . . . .	on or before Thursday, 30 August 2018

**Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.**

*Notes:*

1. Forms of proxy should be lodged, by hand or by post, with Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, as soon as possible and in any event no later than the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may alternatively be returned by facsimile at number (852) 2506 0908 (marked for the attention of “the Company Secretary”) or it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the pink form of proxy for the Court Meeting and the white form of proxy for the SGM must be lodged not later than the times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the SGM will not preclude a Shareholder from attending the relevant meetings and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
2. All references in this Scheme Document to times and dates are references to Hong Kong times and dates, other than the expected dates of the Court hearing of the petition to sanction the Scheme and the Effective Date, which are the relevant dates in Bermuda. Bermuda time is 11 hours behind Hong Kong time.
3. The Scheme shall become effective upon all the Conditions being fulfilled or otherwise waived (as the case may be).

The Court Meeting and the SGM will both be held at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong on Friday, 27 July 2018, at 4:00 p.m. and 4:30 p.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned) respectively. Please see the notice of the Court Meeting set out on pages 136 and 137 and the notice of the SGM set out on pages 138 and 140 of this Scheme Document for details.

LETTER FROM THE BOARD



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)**

*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

*Registered office:*

Canon's Court

22 Victoria Street

Hamilton HM 12 Bermuda

*Independent Non-Executive Directors:*

Mr. Wanhe Zheng

Mr. Antonio Delfin Gregorio

Mr. Kevin De-Kang Yin

*Principal place of*

*business in Hong Kong:*

Suite 2702, Hysan Place

500 Hennessy Road

Causeway Bay

Hong Kong

4 July 2018

*To the Shareholders*

Dear Sir/Madam,

**PROPOSED PRIVATISATION OF  
PORTICO INTERNATIONAL HOLDINGS LIMITED  
BY  
BLUESTONE GLOBAL HOLDINGS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA),  
AT THE CANCELLATION PRICE OF HK\$4.10 PER SCHEME SHARE**

**INTRODUCTION**

On 7 June 2018, the boards of directors of the Offeror and PIHL jointly announced that the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of PIHL by way of the Scheme involving the cancellation of all the

\* For identification purpose only

## LETTER FROM THE BOARD

Scheme Shares, as a result of which it is intended that the Offeror and persons acting in concert with the Offeror will hold 100% of the issued share capital of PIHL and the listing of PIHL's shares on the Stock Exchange will be withdrawn.

The Offeror has appointed Somerley Capital as its financial adviser in connection with the Proposal.

An Independent Board Committee of PIHL, comprising all three independent non-executive directors of PIHL, has been established to advise the Independent Shareholders in connection with the Proposal. Halcyon Capital has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and to give you notices of the Court Meeting and the SGM (together with proxy forms in relation thereto). Your attention is also drawn to:

- (i) the letter from the Independent Board Committee set out on pages 15 to 16 of this Scheme Document;
- (ii) the letter from Halcyon Capital, the independent financial adviser to the Independent Board Committee, set out on pages 17 to 45 of this Scheme Document;
- (iii) the Explanatory Statement set out on pages 46 to 66 of this Scheme Document; and
- (iv) the Scheme set out on pages 130 to 135 of this Scheme Document.

### TERMS OF THE PROPOSAL

#### Cancellation of Scheme Shares

The Scheme provides that the Scheme Shares be cancelled in exchange for the payment to each Scheme Shareholder of:

**for each Scheme Share . . . . . HK\$4.10 in cash**

Only Independent Shareholders may vote at the Court Meeting on the resolution to approve the Scheme. The PIHL Shares owned by the Offeror and persons acting in concert with the Offeror will not be voted at the Court Meeting on the resolution to approve the Scheme.

As at the Latest Practical Date, the Independent Shareholders were interested in 138,696,603 PIHL Shares (representing approximately 25.01% of the issued share capital of PIHL as at the Latest Practicable Date), and the Offeror and persons acting in concert with the Offeror were interested in 415,756,889 PIHL Shares (representing approximately 74.99% of the issued share capital of PIHL as at the Latest Practicable Date).

## LETTER FROM THE BOARD

### No Increase Statement

**The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.**

### Terms of the Proposal

The detailed terms of the Proposal are set out in the Explanatory Statement on pages 46 to 66 of this Scheme Document.

### Comparison of value

The Cancellation Price of HK\$4.10 per Scheme Share represents:

- a premium of approximately 13.9% over the closing price of HK\$3.6 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 50.2% over the closing price of HK\$2.73 per Share as quoted on the Stock Exchange on the Pre-Announcement Last Trading Day;
- a premium of approximately 51.6% over the average closing price of HK\$2.704 per Share based on the daily closing prices as quoted on the Stock Exchange over the 5 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 49.2% over the average closing price of approximately HK\$2.748 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 49.9% over the average closing price of approximately HK\$2.736 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including the Pre-Announcement Last Trading Day; and
- a discount of approximately 9.9% to the audited consolidated net asset value attributable to Shareholders per Share of approximately RMB3.79 (equivalent to approximately HK\$4.55) as at 31 December 2017.

### CONDITIONS OF THE PROPOSAL

The Proposal is conditional upon the fulfilment or waiver, as applicable, of the Conditions set out in the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 47 to 49 of this Scheme Document.

## **LETTER FROM THE BOARD**

When the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective and binding on the Offeror, PIHL and all the Scheme Shareholders. The Scheme will lapse if it does not become effective on or before the Long Stop Date, or such later date as the Offeror and PIHL may agree and the Court may allow.

**Shareholders and potential investors should be aware that implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not become effective. Shareholders are advised to exercise caution when dealing in Shares.**

### **REASONS FOR AND BENEFITS OF THE PROPOSAL**

Your attention is drawn to the section headed “Reasons for and benefits of the Proposal” in the Explanatory Statement on pages 58 to 59 of this Scheme Document.

### **INFORMATION ON THE PIHL GROUP AND THE OFFEROR**

Your attention is drawn to the section headed “Information on the PIHL Group” set out in the Explanatory Statement on page 57 of this Scheme Document and the sections headed “Information on the Offeror, PIEL and CFS” set out in the Explanatory Statement on page 58 of this Scheme Document.

Your attention is also drawn to the “Financial Information on the PIHL Group” set out in Appendix I to this Scheme Document.

### **INTENTION OF THE OFFEROR WITH REGARD TO PIHL**

Your attention is drawn to the section headed “Intention of the Offeror with regard to PIHL” in the Explanatory Statement on page 58 of this Scheme Document.

### **OVERSEAS SHAREHOLDERS OF PIHL**

Your attention is drawn to the section headed “Overseas shareholders of PIHL” set out in the Explanatory Statement on page 61 of this Scheme Document.

### **COURT MEETING AND SGM**

In accordance with the direction of the Court, the Court Meeting has been convened to be held on Friday, 27 July 2018 at 4:00 p.m. 2018, for the purpose of considering and, if thought fit, passing an appropriate resolution to approve the Scheme (with or without modifications). The Scheme is subject to approval by the Scheme Shareholders at the Court Meeting (without counting the votes of those Scheme Shareholders not being Independent Shareholders) in the manner referred to in paragraph (a) of the section headed “Conditions of the Proposal” set out in the Explanatory Statement on pages 47 to 49 of this Scheme Document.



## **LETTER FROM THE BOARD**

Only Independent Shareholders may vote at the Court Meeting. The Shares owned by the Offeror and persons acting in concert into the Offeror will not be voted at the Court Meeting.

Immediately following the Court Meeting, the SGM will be held for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the issued share capital of PIHL). The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the SGM. All Shareholders will be entitled to attend and vote on such special resolution at the SGM.

Notice of the Court Meeting is set out on pages 136 to 137 of this Scheme Document. The Court Meeting will be held at 4:00 p.m. on Friday, 27 July 2018 at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong.

Notice of the SGM is set out on pages 138 to 140 of this Scheme Document. The SGM will be held at 4:30 p.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned) on Friday, 27 July 2018 at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong.

### **V-GRASS IRREVOCABLE UNDERTAKING**

V-Grass is a Scheme Shareholder and has given the V-Grass Irrevocable Undertaking to the Offeror and PIHL, pursuant to which V-Grass has irrevocably undertaken to vote the Scheme Shares held by it in favour of the Scheme at the Court Meeting.

Further information in relation to the V-Grass Irrevocable Undertaking is set out in the section headed “V-Grass Irrevocable Undertaking” in the Explanatory Statement on page 64 of this Scheme Document.

### **ACTION TO BE TAKEN**

Your attention is drawn to the section headed “Action to be taken” in the Explanatory Statement.

### **EXPLANATORY STATEMENT**

Please refer to the Explanatory Statement set out on pages 46 to 66 of this Scheme Document, for detailed information in relation to the terms of the Proposal and a detailed explanation of the effects of the Proposal.

### **RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE**

Your attention is drawn to the recommendation of the Independent Board Committee in respect of the Proposal and the Scheme as set out in the letter from the Independent Board Committee on pages 15 to 16 of this Scheme Document.

## LETTER FROM THE BOARD

### ADVICE OF HALCYON CAPITAL

Please also refer to the advice of Halcyon Capital set out in a letter from Halcyon Capital to the Independent Board Committee on pages 17 to 45 of this Scheme Document.

### FURTHER INFORMATION

You are urged to read carefully:

- (i) the letters from the Independent Board Committee and from Halcyon Capital, the independent financial adviser to the Independent Board Committee, set out on pages 15 to 16 and pages 17 to 45 of this Scheme Document, respectively;
- (ii) the Explanatory Statement set out on pages 46 to 66 of this Scheme Document;
- (iii) the Appendices to this Scheme Document, including the Scheme set out on pages 67 to 135 of this Scheme Document;
- (iv) the notice of the Court Meeting set out on pages 136 to 137 of this Scheme Document; and
- (v) the notice of the SGM set out on pages 138 to 140 of this Scheme Document.

Yours faithfully,  
For and on behalf of the Board of  
**Portico International Holdings Limited**  
**Irene Fung Mei Wong**  
*Company Secretary*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**



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)**

4 July 2018

*To the Independent Shareholders*

Dear Sir/Madam,

**PROPOSED PRIVATISATION OF  
PORTICO INTERNATIONAL HOLDINGS LIMITED  
BY  
BLUESTONE GLOBAL HOLDINGS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 99 OF THE COMPANIES ACT OF BERMUDA),  
AT THE CANCELLATION PRICE OF HK\$4.10 PER SCHEME SHARE**

We refer to the document dated 4 July 2018 jointly issued by the Offeror and PIHL in relation to the Proposal (the “Scheme Document”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings when used in this letter unless the context otherwise requires.

On 7 June 2018, the boards of directors of the Offeror and PIHL jointly announced that the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding the proposed privatisation of PIHL by way of the Scheme involving the cancellation of all the Scheme Shares, as a result of which it is intended that the Offeror and persons acting in concert with the Offeror will hold 100% of the issued share capital of PIHL and the listing of PIHL’s shares on the Stock Exchange will be withdrawn.

Details of the Proposal are set out in the “Letter from the Board” on pages 9 to 14 of the Scheme Document and the Explanatory Statement on pages 46 to 66 of the Scheme Document.

We have been appointed as members of the Independent Board Committee to give a recommendation to the Independent Shareholders as to whether, in our opinion, the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned, and to advise the Independent Shareholders how to vote in respect of the Scheme at the Court Meeting and the SGM.

\* *For identification purpose only*

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Halcyon Capital has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal. Details of the advice from Halcyon Capital and the principal factors Halcyon Capital has taken into consideration in arriving at its recommendation are set out in the “Letter from Halcyon Capital” on pages 17 to 45 of the Scheme Document.

We also wish to draw the attention of the Independent Shareholders to the further information set out in the appendices to the Scheme Document.

### RECOMMENDATIONS

Having considered the terms of the Proposal and the advice from Halcyon Capital, we consider that the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting. We also recommend the Independent Shareholders to vote in favour of the special resolution to approve and give effect to the Scheme at the SGM.

Yours faithfully,

*Independent Board Committee*

**Wanhe Zheng**

*Independent Non-Executive Director*

**Antonio Delfin Gregorio**

*Independent Non-Executive Director*

**Kevin De-Kang Yin**

*Independent Non-Executive Director*

## LETTER FROM HALCYON CAPITAL

*The following is the full text of the letter of advice from Halcyon Capital Limited to the Independent Board Committee and the Independent Shareholders which has been prepared for the purpose of the inclusion in this circular.*



11/F, 8 Wyndham Street  
Central  
Hong Kong

4 July 2018

*To: Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**PROPOSED PRIVATISATION OF  
PORTICO INTERNATIONAL HOLDINGS LIMITED BY  
BLUESTONE GLOBAL HOLDINGS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 99 OF THE BERMUDA COMPANIES ACT),  
AT THE CANCELLATION PRICE OF HK\$4.10 PER SCHEME SHARE**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, in connection with the Proposal and the Scheme, details of which are contained in the document to the PIHL Shareholders dated 4 July 2018 (the “Scheme Document”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 7 June 2018, the Offeror and PIHL jointly announced that, on 27 May 2018, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of PIHL by way of the Scheme under Section 99 of the Bermuda Companies Act (i.e. the Proposal). The Scheme will involve the cancellation of the Scheme Shares where each Scheme Shareholder will be entitled to receive HK\$4.10 in cash for each Scheme Share. Upon the Scheme having become effective and the withdrawal of the listing of the Shares on the Stock Exchange has taken place, the Offeror and its concert parties will hold the entire issued share capital of PIHL.

V-Grass, a Scheme Shareholder, has given the V-Grass Irrevocable Undertaking to the Offeror and PIHL, pursuant to which V-Grass has irrevocably undertaken to vote in favour of the Scheme at the Court Meeting. The V-Grass Irrevocable Undertaking was given in respect of V-Grass’s 43,869,000 Scheme Shares (representing approximately 7.9% of the issued share capital of PIHL as at the Latest Practicable Date and approximately 31.6% of the PIHL Shares held by Independent Shareholders as at the Latest Practicable Date). V-Grass has also undertaken to vote in favour of the resolution to be proposed at the SGM to reduce the issued share capital of PIHL.

## LETTER FROM HALCYON CAPITAL

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wanhe Zheng, Mr. Antonio Delfin Gregorio and Mr. Kevin De-Kang Yin to advise the Independent Shareholders on whether the terms of the Proposal and the Scheme are fair and reasonable and as to voting. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in this regard.

We are not associated or connected with PIHL or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them, and accordingly, are considered eligible to give independent advice on the Proposal and the Scheme. In the last two years from the date of our appointment, we have no relationships with or interests in PIHL or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them that could reasonably be regarded as relevant to our independence. Apart from the normal professional fee paid to us in connection with our appointment, no arrangements exist whereby we had received any fees or benefits from PIHL or the Offeror, their respective substantial shareholders or any party acting or presumed to be acting, in concert with any of them.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the PIHL Group and have assumed that all such information, financial information and facts and any representations made to us or referred to in the joint announcement of PIHL and the Offeror dated 7 June 2018 and the Scheme Document dated 4 July 2018, for which they are fully responsible, are made after due and careful inquiry by the Directors and/or management of the PIHL Group and are true, accurate and complete as at the time they were made and as at the Latest Practicable Date and continue to be true up to the date of the Scheme Document, and the Independent Shareholders will be informed of any material change as soon as possible as possible up to the Effective Date. We have been advised by the Directors and/or the management of the PIHL Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable and there are no reasons to doubt the accuracy and reliability of such public information. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading and the Independent Shareholders will be informed of any material change as soon as possible up to the Effective Date. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us.

## LETTER FROM HALCYON CAPITAL

Our review and analyses were based upon, among others, the information provided by the PIHL Group including the joint announcement date 7 June 2018 published jointly by the Offeror and PIHL and the Scheme Document and certain published information from the public domains including trading performance of the Shares on the Stock Exchange and Bloomberg, information set out in the Scheme Document and the annual reports and interim report of PIHL for the two years ended 31 December 2017 and for the six months ended 30 June 2017 respectively. We have also discussed with the Directors and/or the management of the PIHL Group with respect to the terms of and reasons for the Proposal and the Scheme and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, borrowing and financial position or prospects of the PIHL Group, PIHL or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them, and the parties involved in the Proposal or the Scheme.

We have not considered the tax and regulatory implications of the Proposal on the Scheme Shareholders, since these are particular to their individual circumstances. In particular, the Scheme Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### **PRINCIPAL TERMS OF THE PROPOSAL AND THE SCHEME OF ARRANGEMENT**

The principal terms of the Proposal and the Scheme are summarised below:

The Scheme provides that the Scheme Shares be cancelled in exchange for the payment to each Scheme Shareholder of HK\$4.10 in cash for each Scheme Share. The Cancellation Price will not be increased and the Offeror does not reserve the right to do so. Under the Proposal, the total consideration payable for cancellation of the Scheme Shares will be payable by the Offeror.

As at the Latest Practicable Date, the Independent Shareholders were interested in 138,696,603 PIHL Shares (representing approximately 25.01% of the issued share capital of PIHL as at the Latest Practicable Date), and the Offeror and persons acting in concert with the Offeror were interested in 415,756,889 PIHL Shares (representing approximately 74.99% of the issued share capital of PIHL as at Latest Practicable Date). PIHL does not have any outstanding options, warrants, derivatives or convertible securities issued by PIHL as at the Latest Practicable Date. Only Independent Shareholders may vote at the Court Meeting on the resolution to approve the Scheme. The voting right attached to the PIHL Shares owned by the Offeror and persons acting in concert with the Offeror will not be exercised at the Court Meeting on the resolution to approve the Scheme.

The Proposal, if implemented, would result in PIHL becoming wholly-owned by the Offeror and its concert parties and the withdrawal of the listing of PIHL Shares from the Stock Exchange. If the Scheme is not approved or lapses, the listing of PIHL Shares on the Stock Exchange will not be withdrawn.

## LETTER FROM HALCYON CAPITAL

The implementation of the Proposal and the Scheme will be conditional upon the fulfilment or waiver, as applicable, of all the Conditions as described in the section headed “Conditions of the Proposal” in the Scheme Document. All of the conditions must be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and PIHL may agree and the Supreme Court of Bermuda may allow), otherwise the Proposal will lapse.

**Independent Shareholders are recommended to read carefully the Explanatory Statement, which contains further details of the terms of the Proposal.**

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendations in respect of the Proposal and the Scheme, we have considered the following principal factors and reasons:

#### **1. Reasons for and benefits of the Proposal**

As set out in the Explanatory Statement of the Scheme Document, the reasons for and benefits of the Proposal are as follows:

The Offeror has long considered that there are advantages from a management point of view in privatising PIHL. In January 2015, the Offeror put forward an offer (the “Previous Offer”) to PIHL Shareholders at HK\$3.00 per PIHL Share. The Offeror believed, then as now, that PIHL needs to maintain its competitiveness with fellow fashion houses by devoting substantial resources to marketing/public relation events to maintain the relevance of the brand in the market, upgrading the information technology capabilities and infrastructure of PIHL to be in-line with an increasingly “digital” consumers as well as to ensuring its merchandise is stylish and attractive to a wide range of customers. Because of the continuous costs of brand building, no dividends have been paid to PIHL Shareholders in respect of recent financial years and it is not possible to state when dividend payments may be resumed. The Offeror also considers that the cyclical nature of the fashion industry, in particular the changing tastes and shopping habits of key demographic groups, implies that the PIHL Group’s revenues and margins, as well as overall profitability, continue to be dependent on macro trends in the industry, both on a global scale and in the PRC.

The Previous Offer at HK\$3.00 per PIHL Share resulted in substantial acceptances but the listing of PIHL was maintained. As anticipated, the PIHL Group’s 2015 financial results were poor, with the PIHL Group experiencing its first net loss in its history as a listed company. During 2015, the PIHL Share price and trading volume were volatile but at the end of that year, the PIHL Shares closed below HK\$3.00 and the volume of trading was low. In 2016 and 2017, top line revenue of the PIHL Group has shown some improvement as the measures taken in 2015 bore fruit and luxury spending in the PRC has revived in certain degree. However, PIHL has not shown a consistent return to historical levels of profitability, with net income in 2016 and 2017 lower than any year since listing from 2003 to 2014. As such, the PIHL Share price and trading volume have not responded accordingly to the improvement in financial performance in 2016 and 2017. From the beginning of 2016 to the



## LETTER FROM HALCYON CAPITAL

Pre-Announcement Last Trading Day, the PIHL Shares traded in a range of between HK\$3.35 (high) and HK\$2.28 (low). On the Pre-Announcement Last Trading Day, the PIHL Share price closed at HK\$2.73, below the price of the Previous Offer. Trading volume has also remained depressed, with average daily trading in 2018 up to the Pre-Announcement Last Trading Day being only approximately 43,244 PIHL Shares.

In these circumstances, the Offeror believes the market does not value PIHL fully nor is active trading in the PIHL Shares. As stated above, the Offeror continues to believe that certain problems endemic to the fast changing and fickle fashion industry are best addressed as a private company. Consequently, the Offeror is prepared to put forward a proposal to privatise PIHL at a cash price of HK\$4.10 per Scheme Share, which represents a premium of approximately 50% over recent market levels prior to the publication of the joint announcement, as set out in the paragraph above headed “Comparisons of value” below, and which the Offeror considers HK\$4.1 per Scheme Share reflects a fair valuation for the PIHL Group. The Cancellation Price of HK\$4.10 per PIHL Share represents a price earnings multiple of approximately 34.2 times the PIHL Group’s 2017 earnings per share of approximately RMB0.10, equivalent to approximately HK\$0.120. As noted above, PIHL has not paid dividends in recent years. The Proposal, if it becomes effective, gives the Independent Shareholders the means to realise their investments in a thinly traded share at a fixed-price cash consideration.

V-Grass, an Independent Shareholder holding approximately 31.6% of all the PIHL Shares held by the Independent Shareholders, has agreed to support the Proposal and the Scheme.

### **2. Background and information of the PIHL Group**

The PIHL 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 PIHL Group operated 398 retail stores in mainland China, Hong Kong, the U.S. and Canada. The PIHL Group currently operates most of its business activities in the PRC market.

In 2017, the PIHL 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 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 PIHL Group has also entered into various licensing and cooperation agreements with international brands such as BMW Lifestyle, Armani and Versace, pursuant to which the PIHL Group has been granted with the right to sell their selected products in dedicated retail outlets operated by the PIHL Group in the PRC. In particular, Bayerische Motoren Werke AG (“BMW”) has granted the PIHL Group the right to use the BMW trademark and BMW logo on BMW Lifestyle products that are manufactured by the PIHL Group and the right includes

## LETTER FROM HALCYON CAPITAL

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 PIHL Group during the term of the license.

Major business segment of the PIHL Group comprised of “retail” segment and “other business” segments. 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.

### 3. Analysis of financial information of the PIHL Group

#### (i) *Financial performance*

Set out below is the summary of consolidated statements of profit and loss of the PIHL Group for each of the three years ended 31 December 2015 (“FY2015”), 31 December 2016 (“FY2016”) and 31 December 2017 (“FY2017”) which are extracted from the annual reports of the PIHL Group:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,594,575	1,846,179	2,243,045
Retail	1,477,794	1,695,100	2,109,908
Others	116,781	151,079	133,137
Cost of sales	(312,118)	(399,298)	(503,206)
Gross profit	1,282,457	1,446,881	1,739,839
Gross profit margin	80.4%	78.4%	77.6%
Other income	8,786	9,177	26,727
Selling and distribution expenses	(985,801)	(1,044,846)	(1,210,374)
Administrative expenses	(111,613)	(123,398)	(126,924)
Other operating expenses	(217,247)	(159,952)	(268,423)
Profit/(loss) from operation	(23,418)	127,862	160,845
Net finance income/(costs)	875	(1,679)	5,814
Profit/(loss) before taxation	(22,543)	126,183	166,659
(Loss)/Profit attributable to equity shareholders of PIHL	(72,730)	40,265	56,885

## LETTER FROM HALCYON CAPITAL

### *Revenue*

Revenue of the PIHL Group in FY2016 increased by approximately 15.8% due to improvement in the overall luxury fashion retail environment and an increasing recognition of the PIHL Group's core Ports 1961 brand among fashion lovers. As at 31 December 2016, the PIHL Group operated 343 retail stores in mainland China, Hong Kong, the U.S. and Canada as compared with a total of 313 retail stores as at FY2015. With the improvement in market environment and number of retail store, the PIHL Group was able to achieve an increase in revenue from RMB1,594.6 million in FY2015 to RMB1,846.2 million in FY2016.

Revenue of the PIHL Group increased from RMB1,846.2 million in FY2016 to RMB2,243.0 million in FY2017, representing an increase of approximately 21.5% following a gradual recovery of the luxury fashion retail market and an increasing recognition of the PIHL Group's core label "Ports 1961" and their diffusion label "PortsPURE" among fashion lovers of different segments. As at FY2017, the PIHL Group operated 398 retail stores in Mainland China, Hong Kong, the U.S. and Canada as compared with a total of 343 retail stores as at FY2016, in light of a more positive market sentiment and the PIHL Group's expanding retail network, revenue increased accordingly.

### *Gross profit and gross profit margin*

As a result of the improvement in consumer market sentiment in FY2016, despite the PIHL Group recorded a slight decrease in gross profit margin from approximately 80.4% in FY2015 to approximately 78.4% in FY2016, contributed by the increase in revenue, gross profit of the PIHL Group in FY2016 increased by approximately 12.8% increased from RMB1,282.5 million in FY2015 to RMB1,446.9 million in FY2016.

Gross profit of the PIHL Group continued to increase in FY2017 by 20.2% from RMB1,446.9 million in FY2016 to RMB1,739.8 million in FY2017 while profit margin recorded a further slight decrease from 78.4% in FY2016 to 77.6% in FY2017.

### *Other income*

Other income during FY2015 and 2016 mainly consisted of government subsidy, insurance compensation, design and decoration income as well as other receipts which may be recurrent or one-off in nature. While in FY2017 other income of the PIHL Group consisted of design and decoration income, investment income as well as rental income.

## LETTER FROM HALCYON CAPITAL

Other income in FY2017 increased by approximately 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 the PIHL Group's brands and a stronger negotiation power with the landlord.

### *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 costs increased from RMB985.8 million in FY2015 to RMB1,044.8 million in FY2016, representing an increase of approximately 6.0%. The increase was mainly due to the increase in rental charges, salaries and benefits for retail sales staff.

Selling and distribution expenses increased from RMB1,044.8 million in FY2016 to RMB1,210.4 million in FY2017, representing an increase of approximately 15.8%. 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 certain rental arrangements of the PIHL Group 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 result in an increase in selling and distribution expenses.

### *Administrative expenses*

Administrative expenses increased by approximately 10.6% from RMB111.6 million in FY2015 to RMB123.4 million in FY2016, due to increase in office expenses, salaries and benefits for administrative staff and business taxes contributed by the expansion of the PIHL Group's European offices and operations.

Administrative expenses in FY2017 increase slightly by approximately 2.8% from RMB123.4 million in FY2016 to RMB126.9 million in FY2017, due to increase in consulting expenses and salaries and benefits for administrative staff.

### *Other operating expenses*

Other operating expenses mainly comprised of inventory write-down and impairment loss incurred by the PIHL Group.

## LETTER FROM HALCYON CAPITAL

Other operating expenses decreased from RMB217.2 million in FY2015 to RMB160.0 million in FY2016, representing a decrease of 26.3%, due to the decreases in write-down of inventories and impairment loss of leasehold improvements of retail stores, following the improvement in the PIHL Group's sales activities in FY2016.

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 as a result of increase in aging stocks and impairment loss of leasehold improvements of retail stores due to the poor performance of certain retail stores.

### *Profit/(loss) before taxation*

As a result of the increase in retail revenue, the PIHL Group was able to achieve a profit before taxation of RMB126.2 million in FY2016 as compared to a loss before taxation of RMB22.5 million in FY2015. During FY 2017, contributed by the continuous increase in retail revenue, the PIHL Group achieved a further increase in profit before taxation from FY2016 by 32.1% to RMB166.7 million.

### *Profit attributable to equity shareholders of PIHL*

Pre-dominantly contributed by the increase in retail revenue, the PIHL Group was able to turn around its loss making results in FY2015 of RMB72.7 million to achieve a profit attributable to equity shareholders of PIHL of RMB40.3 million.

Contributed by the continuous increase in retail revenue, profit attributable to equity shareholders of the PIHL continued to increase in FY2017 by 41.2% from RMB40.3 million in FY2016 to RMB56.9 million in FY2017.

## LETTER FROM HALCYON CAPITAL

### (ii) *Financial position*

Set out below is the summary of consolidated statements of financial position of the PIHL Group for each of the three years ended 31 December 2017, which are extracted from the annual reports of the PIHL Group:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other property, plant and equipment	438,904	451,630	404,508
Deferred tax assets	183,300	198,956	223,177
Others	<u>25,721</u>	<u>27,819</u>	<u>40,067</u>
<b>Total non-current assets</b>	<b><u>647,925</u></b>	<b><u>678,405</u></b>	<b><u>667,752</u></b>
Inventories	743,502	800,282	782,633
Trade and other receivables	346,713	445,592	599,886
Other financial assets	1,590	1,661	164,246
Pledged deposits	110,928	59,487	54,350
Fixed deposits with banks with original maturity over three months	351,772	275,461	413,625
Cash and cash equivalents	<u>507,958</u>	<u>374,472</u>	<u>246,516</u>
<b>Total current assets</b>	<b><u>2,062,463</u></b>	<b><u>1,956,955</u></b>	<b><u>2,261,256</u></b>
Trade and other payables	282,587	404,377	599,096
Others	<u>319,608</u>	<u>42,898</u>	<u>51,859</u>
<b>Total current liabilities</b>	<b><u>602,195</u></b>	<b><u>447,275</u></b>	<b><u>650,955</u></b>
<b>Net current assets</b>	<b><u>1,460,268</u></b>	<b><u>1,509,680</u></b>	<b><u>1,610,301</u></b>
<b>Total non-current liabilities</b>	<b><u>94,772</u></b>	<b><u>125,417</u></b>	<b><u>147,537</u></b>
<b>Net assets</b>	<b><u>2,013,421</u></b>	<b><u>2,062,668</u></b>	<b><u>2,130,516</u></b>
<b>Equity attributable to owners of the PIHL</b>	<b><u>1,993,352</u></b>	<b><u>2,038,356</u></b>	<b><u>2,099,455</u></b>

## LETTER FROM HALCYON CAPITAL

Major assets of the PIHL Group as at 31 December 2017 mainly comprised of inventories, trade and other receivables, other property, plant and equipment, fixed deposits and cash and cash equivalents. While major liabilities of the PIHL Group as at 31 December 2017 mainly comprised of trade and other payables.

### *Inventories*

Inventories of the PIHL Group mainly comprised of finished goods (i.e. fashion apparel and accessories such as shoes, handbags, eyewear and scarves). Inventories are recorded at lower of cost and net realisable value. 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. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write-down or loss occurs. During FY2017 the PIHL Group recorded an increase in write-down of inventories from RMB149.7 million to RMB217.5 million due to the increase in aging inventories. According to management of the PIHL Group, value of inventories in the fashion industry can be volatile with ever changing consumer demand according to current fashion trends, thus off-season inventories would have to be sold at a markdown price from the original price through outlets and other channels to maintain the strength of the brand and make room for new season inventories and would possibly result in a write-down of inventories.

### *Trade and other receivables*

As at 31 December 2017, trade and other receivables mainly comprised of trade receivables, amounts due from related parties, advances to suppliers and other receivables, deposits and prepayments.

For trade receivables, customers are normally granted credit terms of 0 to 90 days, depending on the credit worthiness of individual customers. As at 31 December 2017, approximately 94.5% of the PIHL Group's trade receivables aged within 3 months.

All of the other receivables are expected to be recovered or recognised as expenses within one year, save as a deposit and guarantee payment paid to external co-operation parties amounted to RMB94.1 million which are expected to be recovered or recognised as expense after more than one year.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the PIHL Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. During FY2017 impairment loss recognised on trade receivables were amounted to RMB9.4 million, of which RMB9.0 million were individually determined to be impaired. The individually impaired receivables related to

## LETTER FROM HALCYON CAPITAL

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 were recognised.

### *Other property, plant and equipment*

As at 31 December 2017, other property, plant and equipment mainly comprised of plant and buildings as well as fixtures, fittings and other fixed assets. During FY2017, the PIHL Group reviewed the performance on its retail stores and identified that some retail stores are under-performing. Based on the assessment results, the carrying amount of leasehold improvement of those under-performing stores was written down with an impairment loss of RMB50.9 million recognised for FY2017, which was included in “other operating expenses” in the consolidated statement of profit or loss and other comprehensive income.

### *Fixed deposits with banks and cash and cash equivalents*

Fixed deposits with banks represent the PIHL Group’s deposit in banks with original maturity over three months. 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. Fixed deposits with banks and cash and cash equivalents in aggregate amounted to RMB660.1 million as at 31 December 2017.

### *Trade and other payables*

As at 31 December 2017 trade and other payables mainly comprised of trade payable, amounts due to related parties and other creditors and accruals. As of the end of FY2017, approximately 95.7% of the total trade payables are aged within 6 months.

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 save as RMB2.6 million deposit which, was paid by the PIHL Group’s business partners as guarantee payment for co-operation, are expected to be settled after one year.

### *Net asset value*

The PIHL Group’s net asset increased by 2.4% from RMB2,013.4 million as at 31 December 2015 to RMB2,062.7 million as at 31 December 2016 and by a further 3.3% to RMB2,130.5 million as at 31 December 2017. Such increase was contributed by the net profit of the PIHL Group during the respectively years.



**4. Future prospects of the PIHL Group**

In response to the growing popularity of affordable luxury apparel and quicker change in fashion trends, the PIHL Group has expanded its product portfolio by the introduction of a diffusion line “PortsPURE” in late 2016, the collections of which present young, energetic and elegant chic styles to the PIHL Group’s female customers. In 2017, PortsPURE and ISABELLA have been receiving increasing amount of attention in the market among the PIHL Group’s young female customers and it is anticipated that the PIHL Group will continue to develop such new line of business.

The PIHL Group also targets to expand their retail network to cities with huge growing potentials in the fashion industry and they expect to open a Ports branded store in one of the leading shopping arcades in Macau in mid-2018. On the retail front, the PIHL Group is also cautiously expanding their retail store network and dedicates to improve their e-commerce platform in order to maximize our exposure and enhance their customer’s experience and enjoyment when shopping with the PIHL Group both online and offline.

Looking ahead, the Directors are of the view that in order to maintain competitiveness and attractiveness, the PIHL Group will have to devote substantial resources to marketing and public relation events to maintain the relevance of the brand in the market as well as to upgrade the information technology capabilities and infrastructure of PIHL to be in-line with an increasingly “digital” consumers. Efforts shall also be devoted to ensure the PIHL Group’s merchandise is stylish and attractive to a wide range of customers.

Given, the PIHL Group will input substantial amount of resources in brand building and public relations as well as to upgrade the PIHL Group’s information technology capabilities and infrastructure, such investment will continue to be burdensome on the PIHL Group’s cashflow.

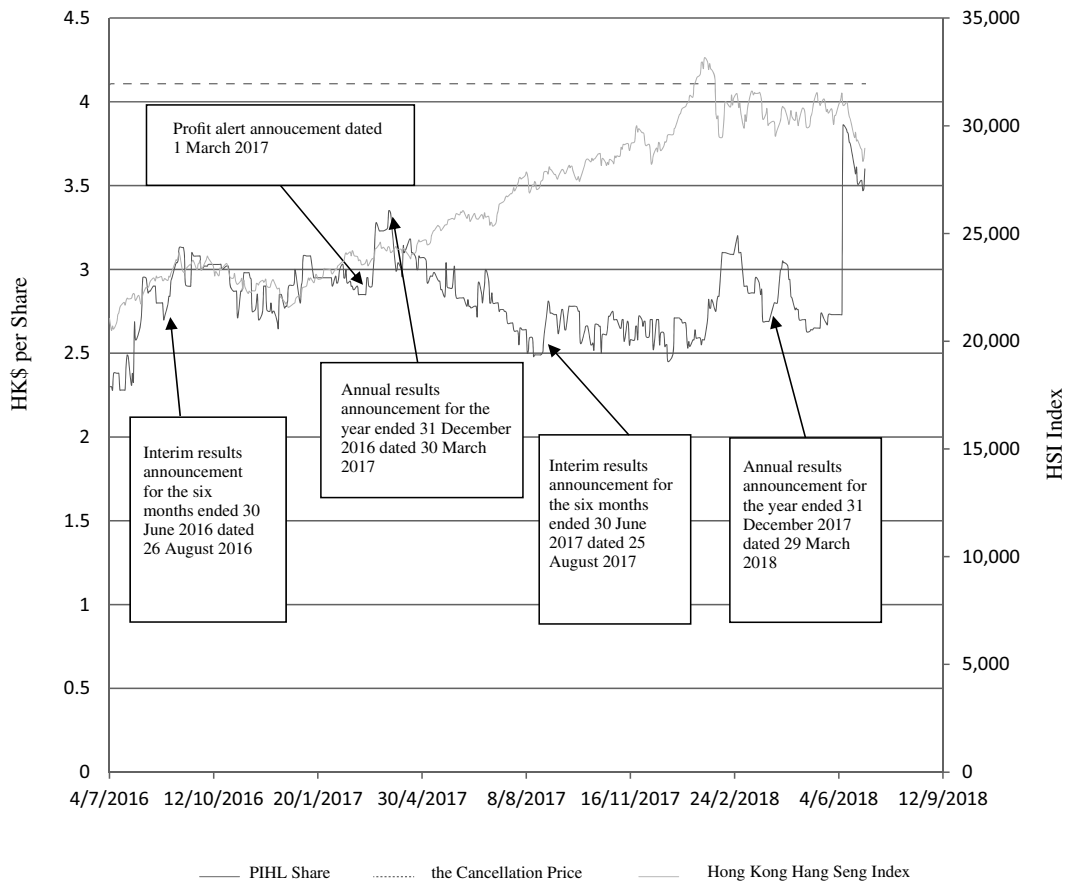
In view of the above, with continuous costs and resources to be devoted to (i) the development of the diffusion line of business; (ii) marketing and public relation events on brand maintenance; (iii) retail network expansion; and (iv) IT upgrades, the Directors are unable to commit to a specific date on which payment of dividend will be feasible. For those investors seeking dividend return on their investments, in view the PIHL Group has not declared any dividend in the past 4 financial years and the Directors are unable to determine when payment of dividend will be feasible taking into consideration the above mention costs and resources outflow, the Proposal will be an opportunity for such investors to cash out their investments in PIHL and to consider other possible investment opportunities.

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## 5. Analysis of the price performance and trading liquidity of PIHL Shares

### (i) *Historical PIHL Share price performance*

The following chart shows the closing prices of PIHL Shares as quoted on the Stock Exchange from 1 July 2016 up to and including 25 May 2018 (the “**Pre-Announcement Period**”) and from 8 June 2018 (being the first trading day immediately following the resumption of trading of PIHL Shares upon the publication of the announcement dated 7 June 2018 (the “**Announcement**”) up to and including the Latest Practicable Date (the “**Post-Announcement Period**”) relative to the movement of the Hong Kong Hang Seng Index (“**HSI**”):



*Source: the respective website of Bloomberg and the Stock Exchange*

As illustrated in the above, during the Pre-Announcement Period, PIHL Shares closed in the range between lowest of HK\$2.28 (on 7 July 2016 and between 14 July 2016 and 19 July 2016 resulting from general share price fluctuation) and highest of HK\$3.35 (on 29 March 2017 and 30 March 2018 resulting from the increasing trend after the publication of a profit alert announcement on 1 March 2017) per PIHL Share, with an

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average and a median of approximately HK\$2.81 per PIHL Share and approximately HK\$2.80 per PIHL Share respectively. PIHL Shares have also from time-to-time underperformed the HSI during the Pre-Announcement Period.

We noted that during the Pre-Announcement Period, PIHL published a profit alert announcement after the market close on 1 March 2017 in view of the expected profit recorded for the year ended 31 December 2016 as compared to a loss for the corresponding period in 2015. The price of PIHL Shares was closed at HK\$2.85 per PIHL Share on 1 March 2017 and subsequently increased to HK\$3.35 per PIHL Share on 30 March 2017 and after market close, PIHL issued the annual results announcement of the PIHL Group for the year ended 31 December 2016. The closing price of PIHL Shares followed a general downward trend since April 2017 which was not directly affected by the general market condition (as evidenced from the upward performance of HSI as illustrated in the chart above). After the market closed on 25 August 2017, PIHL issued the interim results announcement of the PIHL Group for the six months ended 30 June 2017, the PIHL Group recorded an increase in profit attributable to equity shareholders for by 22.2% as compared to the corresponding period in FY2016. Following the announcement, share price of PIHL Share increased from HK\$2.6 per PIHL Share by 5.77% to HK\$ 2.75 per PIHL Share as compared to the previous trading day as.

On 29 March 2018, the PIHL Group announced its financial results for FY2017 recording a growth of profit attributable to equity shareholders of PIHL by 41.2% from RMB40.3 million in FY2016 to RMB56.9 million in FY2017 on 29 March 2018, yet share price of PIHL Shares did not increased by the same level as the increase in profitability of the PIHL Group and only recorded a slight growth of 4.1% on the closing price of PIHL Shares on the trading day after the publication of the FY2017 result announcement.

Since then, the price of PIHL Shares fluctuated within the range from HK\$2.63 to HK\$3.05 per PIHL Share before the publication of the Announcement.

PIHL Shares had been suspended from trading between 28 May 2018 and 7 June 2018 pending for release of the Announcement. Trading of PIHL shares resumed on 8 June 2018 after the publication of the Announcement.

During the Post-Announcement Period, the closing price of PIHL Shares ranged from the lowest of HK\$3.47 per PIHL Share recorded on 27 June 2018 to the highest of HK\$3.86 per PIHL Share recorded on 8 June 2018. The Cancellation Price is higher than the closing prices of PIHL Shares in all the trading days during the Pre-Announcement Period and the Post-Announcement Period (the “**Review Period**”). From the Independent Shareholders’ perspective, the Cancellation Price represents an immediate uplift in shareholder’s value as compared to the recent PIHL Share prices.

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### *Comparisons of value*

In summary, the Cancellation Price of HK\$4.10 per Scheme Share:

- (i) represents a premium of approximately 13.9% to the closing price of HK\$3.60 per PIHL Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) represents a premium of approximately 50.2% over the closing price of HK\$2.73 per PIHL Share as quoted on the Stock Exchange on the Pre-Announcement Last Trading Day;
- (iii) represents a premium of approximately 51.6% over the average closing price of approximately HK\$2.704 per PIHL Share based on the daily closing prices as quoted on the Stock Exchange over the 5 trading days up to and including the Pre-Announcement Last Trading Day;
- (iv) represents a premium of approximately 49.2% over the average closing price of approximately HK\$2.748 per PIHL Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Pre-Announcement Last Trading Day;
- (v) represents a premium of approximately 45.2% over the average closing price of approximately HK\$2.824 per PIHL Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including the Pre-Announcement Last Trading Day;
- (vi) represents a premium of approximately 45.8% over the average closing price of approximately HK\$2.812 per PIHL Share based on the daily closing prices as quoted on the Stock Exchange over the 90 trading days up to and including the Pre-Announcement Last Trading Day;
- (vii) represents a premium of approximately 48.1% over the average closing price of approximately HK\$2.768 per PIHL Share based on the daily closing prices as quoted on the Stock Exchange over the 120 trading days up to and including the Pre-Announcement Last Trading Day;

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- (viii) represents a premium of approximately 49.9% over the average closing price of approximately HK\$2.736 per PIHL Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including the Pre-Announcement Last Trading Day;
- (ix) represents a premium of approximately 49.8% over the average closing price of approximately HK\$2.737 per PIHL Share based on the daily closing prices as quoted on the Stock Exchange over the 250 trading days up to and including the Pre-Announcement Last Trading Day; and
- (x) represents a discount of approximately 9.9% to the audited consolidated net asset value attributable to PIHL Shareholders per PIHL Share of approximately RMB3.79 (equivalent to approximately HK\$4.55) as at 31 December 2017.

Despite the Cancellation Price represented a discount to net asset value per PIHL Share, given (i) the share price of PIHL Shares have never been trading above net asset value per PIHL Share during the Review Period; and (ii) considering that net asset value per share is not a meaningful or appropriate indicator of value for companies operating in the branded retail sector because in general, such companies' asset composition consists largely of inventories and trade receivables rather than assets which are marked to market periodically, we consider the Cancellation Price, which represented a discount to net asset value per PIHL Share to be acceptable.

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**(ii) Trading liquidity**

Set out in the table below are the average daily trading volumes, the comparison of such trading volumes to the total issued share capital of PIHL and the comparison of such trading volumes to the public float of PIHL during the Review Period:

	<b>Total trading volume of PIHL Shares</b> <i>(Note 1)</i>	<b>Average daily trading volume of PIHL Shares</b> <i>(Note 2)</i> <i>(approximately)</i>	<b>Percentage of average daily trading volume to total issued PIHL Shares</b> <i>(Note 3)</i> <i>(approximately)</i>	<b>Percentage of average daily trading volume to total number of PIHL Shares held by Independent Shareholders</b> <i>(Note 4)</i> <i>(approximately)</i>
<i>Pre-Announcement Period</i>				
<b>2016</b>				
July	942,000	47,100	0.01%	0.03%
August	711,000	32,318	0.01%	0.02%
September	675,500	32,167	0.01%	0.02%
October	241,500	12,711	0.00%	0.01%
November	277,500	12,614	0.00%	0.01%
December	886,153	44,308	0.01%	0.03%

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	<b>Total trading volume of PIHL Shares</b> <i>(Note 1)</i>	<b>Average daily trading volume of PIHL Shares</b> <i>(Note 2)</i> <i>(approximately)</i>	<b>Percentage of average daily trading volume to total issued PIHL Shares</b> <i>(Note 3)</i> <i>(approximately)</i>	<b>Percentage of average daily trading volume to total number of PIHL Shares held by Independent Shareholders</b> <i>(Note 4)</i> <i>(approximately)</i>
<b>2017</b>				
January	130,400	6,863	0.00%	0.00%
February	496,909	24,845	0.00%	0.02%
March	2,499,497	108,674	0.02%	0.08%
April	551,500	32,441	0.01%	0.02%
May	355,500	17,775	0.00%	0.01%
June	596,000	27,091	0.00%	0.02%
July	397,758	18,941	0.00%	0.01%
August	487,000	22,136	0.00%	0.02%
September	419,000	19,952	0.00%	0.01%
October	504,000	25,200	0.00%	0.02%
November	791,000	35,955	0.01%	0.03%
December	1,280,700	67,405	0.01%	0.05%
<b>2018</b>				
January	1,179,000	53,591	0.01%	0.04%
February	1,764,700	98,039	0.02%	0.07%
March	244,500	11,643	0.00%	0.01%
April	595,000	31,316	0.01%	0.02%
May (up to and including the Pre-Announcement Last Trading Day)	411,500	24,206	0.00%	0.02%
<i>Post-Announcement Period</i>				
8 June 2018	2,013,000	2,013,000	0.36%	1.45%
11 June 2018 to the Latest Practicable Date	10,475,500	748,250	0.13%	0.54%

*Source: the website of the Stock Exchange*

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*Notes:*

1. The calculation is based on the total trading volume for the month/period divided by the number of trading days during the month/period which excludes any trading day on which trading of PIHL Shares on the Stock Exchange was suspended for the trading day.
2. The calculation is based on the average daily trading volume of PIHL Shares divided by the total issued share capital of PIHL at the end of each month or as at the Latest Practicable Date, as applicable.
3. The total number of PIHL Shares held by the public, being 138,696,603 PIHL Shares, is calculated based on the number of total issued PIHL Shares excluding those held by the Offeror and persons acting in concert with the Offeror as at the Latest Practicable Date.

The average daily trading volume of PIHL Shares in each month/period during the Pre-Announcement Period ranged from approximately 6,863 PIHL Shares to approximately 108,674 PIHL Shares, representing approximately 0.00% and approximately 0.02% respectively of the total number of PIHL Shares in issue as at the respective end of months and approximately 0.00% and 0.08% respectively of the total number of PIHL Shares held by Independent Shareholders as at the Latest Practicable Date.

Trading volume of PIHL Shares increased to 2,013,000 PIHL Shares on 8 June 2018, the first full trading day following the publication of the Announcement. Trading volume of PIHL Shares decreased thereafter from 11 June 2018 up to the Latest Practicable Date, with an average daily trading volume of approximately 748,250 PIHL Shares, representing approximately 0.13% of the total number of PIHL Shares in issue as at the Latest Practicable Date and approximately 0.54% of the total number of PIHL Shares held by the Independent Shareholders as at the Latest Practicable Date. The trading volume of PIHL Shares on the Latest Practicable Date amounted to 681,500 PIHL Shares, representing approximately 0.12% of the total number of PIHL Shares in issue as at the Latest Practicable Date and approximately 0.49% of the total number of PIHL Shares held by the Independent Shareholders as at the Latest Practicable Date.

As illustrated in the data set out in the table above, the overall liquidity of PIHL Shares during the Review Period was generally low. There has been a slight surge in trading volume since the release of the Announcement, which we considered to be mainly attributable to the Independent Shareholders'/investors' reaction to the Scheme. Independent Shareholders who wish to realise their investments in PIHL Shares through disposal in the market, especially those with large block of PIHL Shares, should note that there may not be sufficient trading volume to absorb the amount of PIHL Shares intended to be sold without exerting significant downward pressure on the price of PIHL Shares given the relatively thin historical trading volume of PIHL Shares. Accordingly, the market trading price of PIHL Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their PIHL Shares in the open market. The relatively higher level of trading volume subsequent to the Announcement is unlikely to remain sustainable if the Proposal and the Scheme lapse.



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We consider the Proposal provides the Independent Shareholders, especially those holding a large block of PIHL Shares, a cash exit to realise their holdings at the Cancellation Price if they so wish, without creating a significant downside pressure on the trading price of PIHL Shares.

### **6. Comparable company analysis**

Analysis on comparable companies analysis had been focused on P/E multiples, as we believe P/E multiples are preferable multiples to assess the fairness and reasonableness of the Cancellation Price because they are commonly adopted in the market and easily comprehensible, and they reflect the fundamental view that a company's value is mainly attributable to what it generates for its shareholders, i.e., earnings. We on the other hand consider P/B multiples is not a meaningful or appropriate indicator of value for companies operating in the branded retail sector because in general, such companies' asset composition consists largely of inventories and trade receivables rather than assets which are marked to market periodically. Despite the PIHL Group has certain property interests (including lease prepayments, plant and buildings and investment in properties in aggregate amounted to RMB266.9 million), such property interests only accounted for approximately 9.1% of the PIHL's Group's total assets as at 31 December 2017 and we therefore consider such property interests do not contribute a significant portion of the PIHL Group's asset base and the business of the PIHL Group is not considered to be capital-intensive in nature. P/B ratio is usually applied to evaluate companies that engage in capital-intensive business, for instance, financial institutions and real estate development companies. Hence we have not based our analysis on P/B multiples.

We have identified certain comparable companies (the "Direct Comparable Companies") exhaustively on Bloomberg based on the criteria that (i) PIHL is listed on the Main Board of the Stock Exchange; (ii) it is engaged in retailing and distribution business of apparel ("Similar Business"), which is similar with the PIHL Group's principal business; (iii) over 70% of the total revenue of PIHL was generated from the Similar Business in their most recent financial year as more than 90% of the total revenue of the PIHL Group was generated from branded product retail product business; and (iv) its market capitalization is between HK\$ 1.0 billion and HK\$ 3.2 billion (based on closing share prices as at the Latest Practicable Date) after considering the theoretical market capitalization of PIHL of HK\$2.3 billion by taking into account the Cancellation Price of HK\$4.1 per Scheme Share. We consider the selection criteria will enable us to recognise the Direct Comparable Companies with similar business nature and size as comparable to PIHL.

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Company	Stock Code	Closing share price as at the Latest Practicable Date (HK\$)	Market capitalisation (based on closing share prices as at the Latest Practicable Date) (HK\$'million)	Price/earnings multiples <sup>α</sup>
ENM Holdings Limited	128	1.00	1,650.7	NA*
Trinity Limited	891	0.86	3,094.4	NA*
Goldion Holdings Limited	533	3.21	3,152.6	9.8
YGM Trading Limited	375	6.30	1,044.9	6.9
		<b>Average</b>	<b>2,235.6</b>	<b>8.4</b>
		<b>Median</b>	<b>2,372.5</b>	<b>8.4</b>
		<b>Minimum</b>	<b>1,044.9</b>	<b>6.9</b>
		<b>Maximum</b>	<b>3,152.6</b>	<b>9.8</b>
<b>The Proposal</b>		4.10	2,273.3 <sup>β</sup>	34.2

*Source: The website of the Stock Exchange and Bloomberg*

*Notes:*

\* Loss making in the latest reporting period

<sup>α</sup> Price/earning multiples were calculated by using the current market capital based on the closing price on the Latest Practicable Date divided by the profit attributable to equity owners as stated in latest published audited accounts.

<sup>β</sup> Market capitalisation was calculated based on cancellation price of HK\$4.1 per Scheme Share.

The Cancellation Price of HK\$4.1 implies a P/E ratio which is over 30 times by taking into consideration the net profit of the PIHL Group for FY2017. Given two out of the four Direct Comparable Companies are lost making, except for Goldion Holdings Limited and Trinity Limited, the P/E ratio as implied by the Cancellation Price of over 30 times is way above the P/E ratio of Goldion Holdings Limited and Trinity Limited.

To provide a broader view on the industry trading performance, the following analysis included comparable companies we have identified exhaustively on Bloomberg based on the criteria that (i) PIHL is listed on the Main Board of the Stock Exchange; (ii) it is engaged in retailing and distribution business of apparel (“Similar Business”), which is similar with the

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PIHL Group's principal business; and (iii) over 70% of the total revenue of PIHL was generated from the Similar Business in their most recent financial year ("Comparable Companies"), yet by not taking into account their individual market capitalization.

<b>Company</b>	<b>Stock Code</b>	<b>Closing share price as at the Latest Practicable Date (HK\$)</b>	<b>Market capitalisation (based on closing share prices as at the Latest Practicable Date) (HK\$'million)</b>	<b>Price/earnings multiples<sup>α</sup></b>
Bauhaus International Holdings Limited	483	1.47	540.0	8.3
Bossini International Holdings Limited	592	0.350	573.6	NA*
China Dongxiang (Group) Co Limited	3818	1.44	8,476.0	8.8
China Lilang Limited	1234	11.26	13,481.4	18.4
China Fordoo Holdings limited	2399	9.93	4,775.3	179.7
ENM Holdings Limited	128	1.00	1,650.7	NA*
Esprit Holdings Limited	330	2.44	4,604.8	NA*
Giordano International Limited	709	4.94	7,783.1	15.6
Joyce Boutique Holdings Limited	647	0.285	462.8	NA*
Pou Sheng International Holdings Limited	3813	1.50	8,011.9	16.9
Trinity Limited	891	0.86	3,094.4	NA*
Bosideng International Holdings Limited	3998	1.08	11,537.2	15.6
China Outfitters Holdings Limited	1146	0.248	854.5	13.0
Evergreen International Holdings Limited	238	0.54	512.4	NA*
Goldion Holdings Limited	533	3.21	3,152.6	9.8
I.T Limited	999	5.60	6,696.5	15.6
YGM Trading Limited	375	6.30	1,044.9	6.9
Moiselle International Holdings Limited	130	1.03	296.6	147.8
		<b>Average</b>	<b>4,308.3</b>	<b>25.1</b>
		<b>Median</b>	<b>3,123.5</b>	<b>15.6</b>
		<b>Minimum</b>	<b>296.6</b>	<b>6.9</b>
		<b>Maximum</b>	<b>13,481.4</b>	<b>179.7</b>
<b>The Proposal</b>		4.10	2,273.3 <sup>B</sup>	34.2

Source: The website of the Stock Exchange and Bloomberg

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*Notes:*

- \* Loss making in the latest reporting period
- α Price/earning multiples were calculated by using the current market capital based on the closing price on the Latest Practicable Date divided by the profit attributable to equity owners as stated in latest published financial statements in the most recent financial year.
- β Market capitalisation was calculated based on cancellation price of HK\$4.1 per Scheme Share.
- # Excluded from calculation of average and median P/E multiple of the industry as noted from company's announcement dated 16 December 2016 that there were high concentration of shareholding of such company's share in the hands of a limited number of shareholders, of which we consider the share price of such company may not reflect the industry norm.

By taking into a broader view of the industry P/E multiple, the over 30 times P/E multiple as implied by the Cancellation Price is higher than the average and median P/E multiples of the Comparable Companies.

## 7. Privatisation precedents

We have also identified the privatisation precedents available in the market in the past two years so as to ensure relevant precedents were taken into account when considering the merits of the terms of the Proposal. We have sought to identify privatisation precedents (the "Privatisation Precedents") exhaustively on Bloomberg and the website of the Stock Exchange based on the criteria that (i) the offeree company was listed on the Main Board of the Stock Exchange before delisting; (ii) the privatization proposal was carried out by way of scheme of arrangement; (iii) the privatization proposal was first announced during the period from 1 January 2016 up to the Latest Practicable Date;

Date of initial announcement	Company (Stock Code)	Industry	Offer/cancellation price (HK\$)	Premium of offer/cancellation price over the closing price on last trading day prior to announcement of privatisation proposals	Premium of offer/cancellation price over the share price of the relevant company prior to announcement of privatisation proposals		
					5 trading days	30 trading days	180 trading days
10 June 2018	Hong Kong Aircraft Engineering Company Limited (44)	Aircraft maintenance service	72.00	63.6%	63.7%	62.9%	50.4%
21 January 2018	Pou Sheng International (Holdings) Limited (3813)	Sports product	2.03	31.8%	42.0%	70.7%	45.0%
10 Nov 2017	Welling Holding Limited (382)	Electronic and electric components	2.06	30.4%	30.4%	33.8%	22.6%
18 July 2017	Future Land Development Holdings Limited (1030)	Properties	3.30	17.4%	10.7%	19.1%	64.3%
3 July 2017	China Assets (Holdings) Limited (170)	Investment fund	6.80	61.5%	70.4%	76.6%	74.8%
19 June 2017	Bloomage Bio Technology Corporation Limited (963)	Chemical	16.30	14.0%	20.9%	24.4%	32.5%
29 May 2017	China Metal International Holdings Inc. (319)	Manufacturing	3.01	27.5%	26.5%	25.9%	18.5%
28 April 2017	Belle International Holdings Limited (1880)	Shoes product	6.30	19.5%	23.3%	21.5%	26.5%

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Date of initial announcement	Company (Stock Code)	Industry	Offer/cancellation price (HK\$)	Premium of offer/cancellation price over the closing price on last trading day prior to announcement	Premium of offer/cancellation price over the share price of the relevant company prior to announcement of privatisation proposals		
				of privatisation proposals	5 trading days	30 trading days	180 trading days
20 April 2017	TCC International Holdings Limited (1136)	Manufacturing	3.60	38.5%	42.3%	51.0%	88.5%
10 January 2017	Intime International Holdings Limited (1833)	Operation and management of department stores and shopping malls	10.00	42.3%	47.5%	51.8%	53.7%
23 September 2016	Chinalco Mining Corporation International (3668)	Mining	1.39	32.4%	33.7%	33.7%	61.6%
22 September 2016	Xingfa Aluminum Holdings Limited (98)	Aluminum businesses	3.70	24.6%	31.2%	35.2%	37.7%
26 July 2016	Peak Sport Products Co., Limited (1968)	Sports product	2.60	10.6%	12.6%	15.6%	23.2%
8 July 2016	Nirvana Asia Limited (1438)	Funeral	3.00	22.4%	31.0%	36.4%	35.7%
17 June 2016	Bracell Limited (1768)	Manufacturing	1.78	12.7%	42.4%	81.1%	102.9%
12 June 2016	TCL Communication Technology Holdings Limited (2618)	Information technology	7.50	34.7%	40.7%	47.1%	36.4%
29 May 2016	Aupu Group Holding Company Limited (477)	Manufacturing	2.71	24.9%	26.6%	29.7%	28.4%
18 Feb 2016	Dongpeng Holdings Company Limited (3386)	Manufacturing	4.48	31.8%	42.2%	46.9%	35.8%
		<b>Average</b>		<b>30.0%</b>	<b>35.5%</b>	<b>42.4%</b>	<b>46.6%</b>
		<b>Median</b>		<b>29.0%</b>	<b>32.5%</b>	<b>35.8%</b>	<b>37.0%</b>
		<b>Minimum</b>		<b>10.6%</b>	<b>10.7%</b>	<b>15.6%</b>	<b>18.5%</b>
		<b>Maximum</b>		<b>63.6%</b>	<b>70.4%</b>	<b>81.1%</b>	<b>102.9%</b>
7 June 2018		<b>The Proposal</b>	<b>4.10</b>	<b>50.2%</b>	<b>51.6%</b>	<b>49.2%</b>	<b>49.9%</b>

Source: the website of the Stock Exchange and Bloomberg

As set out in the table above, the cancellation prices of all the Privatisation Precedents were at a premium to the last trading day, 5-day, 30-day and 180-day average share price of the subject companies in the Privatisation Precedents but the magnitude of the premiums varied with the industry where the subject companies operate and the market conditions at the time of privatization.

The premiums implied by the Cancellation Price to the Last Trading Day, the 5-day, 30-day and 180-day average Share price of approximately 50.2%, 51.6%, 49.2% and 49.9% respectively, all fall within the range of the premiums represented by the Privatisation Precedents. The premium represented by the Cancellation Price is higher than the average and median to the last trading day, 5-day, 30-day and 180-day average closing prices of the Privatisation Precedents.

We have further identified the privatization precedents in which the offeree company is engaged in the Similar Business (“Comparable Privatisation”) so as to ensure meaningful comparison with PIHL from other previous incidents.

## LETTER FROM HALCYON CAPITAL

Date of initial announcement	Company (Stock Code)	Industry	Offer/cancellation price (HK\$)	Premium of offer/cancellation price over the closing price on last trading day prior to announcement of privatisation proposals	Premium of offer/cancellation price over the share price of the relevant company prior to announcement of privatisation proposals		
					5 trading days	30 trading days	180 trading days
21 January 2018	Pou Sheng International (Holdings) Limited (3813)	Sports product	2.03	31.8%	42.0%	70.7%	45.0%
26 July 2016	Peak Sport Products Co., Limited (1968)	Sports product	2.60	10.6%	12.6%	15.6%	23.2%
		<b>Average</b>		<b>21.2%</b>	<b>27.3%</b>	<b>43.1%</b>	<b>34.1%</b>
		<b>Median</b>		<b>21.2%</b>	<b>27.3%</b>	<b>43.1%</b>	<b>34.1%</b>
		<b>Minimum</b>		<b>10.6%</b>	<b>12.6%</b>	<b>15.6%</b>	<b>23.2%</b>
		<b>Maximum</b>		<b>31.8%</b>	<b>42.0%</b>	<b>70.7%</b>	<b>45.0%</b>
7 June 2018		<b>The Proposal</b>	<b>4.10</b>	<b>50.2%</b>	<b>51.6%</b>	<b>49.2%</b>	<b>49.9%</b>

*Source: the website of the Stock Exchange and Bloomberg*

The premiums implied by the Cancellation Price to the Last Trading Day, the 5-day, 30-day and 180-day average Share price of approximately 50.2%, 51.6%, 49.2% and 49.9% respectively, all fall within the range of the premiums represented by the Comparable Privatisation. The premium represented by the Cancellation Price is higher than the average premium to the last trading day, 5-day, 30-day and 180-day average closing price of the Privatisation Precedents.

### 8. Other possible offer or increase in Cancellation Price

Rule 31.1 of the Takeovers Code restricts any offeror nor person who, in the original offer or subsequently, is acting in concert with it, to make another offer for the offeree company or acquire any voting rights of the offeree company if such acquisition would lead to a mandatory general offer within 12 months from the date on which the preceding offer is withdrawn or lapses, except with the consent of the Executive. As a result of such restriction, if the Proposal or the Scheme fails, neither the Offeror or any person acting in concert with them may propose another proposal to privatize PIHL within the next 12 months. We do not believe that any privatization proposal made by a third party would be possible without the acceptance from the beneficial owners of the Offeror, of which concert parties of the Offeror held 74.99% of the total issued share capital of PIHL as at the Latest Practicable Date.

Furthermore, the Offeror had made a no price increase statement and did not reserve the right to increase the Cancellation Price and hence no increase on the Cancellation Price of HK\$4.1 per Cancellation Share will be permitted under the Takeovers Code.

**9. V- Grass Irrevocable Undertaking**

V-Grass is a Scheme Shareholder and has given the V-Grass Irrevocable Undertaking to the Offeror and PIHL, pursuant to which V-Grass has irrevocably undertaken to vote in favour of the Scheme at the Court Meeting. The V-Grass Irrevocable Undertaking was given in respect of V-Grass's 43,869,000 Scheme Shares (representing approximately 7.9% of the issued share capital of PIHL as at the Latest Practicable Date and approximately 31.6% of PIHL Shares held by Independent Shareholders as at the Latest Practicable Date ). V-Grass has also undertaken to vote in favour of the resolution to be proposed at the SGM to reduce the issued share capital of PIHL.

With the support of V-Grass (holding approximately 31.6% of PIHL Shares held by Independent Shareholders as at the Latest Practicable Date) and the provision of the V-Grass Irrevocable Undertaking to the Offeror and PIHL had increased the chance of the Proposal and the Scheme being approved by the majority of the Independent Shareholders.

**OPINION AND RECOMMENDATION**

Having considered the above principal factors and reasons including but not limited to:

- (a) With continuous cost and resources to be devoted to (i) the development of the diffusion line of business; (ii) marketing and public relation events on brand maintenance; (iii) retail network expansion; and (iv) IT upgrades, the Directors were not possible to state when payment of dividend will be feasible while the PIHL Group has not declared any dividend in the past 4 financial years, and thus the Proposal may be considered as a good opportunity for the PIHL Shareholders (in particular to those who prefer dividend) to cash in their investments;
- (b) Gross profit margin of the PIHL Group had been slowly declining from 80.4% in FY2015 to 77.6% in FY2017 in the past three financial years;
- (c) The Offeror is the controlling shareholder of PIHL which in turn controls 74.99% shareholding in PIHL. Strictly speaking, in the absence of support from parties acting in concert with the Offeror, it is unlikely any third party can privatize PIHL. As the Offeror does not reserve the rights to increase the Cancellation Price, we are of the opinion that HK\$4.1 per Scheme Share under the Scheme is the only offer PIHL Shareholders will have, at least in the short-run, to cash in their investments in PIHL;
- (d) During the Review Period, trading price of PIHL Shares were below the Cancellation Price, thus the Proposal will provide an opportunity for Independent Shareholders to cash in their investments at a relatively better return taking into account HK\$4.1 per Scheme Share under the Scheme as compared to disposing their investments in the open market (considering share price of HK\$3.60 per PIHL Share as at the Latest Practicable Date);

## LETTER FROM HALCYON CAPITAL

- (e) Despite the Cancellation Price represented a discount to net asset value per PIHL Share, given (i) the share price of PIHL Shares have never been trading above net asset value per PIHL Share during the Review Period; and (ii) considering that net asset value per share is not a meaningful or appropriate indicator of value for companies operating in the branded retail sector because in general, such companies' asset composition consists largely of inventories and trade receivables rather than assets which are marked to market periodically, we consider the Cancellation Price, which represented a discount to net asset value per PIHL Share to be acceptable;
- (f) The trading volume of PIHL Shares were thinly traded during the Pre-Announcement Period, the Proposal provides the Independent Shareholders, especially those holding a large block of PIHL Shares, a cash exit to realise their holdings at the Cancellation Price if they so wish, without creating a significant downside pressure on the trading price of PIHL Shares;
- (g) The Cancellation Price represents a P/E multiples of over 30 times which is higher than the average P/E multiples of Comparable Companies and the premium offered by the Cancellation Price is also higher than the average premium offered in other Privatisation Precedents;
- (h) Despite the PIHL Group was able to turn around its loss making results in FY2015 to achieve a profit attributable to equity shareholders of PIHL of RMB40.3 million in FY2016 and continued to increase in FY2017 by 41.2% to RMB56.9 million, share price of PIHL Shares did not show an increase as substantial as the improvement in profitability of the PIHL Group, with only a growth of 17.5% on the closing price of PIHL Shares between the publication of profit alert announcement up to the trading day after the publication of the FY2017 result announcement;
- (i) V-Grass, a Scheme Shareholder, had irrevocably undertaken to vote in favour of the Scheme in the Court Meeting and SGM;
- (j) The Offeror has stated that it will not increase the Cancellation Price, and hence no increase will be permitted under the Takeovers Code; and
- (k) If the Proposal is not approved, PIHL Shareholders should not expect to be offered another privatization proposal by the Offeror within the next 12 months.

We consider that the terms of the Proposal (including the Cancellation Price) and the Scheme are fair and reasonable as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) which will be proposed at the Court Meeting and the SGM to approve and implement the Proposal and the Scheme.



**LETTER FROM HALCYON CAPITAL**

Yours faithfully,  
For and on behalf of  
**HALCYON CAPITAL LIMITED**

**Derek Chan**  
*Chairman*

**Terry Chu**  
*Managing Director*

*Mr. Derek Chan is a person licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 25 years of experience in corporate finance industry.*

*Mr. Terry Chu is a person licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and regarded as a responsible officer of Halcyon Capital Limited and has over 18 years of experience in corporate finance industry.*

## EXPLANATORY STATEMENT

*This Explanatory Statement constitutes the statement required under Section 100 of the Companies Act.*

### **SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CANCELLATION PRICE OF HK\$4.10 FOR EACH SCHEME SHARE**

#### **INTRODUCTION**

On 7 June 2018, the boards of directors of the Offeror and PIHL jointly announced that the Offeror had requested the Board to put forward the Proposal to the Scheme Shareholders regarding the proposed privatisation of PIHL by way of the Scheme involving the cancellation of all the Scheme Shares, as a result of which it is intended that the Offeror and persons acting in concert with the Offeror will hold 100% of the issued share capital of PIHL and the listing of PIHL's shares on the Stock Exchange will be withdrawn.

The purpose of this Explanatory Statement is to explain the terms and effects of the Scheme and to provide the Scheme Shareholders with other relevant information in relation to the Scheme, and in particular, to state any material interests of the Directors, whether as Directors or as members or creditors of PIHL or otherwise, and the effect thereon of the Scheme, insofar as it is different from the effect on the like interests of other persons.

Particular attention of the Shareholders is drawn to the following sections of this Scheme Document:

- (i) a letter from the Board set out on pages 9 to 14 of this Scheme Document;
- (ii) a letter from the Independent Board Committee in connection with the Scheme set out on pages 15 to 16 of this Scheme Document;
- (iii) a letter from Halcyon Capital set out on pages 17 to 45 of this Scheme Document; and
- (iv) the Scheme set out on pages 130 to 135 of this Scheme Document.

#### **SUMMARY OF THE SCHEME**

##### **The Scheme**

The Scheme is to be implemented by way of a scheme of arrangement under Section 99 of the Companies Act. The Scheme provides that the Scheme Shares be cancelled in exchange for the payment to each Scheme Shareholder of HK\$4.10 in cash for each Scheme Share.

Only Independent Shareholder may vote at the Court Meeting on the resolution to approve the Scheme. The PIHL Shares owned by the Offeror and persons acting in concert with the Offeror will not be voted at the Court Meeting on the resolution to approve the Scheme.

## EXPLANATORY STATEMENT

As at the Latest Practicable Date, there were 554,453,492 Shares in issue. The Independent Shareholders were interested in 138,696,603 Shares, representing approximately 25.01% of the issued share capital of PIHL, and the Offeror and persons acting in concert with the Offeror were interested in 415,756,889 PIHL Shares, representing approximately 74.99% of the issued share capital of PIHL as at the Latest Practicable Date.

The number of Scheme Shares in issue as at the Latest Practicable Date, which would be cancelled if the Scheme becomes effective, was 139,796,603 Shares, representing approximately 25.21% of the issued share capital of PIHL. Mr. Kun He, a Director and a person presumed to be acting in concert with the Offeror under the Takeovers Code, held 1,100,000 Scheme Shares, representing approximately 0.20% of the issued share capital of the Company at the Latest Practicable Date. Mr. Kun He is not an Independent Shareholder and would not vote the Scheme Shares held by him at the Court Meeting on the resolution to approve the Scheme, but the Scheme Shares held by him will be cancelled if the Scheme becomes effective and he would receive the Cancellation Price of HK\$4.10 per Scheme Share in respect of his cancelled Scheme Shares. At the Cancellation Price, the Proposal values the entire issued share capital of PIHL at approximately HK\$2,273,259,317.

### CONDITIONS OF THE PROPOSAL

The Proposal is conditional upon the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than three-fourths in value of the Scheme Shares held by the Scheme Shareholders, present and voting either in person or by proxy at the Court Meeting, provided that:
  - (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and
  - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Independent Shareholders;
- (b) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the SGM, to approve and give effect to the reduction of the issued share capital of PIHL by cancelling and extinguishing the Scheme Shares and, immediately thereafter, the application of the credit amount arising in the books of PIHL as a result of the aforesaid reduction of the issued share capital of PIHL to pay up in full at par such number of new PIHL Shares as is equal to the number of Scheme Shares cancelled, to be issued to the Offeror;

## EXPLANATORY STATEMENT

- (c) the Court's sanction of the Scheme (with or without modifications) and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Court for registration;
- (d) compliance with the procedural requirements of the Companies Act in relation to the Scheme and the reduction of the issued share capital of PIHL respectively;
- (e) all Authorisations (if any) in connection with the Proposal from or with (as the case may be) the Relevant Authorities in the PRC, Hong Kong, Bermuda and/or any other relevant jurisdictions having been obtained and, if applicable, any waiting periods having expired or terminated (in each case where such Authorisation is material in the context of the PIHL Group as a whole and in the context of the Proposal);
- (f) all Authorisations (if any) remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for (or is in addition to requirements expressly provided for) in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective (in each case where such Authorisation is material in the context of the PIHL Group as a whole and in the context of the Proposal);
- (g) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme void, unenforceable or illegal (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme); and
- (h) no litigation, arbitration proceedings, prosecution or other legal proceedings being instituted against any member of the PIHL Group and no such proceedings being threatened in writing against any such member (and no investigation by any government or quasi-governmental, supranational, regulatory or investigative body or court in respect of any such member or the business carried on by any such member having been threatened in writing, announced, or instituted), in each case which is material and adverse in the context of the PIHL Group taken as a whole and in the context of the Proposal.

The Offeror reserves the right to waive all or any of the above Conditions, either in whole or in respect of any particular matter, except for Conditions (a) to (d).

PIHL shall use its reasonable endeavours to ensure that Condition (h) is fulfilled.

## EXPLANATORY STATEMENT

The Offeror may not invoke Conditions (e) or (f) unless any of the Authorisations referred to in those Conditions are either not obtained or are obtained subject to conditions imposed by the Relevant Authorities and any of those conditions cannot reasonably be satisfied by the Offeror or is otherwise unduly burdensome or onerous to the Offeror or any person acting in concert with the Offeror. In respect of Conditions (e) and (f), the Offeror is not aware of any Authorizations or consents which are required, save for the Court's sanction of the Scheme already set out above as separate Condition (c).

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such other date as the Offeror and PIHL may agree and the Court may allow), otherwise the Proposal will lapse. If the Scheme is withdrawn, not approved or lapses, the listing of the Shares on the Stock Exchange will not be withdrawn.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or about 21 August 2018. A further announcement would be made in the event of a material change to the expected Effective Date of the Scheme.

An announcement would be made by the Offeror and PIHL if the Scheme were to lapse.

**Shareholders and/or potential investors should be aware that the implementation of the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in Shares. Persons who are in doubt as to the action they should take should consult their licensed securities dealer or registered institution in securities, bank manager, solicitor or other professional advisers.**

### **SCHEME OF ARRANGEMENT UNDER SECTION 99 OF THE COMPANIES ACT AND COURT MEETING**

According to Section 99 of the Companies Act where an arrangement is proposed between a company and its members or any class of them, the Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Court directs.

It is expressly provided in Section 99 of the Companies Act that if a majority in number representing three-fourths in nominal value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be,

## EXPLANATORY STATEMENT

summoned as directed by the Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Court, be binding on all members or class of members, as the case may be, and also on the company.

### **THE ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE**

In addition to satisfying the requirements imposed by Bermuda law as summarised above, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (i) the Scheme is approved by at least 75% of the votes attaching to the disinterested Shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested Shares (namely, the Independent Shareholders); and
- (ii) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to all disinterested Shares (namely, all the Shares held by the Independent Shareholders).

### **BINDING EFFECT OF THE SCHEME**

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting in accordance with the requirements of Section 99 of the Companies Act and Rule 2.10 of the Takeovers Code, as described above, and is sanctioned by the Court and the other Conditions are either fulfilled or (to the extent permitted) waived, the Scheme will become binding on PIHL and all the Scheme Shareholders.

If the Scheme becomes effective and binding as aforesaid:

- (i) all the Scheme Shares will be cancelled, whereupon the issued share capital of PIHL shall be reduced from HK\$1,386,133.73 to HK\$1,036,642.2225 and all Share certificates representing holdings of those Scheme Shares will cease to have effect as documents of title;
- (ii) the issued share capital of PIHL will then be increased by the allotment and issuance of 139,796,603 new Shares, which is equal to the number of Scheme Shares cancelled;
- (iii) on the Effective Date, the credit amount of HK\$349,491.5075 which will arise in PIHL's books of account as a result of the said reduction of issued share capital will be applied in paying up in full at par the above-mentioned 139,796,603 new Shares (equal to the number of Scheme Shares cancelled) which will be allotted and issued, credited as fully paid, to the Offeror; and
- (iv) the Offeror will pay the Cancellation Price of HK\$4.10 per Scheme Share to the Scheme Shareholders for each Scheme Share held by them on the Record Date prior to the cancellation of the Scheme Shares.

## EXPLANATORY STATEMENT

As a result, the Offeror and persons acting in concert with the Offeror will hold 100% of the issued share capital of PIHL.

The Offeror has agreed to appear by counsel on the hearing of the petition to sanction the Scheme and to undertake to the Court to be bound thereby and to execute and do, and procure to be executed and done, all such documents, acts and things as may be necessary or desirable to be executed or done by the Offeror for the purpose of giving effect to the Scheme.

### **SHAREHOLDINGS OF THE OFFEROR AND PERSONS ACTING IN CONCERT WITH THE OFFEROR**

As at the Latest Practicable Date, persons acting in concert with the Offeror were interested in 415,756,889 Shares, representing approximately 74.99% of the issued share capital of PIHL as at the Latest Practicable Date. Of those Shares, PIEL held 162,705,752 Shares (representing approximately 29.35% of the issued share capital of PIHL) as at the Latest Practicable Date, and was also indirectly interested in an additional 250,187,637 Shares (representing approximately 45.12% of the issued share capital of PIHL) held by its subsidiary, CFS, as at the Latest Practicable Date. PIEL is owned as to 50% by Mr Alfred Chan, the Chairman and an Executive Director of PIHL, and as to 50% by Mr Edward Tan, the brother of Mr Alfred Chan. CFS is owned as to 97.52% by PIEL, 1.70% by Mr Alfred Chan and 0.78% by Mr Edward Tan.

In addition to their interests in Shares held through PIEL, as at the Latest Practicable Date, Mr Alfred Chan was also interested in an additional 400,000 Shares (representing approximately 0.07% of the issued share capital of PIHL) and Mr Edward Tan was also interested in an additional 250,000 Shares (representing approximately 0.05% of the issued share capital of PIHL). Mr Anthony Chan, the Chief Executive Officer and an Executive Director of the Company and the son of Mr Alfred Chan, was interested in 1,113,500 Shares, representing approximately 0.2% of the issued share capital of PIHL, as at the Latest Practicable Date.

The Offeror, PIEL, CFS, Mr Alfred Chan, Mr Edward Tan, Mr Anthony Chan and Ms Jenny Tan are parties acting in concert in relation to PIHL for the purposes of the Takeovers Code.

Mr Kun He, an Executive Director of PIHL, was interested in 1,100,000 Shares as at the Latest Practicable Date, representing approximately 0.2% of the issued share capital of PIHL. Mr Kun He is presumed, under the Takeovers Code, to be acting in concert with Mr Alfred Chan, Mr Anthony Chan, PIEL and CFS in relation to PIHL for the purposes of the Takeovers Code.

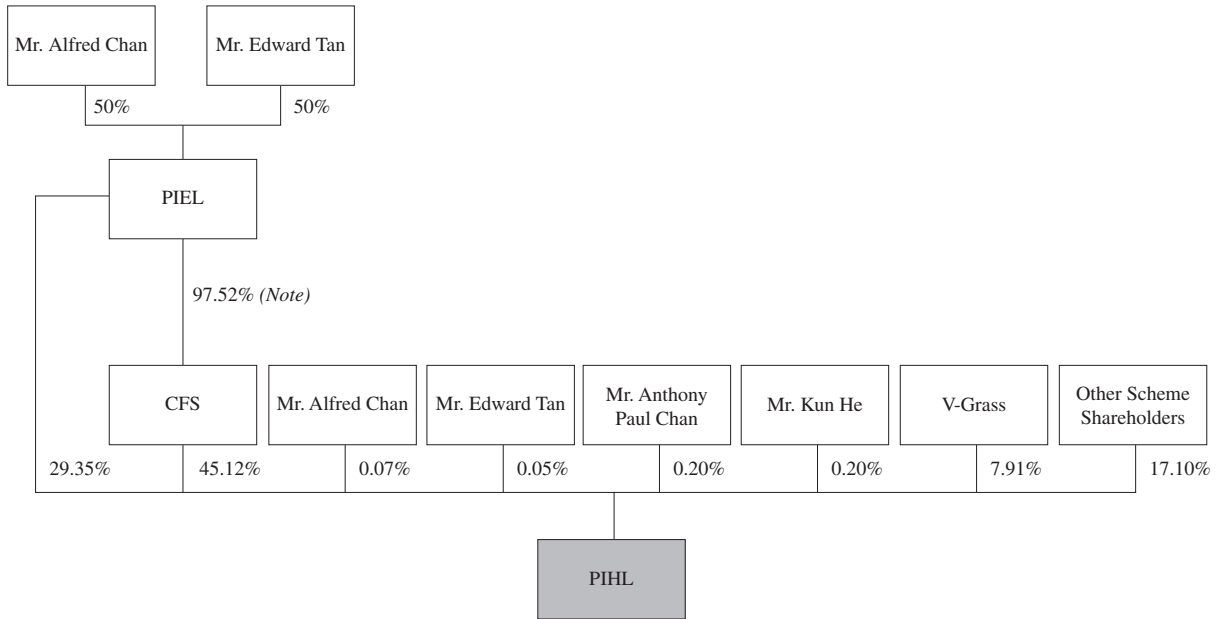
# EXPLANATORY STATEMENT

## EFFECTS OF THE SCHEME

### Shareholding structure

The charts below show the simplified shareholding structure of PIHL as at the Latest Practicable Date and immediately following implementation of the Proposal:

*As at the Latest Practicable Date*

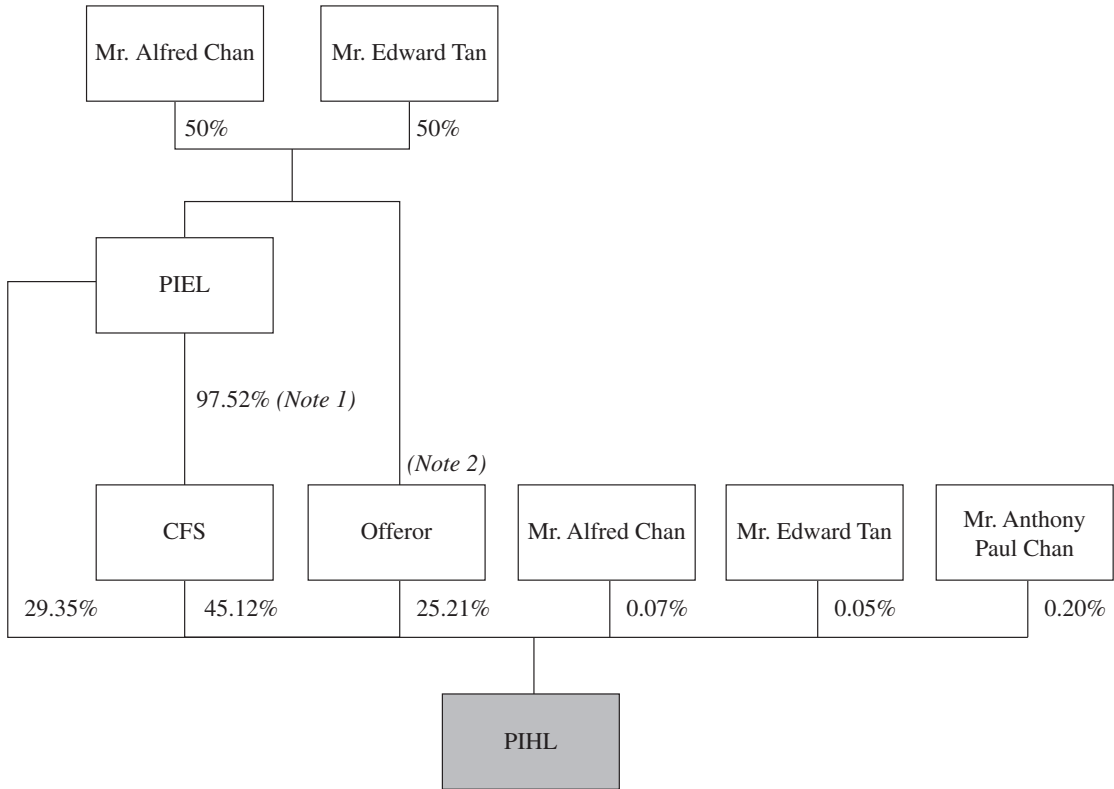


*Note:* The remaining shareholding of CFS is held as to 1.70% by Mr. Alfred Chan and 0.78% by Mr. Edward Tan.



# EXPLANATORY STATEMENT

*Immediately following implementation of the Proposal*



*Notes:*

- (1) 97.52% of the issued share capital of CFS is owned by PIEL. The remaining shareholding of CFS is held as to 1.70% by Mr. Alfred Chan and 0.78% by Mr. Edward Tan.
- (2) Indirect interest as ultimate beneficial owners.

## EXPLANATORY STATEMENT

The table below sets out the shareholding structure of PIHL as at the Latest Practicable Date and immediately following implementation of the Proposal:

Shareholders	As at the Latest Practicable Date		Immediately following implementation of the Proposal	
	<i>Number of Shares</i>	%	<i>Number of Shares</i>	%
<i>Offeror and concert parties</i>				
Offeror	—	—	139,796,603	25.21
CFS ( <i>Note 1</i> )	250,187,637	45.12	250,187,637	45.12
PIEL	162,705,752	29.35	162,705,752	29.35
Mr. Alfred Chan ( <i>Note 3</i> )	400,000	0.07	400,000	0.07
Mr. Edward Tan ( <i>Note 3</i> )	250,000	0.05	250,000	0.05
Mr. Anthony Paul Chan	1,113,500	0.20	1,113,500	0.20
Mr. Kun He ( <i>Note 4</i> )	<u>1,100,000</u>	<u>0.20</u>	<u>—</u>	<u>—</u>
<b><i>Sub-total</i></b>	<u>415,756,889</u>	<u>74.99</u>	<u>554,453,492</u>	<u>100.00</u>
<i>Independent Shareholders</i>				
V-Grass	43,869,000	7.91	—	—
Other Independent Shareholders	<u>94,827,603</u>	<u>17.10</u>	<u>—</u>	<u>—</u>
<b><i>Sub-total</i></b>	<u>138,696,603</u>	<u>25.01</u>	<u>—</u>	<u>—</u>
<b>Total number of Shares in issue</b>	<u>554,453,492</u>	<u>100.00</u>	<u>554,453,492</u>	<u>100.00</u>
<b>Total number of Scheme Shares</b>	<u>139,796,603</u>	<u>25.21</u>	<u>—</u>	<u>—</u>

*Notes:*

- (1) 97.52% of the issued share capital of CFS is owned by PIEL. The remaining issued share capital of CFS is owned as to 1.70% by Mr. Alfred Chan and 0.78% by Mr. Edward Tan.
- (2) The issued share capital of PIEL is held as to 50% by Mr. Alfred Chan, the Chairman and an Executive Director of PIHL, and as to 50% by Mr. Edward Tan, the brother of Mr. Alfred Chan.
- (3) Showing the interests held as beneficial owner.
- (4) Mr. Kun He, an Executive Director, is also a Scheme Shareholder.

## EXPLANATORY STATEMENT

### Material interests of Directors and effects of the Scheme on such interests

Details of the interests of the Directors in Shares as at the Latest Practicable Date are set out under the heading “Disclosure of interests under the SFO — Directors interests and short positions in Shares and the shares of PIHL’s associated corporations” in Appendix II to this Scheme Document, on page 122 of this Scheme Document.

PIEL, which held 162,705,752 Shares (representing approximately 29.35% of the issued share capital of PIHL) as at the Latest Practicable Date, is owned as to 50% by Mr Alfred Chan, the Chairman and an Executive Director of the Company. PIEL owns 97.52% of the issued share capital of CFS, which held 250,187,637 Shares (representing approximately 45.12% of the issued share capital of PIHL) as at the Latest Practicable Date. The remaining issued share capital of CFS is owned as to 1.70% by Mr Alfred Chan and as to 0.78% by his brother, Mr Edward Tan. Mr Alfred Chan was also interested in an additional 400,000 Shares (representing approximately 0.07% of the issued share capital of PIHL) as at the Latest Practicable Date.

Mr Anthony Chan, the Chief Executive Officer and an Executive Director of PIHL and the son of Mr Alfred Chan, was interested in 1,113,000 Shares (representing approximately 0.20% of the issued share capital of PIHL) as at the Latest Practicable Date.

Ms Jenny Tan, an Executive Director of PIHL, is the daughter of Mr Edward Tan but did not hold any interests in Shares as at the Latest Practicable Date.

The Shares held by Mr Alfred Chan, Mr Anthony Chan, PIEL, CFS and Mr Edward Tan are not Scheme Shares and will not be cancelled under the Scheme. None of Mr Alfred Chan, Mr Anthony Chan, PIEL, CFS or Mr Edward Tan are eligible to vote the Shares respectively held by them on the resolution to approve the Scheme at the Court Meeting.

Mr Kun He, an Executive Director of PIHL, was interested in 1,100,000 Shares (representing approximately 0.20% of the issued share capital of PIHL) as at the Latest Practicable Date.

The Shares held by Mr Kun He are Scheme Shares and will be cancelled under the Scheme. However, Mr Kun He is not an Independent Shareholder and will not vote the Shares held by him in respect of the resolution to approve the Scheme to be proposed at the Court Meeting.

As at the Latest Practicable Date, none of the other Directors held any interests in Shares.

## EXPLANATORY STATEMENT

### COMPARISONS OF VALUE

The Cancellation Price represents:

- a premium of approximately 13.9% over the closing price of HK\$3.6 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 50.2% over the closing price of HK\$2.73 per Share as quoted on the Stock Exchange on the Pre-Announcement Last Trading Day;
- a premium of approximately 51.6% over the average closing price of HK\$2.704 per Share based on the daily closing prices as quoted on the Stock Exchange over the 5 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 49.2% over the average closing price of approximately HK\$2.748 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Pre-Announcement Last Trading Day;
- a premium of approximately 49.9% over the average closing price of approximately HK\$2.736 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including the Pre-Announcement Last Trading Day; and
- a discount of approximately 9.9% to the audited consolidated net asset value attributable to Shareholders per Share of approximately RMB3.79 (equivalent to approximately HK\$4.55) as at 31 December 2017.

The Cancellation Price was determined by the Offeror on a commercial basis representing a premium over the closing price of Shares prior to the Pre-Announcement Last Trading Day after taking into account various factors including (a) the historical prices of the Shares traded on the Stock Exchange prior to the Announcement Date, details of which are set out above; (b) the trading multiples of comparable companies listed on the Stock Exchange engaged in wholesale and retail distribution of fashion apparel and accessories with similar size; and (c) the premium level of other privatisation transactions in Hong Kong in recent years.

At the Cancellation Price, the Proposal values the entire issued share capital of PIHL at approximately HK\$2,273,259,317.

A summary of the closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the date of the Announcement; (ii) on the Pre-Announcement Last Trading Day; and (iii) on the Latest Practicable Date is set out in Appendix II to this Scheme Document.

## EXPLANATORY STATEMENT

### FINANCIAL ADVISER TO THE OFFEROR AND CONFIRMATION OF FINANCIAL RESOURCES

Somerley Capital has been appointed as the financial adviser to the Offeror in connection with the Proposal.

Somerley Capital, as financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to satisfy the maximum amount of cash consideration required to effect the Proposal.

The Offeror will fund the payment of the cash consideration under Scheme by using its internal cash resources.

### INFORMATION ON THE PIHL GROUP

The PIHL Group is principally 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, the U.S., Canada and Europe.

A summary of the audited consolidated financial results of the PIHL Group for each of the two years ended 31 December, 2016 and 31 December 2017 is set out below:

	<b>For the year ended</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2,243,045	1,846,179
Profit before taxation	166,659	126,183
Profit after taxation	61,160	44,109
Profit attributable to equity holders of PIHL	56,885	40,265

The audited consolidated net assets attributable to Shareholders as at 31 December 2017 and as at 31 December 2016 were approximately RMB2,099,455,000 (equivalent to approximately HK\$2,520,816,000) and RMB2,038,356,000 (equivalent to approximately HK\$2,275,621,000), respectively.

The net asset value attributable to Shareholders per Share was RMB3.79 (equivalent to approximately HK\$4.55) as at 31 December 2017 and RMB3.68 (equivalent to approximately HK\$4.11) as at 31 December 2016.

PIHL did not pay any dividends to its Shareholders in respect of any of the financial years ended 31 December 2015, 31 December 2016 or 31 December 2017.

Your attention is also drawn to Appendix I to this Scheme Document which sets out the "Financial Information on the PIHL Group".

*Note:* The conversion of RMB into HK\$: (i) for the figures as at 31 December 2016 is based on the exchange rate of RMB1 to HK\$1.1164; and (ii) for the figures as at 31 December 2017 is based on the exchange rate of RMB1 to HK\$1.2007, both for illustration purpose only.

## **EXPLANATORY STATEMENT**

### **INFORMATION ON THE OFFEROR, PIEL AND CFS**

The Offeror is a company incorporated in the British Virgin Islands and is an investment holding company. The Offeror is indirectly ultimately beneficially owned as to 50% by Mr. Alfred Chan, the Chairman and an Executive Director of PIHL, and as to 50% by Mr. Edward Tan, the brother of Mr. Alfred Chan. As at the Latest Practicable Date, the Offeror did not hold any Shares.

PIEL is a company incorporated in the British Virgin Islands and is an investment holding company. PIHL is owned as to 50% by Mr. Alfred Chan and as to 50% by Mr. Edward Tan. As at the Latest Practicable Date, PIEL directly held 162,705,752 Shares, representing approximately 29.35% of the issued share capital of PIHL.

PIEL also owns 97.52% of the issued share capital of CFS, which held 250,187,637 Shares (representing approximately 45.12% of the issued share capital of PIHL) as at the Latest Practicable Date. The remaining issued share capital of CFS is held as to 1.70% by Mr. Alfred Chan and as to 0.78% by Mr. Edward Tan. CFS is a company incorporated in the Province of Alberta, Canada and is an investment holding company.

### **INTENTION OF THE OFFEROR WITH REGARD TO PIHL**

It is the intention of the Offeror for the PIHL Group to maintain its existing business upon the successful privatisation of PIHL. The Offeror has no intention to seek a listing of the Shares on any stock exchange in the foreseeable future. The Offeror does not have any intention to introduce any material changes to the business and/or assets of the PIHL Group, to redeploy its fixed assets, or to make any changes to the continued employment of the PIHL Group's employees as a result of the Proposal.

### **REASONS FOR AND BENEFITS OF THE PROPOSAL**

The Offeror has long considered that there are advantages from a management point of view in privatising PIHL. In January 2015, the Offeror put forward an offer (the "Previous Offer") to Shareholders at HK\$3.00 per Share. The Offeror believed, then as now, that PIHL needs to maintain its competitiveness with fellow fashion houses by devoting substantial resources to marketing/PR events to maintain the relevance of the brand in the market, upgrading the information technology capabilities and infrastructure of PIHL to be in-line with an increasingly "digital" consumer as well as to ensuring its merchandise is stylish and attractive to a wide range of customers. Because of the continuing costs of brand building, no dividends have been paid to Shareholders in respect of recent financial years and it is not possible to state when dividend payments may be resumed. The Offeror also considers that the cyclical nature of the fashion industry, in particular the changing tastes and shopping habits of key demographic groups, means that the PIHL Group's revenues and margins, as well as overall profitability, continue to be dependent on macro trends in the industry, both on a global scale and in the PRC.

## **EXPLANATORY STATEMENT**

The Previous Offer at HK\$3.00 per Share resulted in substantial acceptances but the listing of PIHL was maintained. As anticipated, PIHL's 2015 results were poor, with PIHL experiencing its first net loss in its history as a listed company. During 2015, the Share price and trading volume were volatile but at the end of that year the Shares closed below HK\$3.00 and the volume of trading was low.

In 2016 and 2017, top line revenue of the PIHL Group has shown some improvement as the measures taken in 2015 bore fruit and luxury spending in the PRC has revived. However, PIHL has not shown a return to historical levels of profitability, with net income in 2016 and 2017 lower than any year since listing from 2002 to 2015. As such, the Share price and trading volume have not responded favourably. From the beginning of 2016 to the Pre-Announcement Last Trading Day, the Shares traded in a range of between HK\$3.35 (high) and HK\$2.28 (low). On the Pre-Announcement Last Trading Day, the Share price closed at HK\$2.73, below the price of the Previous Offer. Trading volume has also remained depressed, with average daily trading in 2018 up to the Pre-Announcement Last Trading Day being only approximately 43,244 Shares.

In these circumstances, the Offeror believes the market does not value PIHL fully nor is active trading in the Shares likely. As stated above, the Offeror continues to believe that certain problems endemic to the fast changing and fickle fashion industry are best addressed as a private company. Consequently, the Offeror is prepared to put forward a proposal to privatise PIHL at a cash price of HK\$4.10 per Scheme Share, which represents a premium of approximately 50% over recent market levels prior to the Announcement, as set out in the section above headed "Comparison of value", and which the Offeror considers reflects a fair valuation for the PIHL Group. The Cancellation Price of HK\$4.10 per Share represents a price earnings multiple of approximately 34.2 times PIHL's 2017 earnings per Share of approximately RMB0.10 (equivalent to approximately HK\$0.120). As noted above, PIHL has not paid dividends in recent years. The Proposal, if it becomes effective, gives the Independent Shareholders the opportunity to realise their investment in a thinly traded share at a fixed-price cash consideration. V-Grass, an Independent Shareholder holding approximately 31.6% of the Shares held by the Independent Shareholders, has agreed to support the Proposal.

### **SHARE CERTIFICATES, DEALINGS AND LISTING**

Upon the Scheme becoming effective, all Scheme Shares will be cancelled. Share certificates for the Shares held by the Scheme Shareholders will thereafter cease to have effect as documents of, or evidence of, title. PIHL will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange. The Scheme Shareholders will be notified by way of an announcement of the exact date on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. The Scheme will lapse if it does not become effective on or before the Long Stop Date (or such later date as the Offeror and PIHL may agree and the Court may allow).

The listing of the Shares on the Stock Exchange will not be withdrawn if the Proposal is not approved or lapses.

## EXPLANATORY STATEMENT

### REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, payment of the consideration of the Scheme Shares will be made to the Scheme Shareholders whose names appear on the Register on the Record Date. On the basis that the Scheme becomes effective on or about Tuesday, 21 August 2018, cheques for payment of the consideration payable under the Scheme are expected to be despatched on or **before Thursday, 30 August 2018**. In the absence of any specific instructions to the contrary received in writing by Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, cheques will be sent to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the Register in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of PIHL, the Offeror or their respective financial advisers will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in PIHL's name with a licensed bank in Hong Kong selected by PIHL.

PIHL shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with any interest earned thereon, to persons who satisfy PIHL that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and PIHL shall thereafter transfer to the Offeror the balance (if any) of the sums then standing to the credit of the deposit account in its name, including any interest accrued thereon subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

The latest time for lodging transfers of Shares to qualify for entitlements under the Scheme is 4:30 p.m. on Wednesday, 8 August 2018. The Scheme Shareholders should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees at or with Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before that time.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date.

Settlement of the cash entitlements to which any Scheme Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror or PIHL may otherwise be, or claim to be, entitled against such Scheme Shareholder.



## **EXPLANATORY STATEMENT**

### **OVERSEAS SHAREHOLDERS OF PIHL**

This Scheme Document has been prepared for the purpose of complying with the laws of Hong Kong, and the information disclosed herein may not be the same as that which would have been disclosed if this Scheme Document had been prepared in accordance with the laws of any other jurisdiction.

This Scheme Document does not constitute an offer or invitation to sell, purchase, subscribe for or issue any securities or the solicitation of an offer to buy or subscribe for securities pursuant to this Scheme Document or otherwise in any jurisdiction in which such offer, invitation or solicitation is unlawful.

The distribution of this Scheme Document, and the making of the Proposal, to Scheme Shareholders not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such Scheme Shareholders should inform themselves about and observe any applicable legal and regulatory requirements. It is the responsibility of any overseas Scheme Shareholders of PIHL wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, and the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

### **TAXATION**

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme and in particular, whether receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

### **COURT MEETING AND SGM**

In accordance with the direction of the Court, the Court Meeting will be convened for the purpose of considering and, if thought fit, passing an appropriate resolution to approve the Scheme (with or without modifications). Insofar as the sanction of the Scheme by the Court is concerned, such a resolution will be passed if a majority in number representing three-fourths in value of the Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. However, the Scheme will only be considered to have been approved under the Takeovers Code if (i) the Scheme is approved by at least 75% of the votes attaching to the Shares of the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is

## EXPLANATORY STATEMENT

not more than 10% of all the Shares held by all of the Independent Shareholders. Based on 138,696,603 Shares held by the Independent Shareholders as at the Latest Practicable Date, more than 10% of such Shares would be 13,869,661 Shares.

In addition to the resolution required to sanction the Scheme at the Court Meeting, the Scheme also involves a reduction of issued share capital as one of its terms. Under the Companies Act and the bye-laws of PIHL, the reduction of issued share capital is required to be approved by a special resolution of Shareholders. Such special resolution will be proposed at the SGM, which will be convened to be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing the special resolution to approve the reduction of issued share capital and the cancellation of the Scheme Shares and to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, in person or by proxy, at the SGM. All Shareholders will be entitled to attend and vote at the SGM.

As at the Latest Practicable Date, the Scheme Shareholders were interested in 139,796,603 Shares (representing approximately 25.21% of the issued share capital of PIHL) and the Offeror and parties acting in concert with the Offeror were interested in 415,756,889 Shares (representing approximately 74.99% of the issued share capital of PIHL).

Of the aggregate 415,756,889 Shares held as at the Latest Practicable Date by the Offeror and parties acting in concert with it, 1,100,000 Shares (representing approximately 0.20% of the issued share capital of PIHL) are held by Mr Kun He and are Scheme Shares. Those Scheme Shares will be cancelled if the Scheme becomes effective, in consideration for the payment to Mr Kun He of the Cancellation Price per Share. Mr Kun He is an Executive Director of PIHL and, as such, is presumed under the Takeovers Code to be acting in concert with the Offeror in relation to PIHL.

The remaining 414,656,889 Shares held as at the Latest Practicable Date by the Offeror and parties acting in concert with it (being the Shares held by PIEL, CFS, Mr Alfred Chan, Mr Edward Tan and Mr Anthony Chan), representing approximately 74.79% of the issued share capital of PIHL, do not form part of the Scheme Shares, will not be cancelled under the Scheme and are not eligible to vote at the Court Meeting.

Only Independent Shareholders may vote at the Court Meeting. In view of the interests of the Offeror and parties acting in concert with it in the Proposal, any and all holders of Scheme Shares who are acting in concert with the Offeror are not entitled to, and will not, vote at the Court Meeting in respect of the resolution to approve the Scheme to be proposed at the Court Meeting.

Accordingly, the 1,100,000 Scheme Shares held by Mr Kun He will not be voted at the Court Meeting. Any other Scheme Shares held by any other person acting in concert with the Offeror will also not be voted at the Court Meeting.

## EXPLANATORY STATEMENT

Shareholders are urged to have their names entered in the Register as soon as possible for, among others, the following reasons:

- (i) to enable Shareholders (being Independent Shareholders) to attend the meeting as required under Section 99 of the Companies Act in the capacity as members of PIHL or to be represented by proxies to be appointed by them;
- (ii) to enable PIHL to properly classify members of PIHL for the purposes of Section 99 of the Companies Act; and
- (iii) to enable PIHL and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective. All deliveries of cheques required for making payment in respect of the Scheme Shares as aforesaid shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the Register at the close of business on the Record Date.

No person shall be recognised by PIHL as holding any Shares upon any trust. Any beneficial owner of Shares (the “**Beneficial Owner**”) whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party (the “**Registered Owner**”) should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by the Beneficial Owner should be voted at the Court Meeting and/or the SGM. A Beneficial Owner who wishes to attend the Court Meeting and/or the SGM personally should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable the Beneficial Owner to attend and vote at the Court Meeting and/or the SGM and for such purpose the Registered Owner may appoint the Beneficial Owner as its proxy. The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the SGM shall be in accordance with all relevant provisions in the bye-laws of PIHL. In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

Any Beneficial Owner whose Shares are deposited in Central Clearing and Settlement System (“**CCASS**”) and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an investor participant (the “**Investor Participant**”), contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant (“**Other CCASS Participant**”) regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by Investor Participants and Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “**General Rules of CCASS**” and the “**CCASS Operational Procedures**”.

## **EXPLANATORY STATEMENT**

Notice of the Court Meeting is set out on pages 136 to 137 of this Scheme Document. The Court Meeting will be held at 4:00 p.m. on Friday, 27 July 2018 at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong.

Notice of the SGM is set out on pages 138 to 140 of this Scheme Document. The SGM will be held at 4:30 p.m. (or immediately after the conclusion or adjournment of the Court Meeting, whichever is later) on Friday, 27 July 2018 at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong.

### **V-GRASS IRREVOCABLE UNDERTAKING**

V-Grass is a Scheme Shareholder and has given the V-Grass Irrevocable Undertaking to the Offeror and PIHL, pursuant to which V-Grass has irrevocably undertaken to vote the Scheme Shares held by it in favour of the Scheme at the Court Meeting.

The V-Grass Irrevocable Undertaking was given in respect of V-Grass’s 43,869,000 PIHL Shares (representing approximately 7.91% of the issued share capital of PIHL as at the Latest Practicable Date and approximately 31.6% of the PIHL Shares held by the Independent Shareholders as at the Latest Practicable Date). V-Grass has also undertaken to vote in favour of the resolution to be proposed at the SGM to reduce the issued share capital of PIHL (being the resolution referred to in Condition (b)).

The V-Grass Irrevocable Undertaking will remain valid until the Scheme lapses or becomes effective, but will lapse and cease to have effect if the Scheme lapses or is withdrawn in accordance with its terms or if the Scheme has not become effective by 6:00 p.m. on the Longstop Date (or such later time and/or date as the Offeror and PIHL may agree, with the approval of the Court and/or the Executive if required).

As at the Latest Practicable Date, save as disclosed above, the Offeror has confirmed that no other persons have irrevocably committed themselves to vote to approve or reject the Scheme at the Court Meeting or in respect of the resolutions to be proposed at the SGM.

### **DEMAND FOR POLL AT THE SGM**

In accordance with bye-law 70 of the bye-laws of PIHL, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded by:

- (i) the chairman of such meeting; or
- (ii) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

## EXPLANATORY STATEMENT

- (iii) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

### ACTION TO BE TAKEN

#### Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the SGM are enclosed with this Scheme Document.

Whether or not you are able to attend the Court Meeting and/or the SGM, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and the enclosed **white** form of proxy in respect of the SGM, in accordance with the instructions printed thereon, and to lodge them with Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 4:00 p.m., on Wednesday, 25 July 2018 and the **white** form of proxy for use at the SGM should be lodged not later than 4:30 p.m., on Wednesday, 25 July 2018 for the purpose of the SGM to be convened on Friday, 27 July 2018. In the case of the **pink** form of proxy in respect of the Court Meeting, it may alternatively be returned by facsimile at number (852) 2506 0908 (marked for the attention of "the Company Secretary") up to the time of the Court Meeting or it may be handed to the chairman of the Court Meeting at the Court Meeting, if it is not so lodged. The completion and return of a form of proxy for the Court Meeting or the SGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

An announcement will be made by PIHL in relation to the results of the Court Meeting and the SGM. In addition, an announcement will be made on the results of the hearing of the petition to sanction the Scheme by the Court and, if the Scheme is sanctioned, the last date of dealings in the Shares on the Stock Exchange, the Record Date, the Effective Date and the date of the withdrawal of the listing of the Shares on the Stock Exchange.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting, you will still be bound by the outcome of such Court Meeting. You are therefore strongly urged to attend and vote at the Court Meeting in person or by proxy.

## **EXPLANATORY STATEMENT**

For the purpose of determining the entitlements of Shareholders to attend and vote at the Court Meeting and the SGM, the Register will be closed from Tuesday, 24 July 2018 to Friday, 27 July 2018 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the SGM, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 23 July 2018.

### **COSTS OF THE SCHEME**

In the event that the Scheme becomes effective, the costs of the Scheme will be borne by PIHL. The costs of the Scheme and of its implementation are expected to amount to approximately HK\$2.76 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme (i) is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee and is not approved at the relevant Shareholders’ meeting(s) or (ii) does not become unconditional, all the expenses incurred by PIHL in connection with the Scheme shall be borne by the Offeror.

### **RECOMMENDATION**

Your attention is drawn to the following:

- (i) the paragraph headed “Recommendation of the Independent Board Committee” in the “Letter from the Board” set out on page 13 of this Scheme Document;
- (ii) the letter from the Independent Board Committee set out on pages 15 to 16 of this Scheme Document; and
- (iii) the letter from Halcyon Capital set out on pages 17 to 45 of this Scheme Document.

### **ADDITIONAL INFORMATION**

Additional information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Statement.

## 1. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the financial information of the PIHL Group for each of the three years ended 31 December 2015, 2016 and 2017, which are extracted from the audited consolidated financial statements of the PIHL Group for the years then ended. The financial statements are prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The auditor's reports in respect of the PIHL Group's audited consolidated financial statements for each of the three years ended 31 December 2015, 2016 and 2017 did not contain any qualifications.

	Years ended 31 December,		
	2017	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Turnover	<u>2,243,045</u>	<u>1,846,179</u>	<u>1,594,575</u>
Net profit or loss before taxation	166,659	126,183	(22,543)
Income tax	<u>(105,499)</u>	<u>(82,074)</u>	<u>(50,620)</u>
Profit for the year	<u>61,160</u>	<u>44,109</u>	<u>(73,163)</u>
Net profit or loss attributable to equity shareholders of PIHL	56,885	40,265	(72,730)
Net profit or loss attributable to minority interests	<u>4,275</u>	<u>3,844</u>	<u>(433)</u>
	<u>61,160</u>	<u>44,109</u>	<u>(73,163)</u>
Dividends	0	0	0
Interim dividend	0	0	0
Final dividend proposed after the balance sheet date	<u>0</u>	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>0</u>
Dividends per share	<u>0</u>	<u>0</u>	<u>0</u>
Earnings/(loss) per share			
Basic	<u>10 RMB cents</u>	<u>7 RMB cents</u>	<u>(13) RMB cents</u>
Diluted	<u>10 RMB cents</u>	<u>7 RMB cents</u>	<u>(13) RMB cents</u>

*Note:* There are no extraordinary or exceptional items.

## 2. AUDITED FINANCIAL INFORMATION

Set out below is the full text of the audited consolidated financial statements of the PIHL Group for the year ended 31 December 2017, extracted from the Annual Report of PIHL for the year ended 31 December 2017.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

(Expressed in Renminbi)

	<i>Note</i>	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
<b>Revenue</b>	3	2,243,045	1,846,179
Cost of sales		<u>(503,206)</u>	<u>(399,298)</u>
<b>Gross profit</b>		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	<u>(268,423)</u>	<u>(159,952)</u>
<b>Profit from operations</b>		<u>160,845</u>	<u>127,862</u>
Finance income		12,286	7,857
Finance costs		<u>(6,472)</u>	<u>(9,536)</u>
<b>Net finance income/(costs)</b>	6(a)	<u>5,814</u>	<u>(1,679)</u>
<b>Profit before taxation</b>	6	166,659	126,183
Income tax	7(a)	<u>(105,499)</u>	<u>(82,074)</u>
<b>Profit for the year</b>		61,160	44,109
<b>Other comprehensive income for the year</b> (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		<u>5,388</u>	<u>5,138</u>
<b>Total comprehensive income for the year</b>		<u>66,548</u>	<u>49,247</u>



	<i>Note</i>	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
<b>Profit attributable to:</b>			
Equity shareholders of the Company		56,885	40,265
Non-controlling interests		<u>4,275</u>	<u>3,844</u>
<b>Profit for the year</b>		<u><u>61,160</u></u>	<u><u>44,109</u></u>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Company		62,366	45,004
Non-controlling interests		<u>4,182</u>	<u>4,243</u>
<b>Total comprehensive income for the year</b>		<u><u>66,548</u></u>	<u><u>49,247</u></u>
<b>Earnings per share (RMB cents)</b>			
Basic	<i>10(a)</i>	<u>10</u>	<u>7</u>
Diluted	<i>10(b)</i>	<u>10</u>	<u>7</u>

The notes on pages 73 to 118 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 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
<b>Balance at 1 January 2016</b>	1,474	61,419	443,348	61,012	(1,033)	1,427,132	1,993,352	20,069	2,013,421
<b>Changes in equity for 2016</b>									
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)	—	—	—
<b>Balance at 31 December 2016 and 1 January 2017</b>	<u>1,474</u>	<u>61,419</u>	<u>443,348</u>	<u>57,036</u>	<u>3,706</u>	<u>1,471,373</u>	<u>2,038,356</u>	<u>24,312</u>	<u>2,062,668</u>
<b>Changes in equity for 2017</b>									
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)	1,26	1,300
Capital injection from non-controlling interests	—	—	—	—	—	—	—	1,300	1,300
Appropriation to statutory reserve	—	—	—	1,292	—	(1,292)	—	—	—
<b>Balance at 31 December 2017</b>	<u>1,474</u>	<u>61,419</u>	<u>443,348</u>	<u>58,328</u>	<u>9,187</u>	<u>1,525,699</u>	<u>2,099,455</u>	<u>31,061</u>	<u>2,130,516</u>

The notes on pages 73 to 118 form part of these financial statements.

## 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
<b>Non-current assets</b>			
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
		<u>667,752</u>	<u>678,405</u>
<b>Current assets</b>			
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
		<u>2,261,256</u>	<u>1,956,955</u>
<b>Current liabilities</b>			
Trade and other payables	19	599,096	404,377
Bank loans	21	1,688	1,688
Current taxation	23(a)	50,171	41,210
		<u>650,955</u>	<u>447,275</u>
<b>Net current assets</b>		<u>1,610,301</u>	<u>1,509,680</u>
<b>Total assets less current liabilities</b>		<u>2,278,053</u>	<u>2,188,085</u>
<b>Non-current liabilities</b>			
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
		<u>147,537</u>	<u>125,417</u>
<b>Net assets</b>		<u>2,130,516</u>	<u>2,062,668</u>
<b>Capital and reserves</b>			
Share capital	24(c)	1,474	1,474
Reserves		2,097,981	2,036,882
<b>Total equity attributable to equity shareholders of the Company</b>		2,099,455	2,038,356
<b>Non-controlling interests</b>		31,061	24,312
<b>Total equity</b>		<u>2,130,516</u>	<u>2,062,668</u>

**CONSOLIDATED CASH FLOW STATEMENT***for the year ended 31 December 2017**(Expressed in Renminbi)*

	<i>Note</i>	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
<b>Operating activities</b>			
Cash generated from operations	<i>18(b)</i>	363,228	194,422
Income tax paid	<i>23(a)</i>	<u>(113,439)</u>	<u>(74,569)</u>
<b>Net cash generated from operating activities</b>		<u>249,789</u>	<u>119,853</u>
<b>Investing activities</b>			
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		<u>933</u>	<u>47</u>
<b>Net cash (used in)/generated from investing activities</b>		<u>(374,685)</u>	<u>44,588</u>
<b>Financing activities</b>			
Capital contribution by non-controlling interests of a subsidiary		1,300	—
Repayment of bank loans	<i>18(c)</i>	(1,688)	(301,044)
Interest paid		<u>(269)</u>	<u>(2,687)</u>
<b>Net cash used in financing activities</b>		<u>(657)</u>	<u>(303,731)</u>
<b>Net decrease in cash and cash equivalents</b>		(125,553)	(139,290)
<b>Cash and cash equivalents at 1 January</b>			
<b>Effect of foreign exchange rate changes</b>	<i>18(a)</i>	<u>374,472</u>	<u>507,958</u>
		<u>(2,403)</u>	<u>5,804</u>
<b>Cash and cash equivalents at 31 December</b>	<i>18(a)</i>	<u><u>246,516</u></u>	<u><u>374,472</u></u>

The notes on pages 73 to 118 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

*Amount expressed in Renminbi unless otherwise stated*

**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 PRC and their functional currency is RMB, hence, RMB is used as the presentation currency of the Group.

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

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

Judgements made by management in 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.

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:

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.

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.

**(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(I)(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.

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.

**(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.

**(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(I)(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.

**(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**

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.

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.

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.

**(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.

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.

**(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 using a 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.



**(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.

**(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	<u>2,109,908</u>	<u>1,695,100</u>	<u>133,137</u>	<u>151,079</u>	<u>2,243,045</u>	<u>1,846,179</u>
Segment revenue	<u>2,109,908</u>	<u>1,695,100</u>	<u>133,137</u>	<u>151,079</u>	<u>2,243,045</u>	<u>1,846,179</u>
Segment profit/(loss)	<u>567,920</u>	<u>484,776</u>	<u>(3,962)</u>	<u>9,774</u>	<u>563,958</u>	<u>494,550</u>
Selling and distribution expenses	<u>1,139,665</u>	<u>925,917</u>	<u>36,216</u>	<u>26,414</u>	<u>1,175,881</u>	<u>952,331</u>
	Retail		Others*		Total	
	31	31	31	31	31	31
	December	December	December	December	December	December
	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	<u>684,454</u>	<u>736,596</u>	<u>98,179</u>	<u>63,686</u>	<u>782,633</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.

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

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
<b>Revenue</b>		
Revenue for reportable segment	2,109,908	1,695,100
Revenue for other segments	<u>133,137</u>	<u>151,079</u>
<b>Consolidated revenue</b>	<u><u>2,243,045</u></u>	<u><u>1,846,179</u></u>
<b>Profit</b>		
Profit for reportable segment	567,920	484,776
(Loss)/profit for other segments	<u>(3,962)</u>	<u>9,774</u>
	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)	<u>5,814</u>	<u>(1,679)</u>
<b>Consolidated profit before taxation</b>	<u><u>166,659</u></u>	<u><u>126,183</u></u>
	<b>At</b>	<b>At</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>		
Assets for reportable segment	684,454	736,596
Assets for other segments	<u>98,179</u>	<u>63,686</u>
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	<u>246,516</u>	<u>374,472</u>
<b>Consolidated total assets</b>	<u><u>2,929,008</u></u>	<u><u>2,635,360</u></u>

(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 are 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	
	2017 RMB'000	2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
Mainland China	2,083,178	1,673,104	435,935	468,070
Others	<u>159,867</u>	<u>173,075</u>	<u>8,640</u>	<u>11,379</u>
	<u>2,243,045</u>	<u>1,846,179</u>	<u>444,575</u>	<u>479,449</u>

#### 4. OTHER INCOME

	2017 RMB'000	2016 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	<u>3,528</u>	<u>1,998</u>
	<u>26,727</u>	<u>9,177</u>

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

## 6. PROFIT BEFORE TAXATION

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

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

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

## (b) Staff costs

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

## (c) Other items

	2017 RMB'000	2016 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 <sup>#</sup> (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

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

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit before taxation	<u>166,659</u>	<u>126,183</u>
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	<u>(325)</u>	<u>—</u>
Actual tax expense	<u>105,499</u>	<u>82,074</u>

## 8. DIRECTORS' EMOLUMENTS

Directors' emoluments are as follows:

	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Contributions to defined contribution retirement plans <i>RMB'000</i>	Total 2017 <i>RMB'000</i>
<b>Executive directors</b>				
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
<b>Independent non-executive directors</b>				
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)	<u>7</u>	<u>—</u>	<u>—</u>	<u>7</u>
	<u>1,215</u>	<u>2,084</u>	<u>43</u>	<u>3,342</u>

	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Contributions to defined contribution retirement plans <i>RMB'000</i>	Total 2016 <i>RMB'000</i>
<b>Executive directors</b>				
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
<b>Independent non-executive directors</b>				
Mr. Tao Lin (resigned on 22 November 2017)	108	—	—	108
Mr. Wanhe Zheng	95	—	—	95
Mr. Antonio Delfin Gregorio	82	—	—	82
	<u>521</u>	<u>1,966</u>	<u>20</u>	<u>2,507</u>

*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:

	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries, allowances and other benefits	<u>7,987</u>	<u>8,272</u>

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

	<b>2017</b>	<b>2016</b>
	<i>Number of</i>	<i>Number of</i>
	<i>individuals</i>	<i>individuals</i>
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

	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>		
Balance at the beginning and end of the year	25,340	25,340
<b>Accumulated amortisation</b>		
Balance at the beginning of the year	(3,089)	(2,570)
Charge for the year	<u>(496)</u>	<u>(519)</u>
Balance at the end of the year	<u>(3,585)</u>	<u>(3,089)</u>
<b>Net book value</b>		
At the end of the year	<u>21,755</u>	<u>22,251</u>

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
<b>Cost:</b>							
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
<b>Accumulated depreciation and impairment losses:</b>							
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
<b>Net book value:</b>							
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

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 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 the 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 reflects 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.

**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.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Particulars of Group's effective interest	Ownership interest		Principal activity
				Held by the Company	Held by a subsidiary	
Ports Asia Holdings Limited	BVI	USD10,556	100%	100%	100%	Investment holding
Ports International Marketing. Ltd.	BVI	USD100	100%	100%	100%	Sales of garments
Smythe Trading Company Limited	Samoa Islands	USD1,000	100%	99.9%	100%	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

**APPENDIX I**
**FINANCIAL INFORMATION ON THE PIHL GROUP**

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Particulars of Group's effective interest	Ownership interest		Principal activity
				Held by the Company	Held by a subsidiary	
Ports International (Beijing) Co., Ltd. <i>(note (i) and (ii))</i> 寶姿時裝(北京)有限公司	PRC	USD8,380,000	100%	—	100%	Sales of garments
Cpax Ltd. <i>(note (i) and (ii))</i> 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. <i>(note (i) and (iii))</i> 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. <i>(note (i) and (iii))</i> 廈門唯覺光學有限公司	PRC	RMB28,000,000	51%	—	51%	Manufacturing of glasses
Xiamen Baozhan Trading Co., Ltd. <i>(note (i) and (iii))</i> 廈門寶瞻商貿有限公司	PRC	RMB2,000,000	51%	—	51%	Sales of glasses
Vivienne Tam Fashion (Xiamen) Ltd. <i>(note (i) and (ii))</i> 賽特投資管理諮詢有限公司	PRC	HKD10,000,000	100%	—	100%	Sales of garments
Xiamen Tabi Limited <i>(note (i) and (iii))</i> 廈門帝柏服飾有限公司	PRC	RMB10,000,000	100%	—	100%	Sales of garments
Xiamen Unicorn Network Technology Limited <i>(note (i) and (iii))</i> 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

**Notes:**

- (i) The English translation of the companies' names is for reference only. The official names 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 RMB'000	2016 RMB'000
Raw materials	87,619	72,157
Work in progress	26,635	37,324
Finished goods	667,870	690,452
Goods in transit	<u>509</u>	<u>349</u>
	<u>782,633</u>	<u>800,282</u>

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

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

## 15. TRADE AND OTHER RECEIVABLES

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

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:

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
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	<u>13,298</u>	<u>8,055</u>
Total	<u><u>335,424</u></u>	<u><u>240,550</u></u>

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:

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
As at 1 January	7,562	5,000
Impairment loss recognised	<u>1,878</u>	<u>2,562</u>
As at 31 December	<u><u>9,440</u></u>	<u><u>7,562</u></u>

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.

**(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:

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
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	<u>326,786</u>	<u>234,605</u>

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**

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

\* 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 principal 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**

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
Security for letter of credit and letter of guarantee issued by banks	36,798	59,487
Others	<u>17,552</u>	<u>—</u>
	<u>54,350</u>	<u>59,487</u>

## 18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

## (a) Cash and cash equivalents comprise:

	2017 RMB'000	2016 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	<u>70,100</u>	<u>—</u>
	<u>246,516</u>	<u>374,472</u>

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 RMB'000	2016 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
<b>Changes in working capital</b>			
Decrease/(increase) in inventories		17,649	(56,780)
Increase in trade and other receivables		(153,280)	(102,161)
Increase in trade and other payables		<u>202,939</u>	<u>127,796</u>
<b>Cash generated from operations</b>		<u>363,228</u>	<u>194,422</u>



## (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.

	<b>Bank loans</b> <i>RMB'000</i> <i>(Note 21)</i>
<b>At 1 January 2017</b>	5,486
<b>Changes from financing cash flows:</b>	
Repayment of bank loans	<u>(1,688)</u>
Total changes from financing cash flows	<u>(1,688)</u>
<b>At 31 December 2017</b>	<u>3,798</u>

## 19. TRADE AND OTHER PAYABLES

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

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.

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:

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
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	<u>5,375</u>	<u>5,676</u>
	<u>123,742</u>	<u>92,729</u>

## 20. AMOUNTS DUE FROM/TO RELATED PARTIES

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
<b>Amounts due from related parties</b>		
Ports International Retail Corporation	8,536	7,550
Beijing Scitech Holdings Limited and its subsidiaries	<u>35</u>	<u>85</u>
	<u>8,571</u>	<u>7,635</u>

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

	<b>2017</b> <i>RMB'000</i>	<b>2016</b> <i>RMB'000</i>
<b>Amounts due to related parties</b>		
Ports International Retail Corporation	6,639	6,337
Beijing Scitech Holdings Limited and its subsidiaries	<u>1,472</u>	<u>162</u>
	<u>8,111</u>	<u>6,499</u>

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:

	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>(1,688)</u>	<u>(1,688)</u>
Bank loans repayable more than one year	<u>2,110</u>	<u>3,798</u>

The bank loans of the Group have maturity terms within five years and carry variable interest rates 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 RMB'000	2016 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	<u>(113,439)</u>	<u>(74,569)</u>
Balance at the end of the year	<u>50,171</u>	<u>41,210</u>

## (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 RMB'000	Write-down of inventories RMB'000	Undistributed profits of subsidiaries RMB'000	Deferred income RMB'000	Property, plant and equipment RMB'000	Accrued expenses RMB'000	Total 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))	<u>—</u>	<u>—</u>	<u>6,600</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,600</u>
At 31 December 2016	<u>1,250</u>	<u>177,495</u>	<u>(6,289)</u>	<u>—</u>	<u>17,796</u>	<u>2,415</u>	<u>192,667</u>
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))	<u>—</u>	<u>—</u>	<u>2,511</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,511</u>
At 31 December 2017	<u>1,550</u>	<u>194,187</u>	<u>(13,609)</u>	<u>7,494</u>	<u>14,744</u>	<u>5,202</u>	<u>209,568</u>

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

	2017 RMB'000	2016 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	<u>(13,609)</u>	<u>(6,289)</u>
	<u>209,568</u>	<u>192,667</u>

**(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:

<b>Deferred tax arising from:</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Retained profits</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>1,474</u>	<u>443,348</u>	<u>9,578</u>	<u>144,645</u>	<u>599,045</u>
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	<u>1,474</u>	<u>443,348</u>	<u>9,578</u>	<u>128,257</u>	<u>582,657</u>

**(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	
	<i>Number of shares</i>	<i>Amount HK\$'000</i>	<i>Number of shares</i>	<i>Amount HK\$'000</i>
<b>Authorised:</b>				
Ordinary shares of HK\$0.0025 each	<u>3,600,000,000</u>	<u>9,000</u>	<u>3,600,000,000</u>	<u>9,000</u>
<b>Issued and fully paid:</b>				
At the beginning and end of the year	<u>554,453,492</u>	<u>1,386</u>	<u>554,453,492</u>	<u>1,386</u>
		<i>RMB'000 equivalent</i>		<i>RMB'000 equivalent</i>
		<u>1,474</u>		<u>1,474</u>

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.

(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.

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:

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

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.

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:

	<b>2016</b>				
	<b>Contractual undiscounted cash outflow</b>				
	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years</b>	<b>Total</b>	<b>Carrying amount at 31 December</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
<b>Total</b>	<b>302,714</b>	<b>17,032</b>	<b>102,428</b>	<b>422,174</b>	<b>421,538</b>
Derivative financial liabilities — forward foreign exchange contracts					
— outflow	(40,394)	—	—	(40,394)	
— inflow	40,252	—	—	40,252	
	<u>40,252</u>	<u>—</u>	<u>—</u>	<u>40,252</u>	
	<b>2017</b>				
	<b>Contractual undiscounted cash outflow</b>				
	<b>Within 1 year or on demand</b>	<b>More than 1 year but less than 2 years</b>	<b>More than 2 years</b>	<b>Total</b>	<b>Carrying amount at 31 December</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
<b>Total</b>	<b>415,147</b>	<b>26,992</b>	<b>107,057</b>	<b>549,196</b>	<b>548,864</b>

**(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.

**(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.

<b>Exposure to foreign currencies (expressed in Renminbi)</b>				
<b>As at 31 December 2017</b>				
	<b>United States</b>	<b>Hong Kong</b>	<b>Euro</b>	<b>JPY</b>
	<b>Dollars</b>	<b>Dollars</b>	<b>Dollars</b>	<b>Dollars</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>(7,312)</u>	<u>(118,323)</u>	<u>(971)</u>	<u>—</u>
Overall net exposure	<u>37,217</u>	<u>(71,157)</u>	<u>27,156</u>	<u>13,802</u>
<b>Exposure to foreign currencies (expressed in Renminbi)</b>				
<b>As at 31 December 2016</b>				
	<b>United States</b>	<b>Hong Kong</b>	<b>Euro</b>	<b>JPY</b>
	<b>Dollars</b>	<b>Dollars</b>	<b>Dollars</b>	<b>Dollars</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>—</u>	<u>—</u>	<u>—</u>	<u>(40,394)</u>
Overall net exposure	<u>84,913</u>	<u>(50,817)</u>	<u>9,412</u>	<u>—</u>

(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.

(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.

	<b>Fair value measurement as at 31 December 2017 categorised into</b>			
	<b>Fair value at 31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Recurring fair value measurement				
Assets:				
Trading securities ( <i>note 16</i> )	1,805	1,805	—	—
Financial assets at fair value through profit or loss ( <i>note 16</i> )	162,441	—	162,441	—
	<b>Fair value measurement as at 31 December 2016 categorised into</b>			
	<b>Fair value at 31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Recurring fair value measurement				
Assets:				
Trading securities ( <i>note 16</i> )	1,661	1,661	—	—
Liabilities:				
Derivative financial liabilities — forward foreign exchange contracts ( <i>note 19</i> )	(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:

	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	205,731	232,717
After 1 year but within 5 years	688,109	689,199
After 5 years	<u>123,606</u>	<u>283,285</u>
	<u><u>1,017,446</u></u>	<u><u>1,205,201</u></u>

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:

	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised but not contracted for	<u>69,000</u>	<u>88,500</u>

## 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.

<b>Name of party</b>	<b>Relationship</b>
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

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**

	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	3,744	4,209
Contribution to defined contribution retirement plans	<u>67</u>	<u>34</u>

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

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

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

(c) **Other transactions**

	<b>2017</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Rental fee reimbursed to:</b>		
PKL*	<u>12,768</u>	<u>12,326</u>

\* 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

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

## 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.

## 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.

	<b>Effective for accounting periods beginning on or after</b>
● 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.

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.

**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.

**(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.

### 3. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 April 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the PIHL Group had outstanding indebtedness of approximately HK\$4,004,943, comprising secured short-term bank loans of approximately HK\$2,089,535 and secured non-current bank loans of approximately HK\$1,915,408 and no other indebtedness. The bank loans were secured by mortgages over buildings with an aggregate carrying value of RMB15,429,000 (equivalent to approximately HK\$19,097,661).

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the PIHL Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, material obligations under hire purchase contract or finance leases, guarantees or other material contingent liabilities as at the close of business on 30 April 2018.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the respective rate of exchange prevailing at the close of business on 30 April 2018.

### 4. MATERIAL CHANGES

As at the Latest Practicable Date, there were no material changes in the financial or trading position or outlook of the PIHL Group since 31 December 2017, the day to which the latest audited consolidated financial statements of the PIHL Group were prepared.

## 1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Scheme and PIHL.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror) and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than opinions expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The directors of the Offeror are Mr. Alfred Chan and Mr. Edward Tan. The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the PIHL Group) and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than opinions expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

## 2. SHARE CAPITAL

The authorised and issued share capital of PIHL as at the Latest Practicable Date were as follows:

	<i>HK\$</i>
Authorised:	
3,600,000,000 Shares	9,000,000
<i>Issued and fully paid up:</i>	
554,453,492 Shares	1,386,000

All of the Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and capital. No Shares have been issued since 31 December 2017 (being the end of the last financial year of PIHL) up to the Latest Practicable Date.

The Shares are listed on the Stock Exchange and none of the securities of PIHL are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities issued by PIHL.

As at the Latest Practicable Date, there were no outstanding derivatives in respect of securities in PIHL entered into by the Offeror or any person acting in concert with it.

### 3. MARKET PRICES

- (i) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK\$3.20 per Share on 27 February 2018 and HK\$2.45 per Share on 22 December 2017, respectively.
- (ii) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the Announcement on which trading of the Shares took place up to the Latest Practicable Date:

<b>Date</b>	<b>Closing price (HK\$)</b>
31 May 2018	2.73
30 April 2018	2.76
30 March 2018	2.69
28 February 2018	3.10
31 January 2018	2.77
31 December 2017	2.71
30 November 2017	2.69

- (iii) The closing price of the Shares on the Stock Exchange on the Pre-Announcement Last Trading Day was HK\$2.73.
- (iv) The closing price of the Shares on the Stock Exchange on the Latest Practicable Date was HK\$3.60.

### 4. IRREVOCABLE UNDERTAKING

Your attention is drawn to the section headed “V-Grass Irrevocable Undertaking” in the Explanatory Statement on page 64 of this Scheme Document.

## 5. DISCLOSURE OF INTERESTS UNDER THE SFO

### (i) Directors' Interests and short positions in the Shares and the shares of PIHL's associated corporations

As at the Latest Practicable Date, the Directors and the chief executive of PIHL and their associates had the following interests and short positions in the Shares, underlying Shares and debentures of PIHL or the shares, underlying shares and debentures of PIHL's associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to PIHL and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required to be recorded in the register required to be kept under Section 352 of the SFO; or (c) were required to be notified to PIHL and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules:

#### (a) *Interests in PIHL*

Name of Directors	Personal Interest	Corporate Interest	Total Interest	Percentage of total issued Shares
Mr. Alfred Chan <sup>1</sup>	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 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:* Mr. Alfred Chan owns 50% of the shareholding interest of PIEL. As at the Latest Practicable Date, PIEL held a long position of 162,705,752 Shares directly. 250,187,637 Shares were owned by CFS, a direct subsidiary of PIEL. Mr. Alfred Chan was deemed to be interested in 74.47% of the issued share capital of PIHL by virtue of his interests in PIEL pursuant to Part XV of the SFO.

#### (b) *Interests in associated companies of PIHL*

As at the Latest Practicable Date, PIHL had not been notified of any interests or short positions of any Director or chief executive of PIHL in any associated corporation of PIHL.

**(ii) Interests and short positions of substantial shareholders and other persons required to be disclosed under the SFO**

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of PIHL, the following persons (other than any Directors or chief executive of PIHL) were substantial Shareholders of PIHL (as defined in the Listing Rules) and had interests or short positions in the Shares and underlying Shares which fall to be disclosed to PIHL under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered into the register required to be kept under Section 336 of the SFO:

Name of substantial Shareholder	Capacity	Total number of Shares held	% of Issued share capital
CFS International Inc. <sup>1</sup>	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 <sup>2</sup>	Beneficial Owner	250,000 (L)	0.04 (L)
	Interest of Controlled Corporation	412,893,389 (L)	74.47 (L)
V-Grass Fashion Co. Ltd.	Beneficial Owner	40,000,000 (L)	7.21 (L)
Hwabao Trust Co. Ltd.	Trustee	40,000,000 (L)	7.21 (L)

(L) — Long Position

Notes:

- 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 the Note under the section headed "Directors interests and short positions in the Shares and the shares of PIHL's associated corporations — Interests in PIHL" above, on page 122 of this Scheme Document.
- Mr. Edward Tan is deemed to be interested in the 412,893,389 Shares held by PIEL by virtue of his 50% shareholding interest in PIEL.

**6. DISCLOSURE OF INTERESTS UNDER THE TAKEOVERS CODE**

**(i) Interests discloseable under Schedule I to the Takeovers Code**

- As at the Latest Practicable Date, the Offeror did not hold any Shares, convertible securities, warrants, options or derivatives of PIHL.
- As at the Latest Practicable Date, saved as disclosed in the section of the Explanatory Statement headed "Effects of the Scheme", set out on pages 52 to 55 of this Scheme Document, no director of the Offeror was interested in any shares, convertible securities, warrants, options or derivatives of PIHL.

- (c) As at the Latest Practicable Date, save as disclosed in the section of the Explanatory Statement headed “Effects of the Scheme”, set out on pages 52 to 55 of this Scheme Document, none of the parties acting in concert with the Offeror owned or controlled any Shares, convertible securities, warrants, options or derivatives of PIHL.
- (d) Except for V-Grass, which has undertaken (pursuant to the V-Grass Irrevocable Undertaking) to vote in favour of the resolutions to be proposed at the Court Meeting and the SGM to approve the Scheme (as described in the section of the Explanatory Statement headed “V-Grass Irrevocable Undertaking” on page 64 of this Scheme Document), as at the Latest Practicable Date no one has irrevocably committed to vote in favour of or against the Scheme.
- (e) As at the Latest Practicable Date, no person that had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any person acting in concert with the Offeror owned or controlled any Shares, convertible securities, warrants, options or derivatives of PIHL.
- (f) As at the Latest Practicable Date, none of the Offeror or any person acting in concert with the Offeror had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of PIHL.

**(ii) Interests discloseable under Schedule II to the Takeovers Code**

- (a) As at the Latest Practicable Date, PIHL had no holdings of shares, convertible securities, warrants, options or derivatives of the Offeror.
- (b) As at the Latest Practicable Date, save as disclosed in the section of the Explanatory Statement headed “Effects of the Scheme” set out on pages 52 to 55 this Scheme Document, no Director was interested in any Shares, convertible securities, warrants, options or derivatives of PIHL or in any shares, convertible securities, warrants, options or derivatives of the Offeror.
- (c) As at the Latest Practicable Date, no subsidiary of PIHL, nor any pension fund of PIHL or any of its subsidiaries owned or controlled any Shares, convertible securities, warrants, options or derivatives of PIHL.
- (d) As at the Latest Practicable Date, no adviser to PIHL as specified in class (2) of the definition of Associate under the Takeovers Code (excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of PIHL.



- (e) As at the Latest Practicable Date, no person that had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with PIHL or with any person who is an Associate of PIHL by virtue of classes (1), (2), (3) or (4) of the definition of Associate under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of PIHL.
- (f) As at the Latest Practicable Date, there were no Shares, convertible securities, warrants, options or derivatives of PIHL managed on a discretionary basis by fund managers (other than exempt fund managers) connected with PIHL.
- (g) The Directors who hold Shares, and their respective Shareholdings, are disclosed in the section of the Explanatory Statement headed “Effects of the Scheme” set out on pages 52 to 55 of this Scheme Document. As described in the section of the Explanatory Statement headed “Court Meeting and SGM” on pages 61 to 64 of this Scheme Document, the Directors holding Shares are not Independent Shareholders and, accordingly, are not entitled to, and will not, vote their Shares on the resolution to be proposed at the Court Meeting to approve the Scheme. All Shareholders are entitled to attend and vote at the SGM. The Directors holding Shares intend to vote their Shares in favour of the resolution to be proposed at the SGM to approve the Scheme and the reduction of capital required to give effect to the Scheme.
- (h) As at the Latest Practicable Date, none of PIHL nor any Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of PIHL.

## 7. DEALING IN SHARES

- (i) None of the Offeror, nor any director of the Offeror, nor any party acting in concert with the Offeror, has dealt for value in the Shares during the Relevant Period.
- (ii) V-Grass, which has undertaken (pursuant to the V-Grass Irrevocable Undertaking) to vote in favour of the resolutions to be proposed at the Court Meeting and the SGM to approve the Scheme, has not dealt for value in the Shares, convertible securities, warrants, options or derivatives of PIHL during the Relevant Period.
- (iii) No person that had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any person acting in concert with the Offeror has dealt for value in the Shares during the Relevant Period.
- (iv) None of PIHL nor any subsidiary of PIHL, nor any pension fund of PIHL or any of its subsidiaries has dealt for value in the Shares during the Relevant Period.
- (v) No adviser to PIHL as specified in class (2) of the definition of Associate under the Takeovers Code (excluding exempt principal traders) has dealt for value in the Shares during the Relevant Period.

- (vi) No person that had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with PIHL or with any person who is an Associate of PIHL by virtue of classes (1), (2), (3) or (4) of the definition of Associate under the Takeovers Code has dealt for value in the Shares during the Relevant Period.
- (vii) No fund manager (other than an exempt fund manager) connected with PIHL who manages funds on a discretionary basis for PIHL has dealt for value in the Shares during the Relevant Period.
- (viii) No Director has dealt for value in the Shares, or in the shares of the Offeror, in each case, during the Relevant Period.

## 8. LITIGATION

As at the Latest Practicable Date, none of the members of the PIHL Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the PIHL Group.

## 9. MATERIAL CONTRACTS

As at the Latest Practicable Date, none of the members of the PIHL Group had entered into any material contract, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by any member of the PIHL Group, after the date two years preceding the date of the Announcement.

## 10. EXPERTS

The following are the qualifications of each of the experts who have been named in this Scheme Document or given their opinion or advice which are contained in this Scheme Document:

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	A licensed corporation under the SFO, registered to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Halcyon Capital	A corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

## 11. CONSENT

Somerley Capital and Halcyon Capital have each given and have not withdrawn their respective written consents to the issue of this Scheme Document with the inclusion in this Scheme Document of the text of their respective letters and/or references to their names in the form and context in which they are included.

## 12. COSTS OF THE SCHEME

In the event that the Scheme becomes effective, the costs of the Scheme will be borne by PIHL. The costs of the Scheme and of its implementation are expected to amount to approximately HK\$2.76 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme (i) is not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee, Halcyon Capital, and is not approved at the relevant Shareholders' meeting(s) or (ii) does not become unconditional, all the expenses incurred by PIHL in connection with the Scheme shall be borne by the Offeror.

## 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the office of Dechert, legal advisor to PIHL, at 31/F Jardine House, One Connaught Place, Central, Hong Kong; (ii) the website of PIHL at <http://www.portico-intl.com>; and (iii) the website of the SFC at <http://www.sfc.hk> from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses, whichever is earliest:

- (i) the memorandum and articles of association of the Offeror;
- (ii) the memorandum of association and bye-laws of PIHL;
- (iii) the annual reports of PIHL for the two years ended 31 December 2016 and 31 December 2017;
- (iv) the letter from the Board, the text of which is set out on pages 9 to 14 of this Scheme Document;
- (v) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 15 to 16 of this Scheme Document;
- (vi) the letter of advice from Halcyon Capital, the text of which is set out on pages 17 to 45 of this Scheme Document;
- (vii) the written consents referred to in the paragraph headed "Consent" in Appendix II to this Scheme Document; and

(viii) the V-Grass Irrevocable Undertaking.

#### 14. MISCELLANEOUS

- (i) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme.
- (ii) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.
- (iii) There is no agreement or arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it (on the one part) and any of the Directors, recent Directors, Shareholders or recent Shareholders of PIHL (on the other part) having any connection with or dependence upon the Scheme.
- (iv) The registered office of the Offeror is Jayla Place, Wickhams Cay 1, Road Town, British Virgin Islands. The Hong Kong correspondence address of the Offeror is Suite 2702, 27/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong.
- (v) The Offeror does not have any intention to transfer, charge or pledge any Shares acquired pursuant to the Scheme to any other person. There is no agreement, arrangement or understanding, or any related charge or pledge, which has been entered into which may result in the transfer of voting rights attaching to any securities acquired pursuant to the Scheme.
- (vi) The directors of the Offeror are Mr Alfred Chan and Mr Edward Tan.
- (vii) The Secretary of PIHL is Ms Irene Fung Mei Wong, who is a member of The Hong Kong Institute of Chartered Secretaries.
- (viii) The registered office of PIHL is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (ix) The principal place of business of PIHL is at Suite 2702, 27/F, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong.
- (x) The principal share registrar and transfer agent of PIHL is Estera Management (Bermuda) Ltd., which is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (xi) The Hong Kong branch share registrar of PIHL is Computershare Hong Kong Investor Services Limited, which is situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (xii) The principal place of business of Somerley Capital is 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.

- (xiii) The principal place of business of Halcyon Capital is 11th Floor, 8 Wyndham Street, Central, Hong Kong.
- (xiv) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors had a material personal interest.
- (xv) As at the Latest Practicable Date, there is no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror, any parties acting in concert with the Offeror, or any Associate of the Offeror, and any other person.
- (xvi) As at the Latest Practicable Date, none of the Directors has entered into any service contract with PIHL or any of its subsidiaries or associated companies for a fixed term contract with more than 12 months to run irrespective of notice period, or which has been entered into or amended within six months before the commencement of the Offer Period or which are continuous contracts with a notice period of 12 months or more.
- (xvii) The Conditions of the Proposal and the circumstances in which the Conditions can be waived are described in the section of the Explanatory Statement headed “Conditions of the Proposal” on pages 47 to 49 of this Scheme Document. There are no other arrangements or agreements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a Condition of the Proposal.
- (xviii) The English language text of this Scheme Document shall prevail over the Chinese language text.

**SCHEME OF ARRANGEMENT**

**IN THE SUPREME COURT OF  
BERMUDA CIVIL JURISDICTION  
2018: NO. 221**

**IN THE MATTER OF  
PORTICO INTERNATIONAL HOLDINGS LIMITED  
AND  
IN THE MATTER OF SECTION 99 OF  
THE COMPANIES ACT 1981 OF BERMUDA**

**SCHEME OF ARRANGEMENT  
BETWEEN  
PORTICO INTERNATIONAL HOLDINGS LIMITED  
AND  
THE HOLDERS OF THE SCHEME SHARES (AS HEREINAFTER DEFINED)**

**PRELIMINARY**

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions have the following meanings:

“acting in concert”	has the meaning given to it in the Takeovers Code
“business day”	a day (excluding Saturday and Sunday) on which banks in Hong Kong are open for business
“Cancellation Price”	a price of HK\$4.10 per Scheme Share payable in cash to the Scheme Shareholders under the Scheme
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“connected person”	has the meaning given to it in the Listing Rules
“Court”	the Supreme Court of Bermuda
“Effective Date”	the date on which this Scheme becomes effective in accordance with clause 6 of this Scheme
“Explanatory Statement”	the explanatory statement explaining the effect of the Scheme, required to be furnished pursuant to Section 100 of the Companies Act, set out on pages 46 to 66 of the Scheme Document
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“holder”	a registered holder of Shares including a person entitled by transmission to be registered as such

## SCHEME OF ARRANGEMENT

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	29 June 2018
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offeror”	Bluestone Global Holdings Limited, a company established under the laws of the British Virgin Islands which is indirectly ultimately beneficially owned as to 50% by Mr. Alfred Chan Kai Tai and as to 50% by Mr. Edward Tan Han Kiat
“PIHL”	Portico International Holdings Limited, a company incorporated in Bermuda with limited liability and having its Shares listed on the Main Board of the Stock Exchange with Stock Code 0589
“Proposal”	the proposal for the privatisation of PIHL by the Offeror by way of the Scheme
“Record Date”	the business day (being any day on which banks are open for business in Hong Kong, other than Saturday and Sunday) in Hong Kong immediately preceding the Effective Date, being the record date for the purpose of determining the entitlements of the Scheme Shareholders under the Scheme
“Scheme”	this scheme of arrangement in its present form or with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court
“Scheme Shares”	Shares held by the Scheme Shareholders on the Record Date
“Scheme Shareholders”	Shareholders other than the Offeror, PIEL, CFS, Mr. Alfred Chan, Mr. Edward Tan and Mr. Anthony Paul Chan
“Shares”	shares of par value HK\$0.0025 each in the share capital of PIHL
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers

## SCHEME OF ARRANGEMENT

- (B) The authorised share capital of PIHL is HK\$9,000,000 divided into 3,600,000,000 Shares of HK\$0.0025 each, of which 554,453,492 Shares have been issued and fully paid or credited as fully paid.
- (C) The primary purpose of this Scheme is that on the Effective Date all the Scheme Shares should be cancelled and that the credit amount arising in PIHL's books of accounts as a result of the aforesaid reduction of issued share capital be applied to pay up in full at par and issue to the Offeror such number of new Shares being equal to the Scheme Shares cancelled.
- (D) As at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in 415,756,889 Shares, constituting approximately 74.99% of the issued share capital of PIHL.
- (E) The Offeror has agreed to appear by counsel on the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do, and procure to be executed and done, all such documents, acts and things as may be necessary or desirable to be executed or done by the Offeror for the purpose of giving effect to this Scheme.



# SCHEME OF ARRANGEMENT

## THE SCHEME

### PART I

#### Cancellation of the Scheme Shares

1. Upon the Effective Date:
  - (a) the issued share capital of PIHL shall be reduced by cancelling and extinguishing the Scheme Shares;
  - (b) subject to and forthwith upon the reduction of issued share capital referred to in the above paragraph (a) of this clause 1 taking effect, the issued share capital of PIHL shall be increased to its former amount by the allotment and issuance of such number of new Shares as is equal to the number of Scheme Shares cancelled; and
  - (c) PIHL shall apply the credit amount arising in its books of account as a result of the said reduction of issued share capital in paying up in full at par the new Shares referred to in the above paragraph (b) of this clause 1 and those new Shares shall be allotted and issued, credited as fully paid, to the Offeror.

### PART II

#### Consideration for cancellation of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to the holders of the Scheme Shares (as appearing in the register of members of PIHL on the Record Date) the sum of HK\$4.10 in cash for each Scheme Share held.

### PART III

#### General

3.
  - (a) Not later than seven business days after the Effective Date, the Offeror shall send or procure to be sent to the holders of the Scheme Shares (as appearing in the register of members of PIHL at 4:30 p.m. on the Record Date) cheques in respect of the sums payable to such holders pursuant to clause 2 of this Scheme.
  - (b) Unless indicated otherwise in writing to Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, all such cheques shall be sent through the ordinary post in pre-paid envelopes addressed to the persons entitled thereto:
    - (i) in the case of sole holders, to the respective registered addresses of such holders as appearing in the register of members of PIHL on the Record Date; and

## SCHEME OF ARRANGEMENT

- (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in such register of members of PIHL in respect of the joint holding.
  - (c) Cheques shall be posted at the risk of the addressees and once posted, none of the Offeror or PIHL or their respective financial advisers shall be responsible for any loss or delay in the transmission of such cheques.
  - (d) Such cheques shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
  - (e) On or after the day being six calendar months after the posting of the said cheques pursuant to paragraph (b) of this clause 3, the Offeror shall have the right to cancel or cause the cancellation of any such cheques which has not then been encashed or have been returned uncashed and shall place all monies represented thereby in a deposit account in PIHL's name with a licensed bank in Hong Kong selected by PIHL. PIHL shall hold such monies until the expiration of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to clause 2 of this Scheme to persons who satisfy PIHL that they are respectively entitled thereto and provided that the cheques referred to in paragraph (b) of this clause 3 of which they are payees have not been cashed. Any payments made by PIHL hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to clause 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank with which the monies are deposited, from the date which falls six months after the posting of the said cheques pursuant to paragraph (b) of this clause 3 down to the date of payment of such sum, subject, if applicable, to deduction of interest or any other deduction or withholding tax required by law and all expenses and costs incurred or to be incurred in relation to the payment. PIHL shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of PIHL to the effect that any particular person is so entitled or is not so entitled shall be conclusive and binding upon all persons claiming an interest in the relevant monies. Upon the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payment under this Scheme and PIHL shall thereafter transfer to the Offeror the balance (if any) of the sums standing to the credit of the deposit account referred to in this paragraph (e) of this clause 3 including accrued interest subject, if applicable, to the deduction of interest or any withholding or any other tax or any other deduction required by law and subject to the deduction of any expenses incurred or to be incurred effecting the transfer.
4. As from and including the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title to the Shares comprised therein and every holder thereof shall be bound, on the request of PIHL, to deliver up to PIHL or to any person appointed by it to receive the same such certificate(s) for cancellation.

## SCHEME OF ARRANGEMENT

5. All mandates or relevant instructions in force on the Record Date relating to any of the Scheme Shares shall cease to be valid and effective mandates or instructions.
6. This Scheme shall become effective upon the delivery of a copy of the order of the Court sanctioning this Scheme under section 99 of the Companies Act to the Registrar of Companies in Bermuda for registration.
7. Unless this Scheme shall have become effective on or before 21 December 2018 or such later date, if any, as the Offeror and PIHL may agree and the Court may allow, this Scheme shall lapse.
8. The Offeror and PIHL, by their duly authorised agent(s)/servant(s), may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the Court may see fit to approve or impose without any further Court Meeting to be held therefor.
9. All costs, charges and expenses of and incidental to this Scheme and of carrying this Scheme into effect shall be borne by PIHL.

Dated 4 July 2018

**NOTICE OF COURT MEETING**

**IN THE SUPREME COURT OF  
BERMUDA CIVIL JURISDICTION  
2018: NO. 221**

**IN THE MATTER OF  
PORTICO INTERNATIONAL HOLDINGS LIMITED  
AND  
IN THE MATTER OF SECTION 99 OF  
THE COMPANIES ACT 1981 OF BERMUDA**

**SCHEME OF ARRANGEMENT  
Under Section 99 of the Companies Act 1981 of Bermuda**

**NOTICE OF COURT MEETING**

**NOTICE IS HEREBY GIVEN** that, by an order dated 29 June 2018 (the “Order”) made in the above matters, the Supreme Court of Bermuda (the “Court”) has directed a meeting (the “Meeting”) to be convened of the holders of the Scheme Shares (as defined in the scheme of arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modification, a scheme of arrangement proposed to be made between Portico International Holdings Limited (“PIHL”) and the holders of the Scheme Shares (the “Scheme”), and that the Meeting will be held at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong on Friday, 27 July 2018, at 4:00 p.m. at which place and time all holders of the Scheme Shares are requested to attend.

A copy of the Scheme and a copy of an explanatory statement (the “Explanatory Statement”) explaining the effect of the Scheme, required to be furnished pursuant to Section 100 of the above mentioned Companies Act, are incorporated in the document of which this Notice forms part.

The above-mentioned holders of the Scheme Shares may vote in person at the Meeting or they may appoint one or more proxies (who must be an individual), whether a member of PIHL or not, to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed herewith.

In the case of joint holders, the vote of the most senior holder who tenders a vote, whether personally or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and, for this purpose, seniority will be determined by the order in which the names of the joint holders stand in the register of members of PIHL in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged, by hand or by post, with Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for the Meeting. If forms appointing proxies are not so lodged, they may be returned by facsimile at (852) 2506 0908 (marked for the attention of “the Company Secretary”) up to the time of the Meeting or they may be handed to the chairman of the Meeting at the Meeting.

## NOTICE OF COURT MEETING

By the Order, the Court has appointed Mr. Alfred Chan Kai Tai, a director of PIHL or, failing him, Mr. Anthony Paul Chan, also a director of PIHL, or, failing that, any other person who is a director of PIHL as at the date of the Order to act as the chairman of the Meeting and has directed the chairman of the Meeting to report the outcome thereof to the Court.

The Scheme will be subject to the subsequent approval of the Court as set out in the Explanatory Statement contained in the document of which this Notice forms part.

Dated 4 July 2018

**APPLEBY**  
Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda  
Attorneys-at-Law for  
Portico International Holdings Limited



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)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Portico International Holdings Limited (“PIHL”) will be held at Dorsett Wanchai, Hong Kong at 387–397 Queen’s Road East, Wan Chai, Hong Kong on Friday, 27 July 2018, at 4:30 p.m. (or as soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution as a special resolution:

**SPECIAL RESOLUTION**

**“THAT:**

- (A) the proposed scheme of arrangement (the “Scheme”) between PIHL and the holders of the Scheme Shares (as defined in the Scheme) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved by the Supreme Court of Bermuda, be and is hereby approved;
- (B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
  - (i) the issued share capital of PIHL shall be reduced by cancelling and extinguishing the Scheme Shares (the “Capital Reduction”);
  - (ii) subject to and forthwith upon the Capital Reduction taking effect, the issued share capital of PIHL shall be increased to its former amount by the allotment and issuance to Bluestone Global Holdings Limited (the “Offeror”) of such number of new Shares (as defined in the Scheme) as is equal to the number of Scheme Shares cancelled and extinguished as aforesaid;
  - (iii) PIHL shall apply the credit amount arising in its books of account as a result of the Capital Reduction in paying up in full at par the new Shares allotted and issued as aforesaid, credited as fully paid, to the Offeror, and the directors of PIHL be and are hereby authorised to allot and issue the same accordingly;

\* *For identification purpose only*

## NOTICE OF SGM

- (C) subject to the Scheme taking effect, the directors of PIHL be and are hereby authorised to make application to The Stock Exchange of Hong Kong Limited (hereinafter called the “Stock Exchange”) for the withdrawal of the listing of PIHL’s shares on the Stock Exchange; and
- (D) the directors of PIHL be and are hereby authorised to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the Supreme Court of Bermuda may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and the Proposal (as defined in the document of which the notice of this resolution forms part).”

By Order of the Board of  
**Portico International Holdings Limited**  
**Irene Fung Mei Wong**  
*Company Secretary*

Hong Kong, 4 July 2018

*Registered office:*

Canon’s Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Principal place of business in Hong Kong:*

Suite 2702, 27/F, Hysan Place  
500 Hennessy Road  
Causeway Bay  
Hong Kong

*Notes:*

1. A white form of proxy for use at this meeting is enclosed herewith.
2. The register of members of the Company will be closed from Tuesday, 24 July 2018 to Friday, 27 July 2018 (both days inclusive), during which period no transfer of Shares will be effected. In order to determine the identity of the shareholders who are entitled to attend and vote at the Company’s forthcoming special general meeting, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 23 July 2018.
3. A member of PIHL entitled to attend and vote at this meeting is entitled to appoint another person as his proxy to attend and vote instead of him/her. A member who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of PIHL.

## NOTICE OF SGM

4. In order to be valid, the white form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney, must be deposited with Computershare Hong Kong Investor Services Limited, the branch share registrar of PIHL, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding this meeting or any adjournment thereof.
5. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at this meeting and, in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint holders of any share in PIHL, any one of such joint holders may vote at this meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at this meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of PIHL in respect of such share shall alone be entitled to vote in respect thereof.