
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in S. Culture International Holdings Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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S. CULTURE INTERNATIONAL HOLDINGS LIMITED

港大零售國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1255)

**(I) THE MANAGEMENT AGREEMENT AND THE CONTINUATION
OF SUBSIDIARY SERVICE AGREEMENTS CONSTITUTING
POSSIBLE EXEMPT CONTINUING CONNECTED TRANSACTIONS;**

(II) POSSIBLE SPECIAL DEALS;

AND

(III) NOTICE OF EGM

Financial Adviser to S. Culture International Holdings Limited



**Independent Financial Adviser to the Code Independent Board Committee
and the Independent Shareholders**



BAOQIAO PARTNERS CAPITAL LIMITED

A notice convening an extraordinary general meeting of S. Culture International Holdings Limited (the “Company”) will be held at Flat F–J, 11th Floor, Block 2, Kwai Tak Industrial Centre, 15–33 Kwai Tak Street, Kwai Chung, New Territories, Hong Kong at 10:00 a.m. on 16 May 2017 (Tuesday) is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.s-culture.com).

Whether or not you are able to attend the extraordinary general meeting, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

27 April 2017

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Code Independent Board Committee	14
Letter from the Independent Financial Adviser	16
Appendix — General Information	I-1
Notice of EGM	EGM-1

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement dated 7 April 2017 issued by the Company disclosing the Special Deals
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which licensed banks are generally open for business in Hong Kong (other than a Saturday, Sunday or a public holiday or a day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“BVI”	the British Virgin Islands
“Code Independent Board Committee”	the independent board committee comprising all non-executive Directors (excluding Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles), namely, Mr. Yu Fuk Lun and all independent non-executive Directors, namely, Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin, established for the purpose of advising the Independent Shareholders in respect of the Offer and the Special Deals
“Company”	S. Culture International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Stock Exchange (Stock Code: 1255)
“Completion”	completion of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuation of the Subsidiary Service Agreements”	the (i) entering into of the Supplemental Subsidiary Service Agreements; and (ii) the continuation of the Subsidiary Employment Agreements
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held on 16 May 2017 (Tuesday) for the Independent Shareholders to consider and, if thought fit, approve the Special Deals

DEFINITIONS

“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Joint Announcement”	the joint announcement dated 19 January 2017 jointly issued by the Company and the Offeror
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser” or “BaoQiao”	BaoQiao Partners Capital Limited, a corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed by the Code Independent Board Committee to advise the Code Independent Board Committee and the Independent Shareholders in relation to the Offer and the Special Deals
“Independent Shareholders”	the Shareholders other than (i) the Vendors and parties acting in concert with them; (ii) the Offeror and parties acting in concert with it; and (iii) Mr. Wong Kai Cho and Ms. Chan Mei Yin, who are involved in or interested in the Sale and Purchase Agreement and/or the Special Deals
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and connected persons of the Company
“KTSG”	Kong Tai Sundry Goods Company Limited, a company incorporated in Hong Kong with limited liability and as at the Latest Practicable Date, a wholly-owned subsidiary of the Company
“Latest Practicable Date”	25 April 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Agreement”	the management agreement to be entered into by the Company, S. Culture (BVI) and the SPV relating to the management of the S. Culture (BVI) Group

DEFINITIONS

“Mr. Chu”	Mr. Chu Siu Ming, an executive Director of the Company and the sole shareholder of Come Good Investment (BVI) Limited, one of the Vendors and father of Mr. Dominic Chu, Mr. Haeta Chu and Ms. Chu
“Mr. Dominic Chu”	Mr. Chu Chun Ho, Dominic, an executive Director and co-chief executive officer of the Company, one of the Vendors, son of Mr. Chu and brother of Mr. Haeta Chu and Ms. Chu
“Mr. Haeta Chu”	Mr. Chu Chun Wah, Haeta, an executive Director and co-chief executive officer of the Company, one of the Vendors, son of Mr. Chu and brother of Mr. Dominic Chu and Ms. Chu
“Ms. Chu”	Ms. Chu Yuen Fan, Peggie, one of the Vendors, daughter of Mr. Chu and sister of Mr. Dominic Chu and Mr. Haeta Chu
“Offer”	the mandatory unconditional cash offer as disclosed in the First Joint Announcement and the Second Joint Announcement
“Offeror”	Shang Ying Financial Holding Co., Limited (商贏金融控股有限公司), a company incorporated under the laws of Hong Kong with limited liability and wholly-owned by Mr. Yang Jun as at the Latest Practicable Date
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Special Administrative Region of Macau of the People’s Republic of China and Taiwan
“S. Culture (BVI)”	S. Culture (BVI) Holdings Limited, a company incorporated in the British Virgin Islands and as at the Latest Practicable Date, a wholly-owned subsidiary of the Company
“S. Culture (BVI) Group”	S. Culture (BVI) and its subsidiaries
“Sale and Purchase Agreement”	the sale and purchase agreement dated 12 January 2017 entered into among the Vendors and the Offeror (as amended and supplemented by a supplemental agreement to the Sale and Purchase Agreement dated 7 April 2017, details of which are disclosed in the Second Joint Announcement)
“Second Joint Announcement”	the second joint announcement dated 7 April 2017 jointly issued by the Company and the Offeror in relation to the entering into of a supplemental agreement to the Sale and Purchase Agreement to amend certain terms of the Sale and Purchase Agreement
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	the registered holder(s) of the Share(s)
“Special Deals”	the (i) entering into of the Management Agreement; and (ii) the Continuation of the Subsidiary Service Agreements
“SPV”	Ample Faith Ventures Limited, a company incorporated in the BVI whose shares are held by the Vendors
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries’ Director(s)”	the current directors of the S. Culture (BVI) Group, apart from Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu
“Subsidiary Employment Agreements”	the existing employment agreements entered into between each of Ms. Chu and Ms. Chan Mei Yin and KTSG
“Subsidiary Service Agreements”	the existing subsidiary service agreements entered into between each of the executive Directors and KTSG and Grand Asian Limited
“Supplemental Subsidiary Service Agreements”	the supplemental service agreements to be entered into by each of the executive Directors to continue the Subsidiary Service Agreements
“Takeovers Code”	the Code on Takeovers and Mergers published by the SFC
“Vendors”	collectively, Chong Hok Hei, Charles, Chong Hok Shan, Chong Hot Hoi, Mr. Dominic Chu, Mr. Haeta Chu, Ms. Chu, Wong May Heung, Wu Se and Come Good Investment (BVI) Limited
“%”	per cent.



S. CULTURE INTERNATIONAL HOLDINGS LIMITED
港大零售國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1255)

Executive Directors:

Mr. Chu Siu Ming (*Vice-Chairman*)
Mr. Chu Chun Ho, Dominic
(Co-Chief Executive Officer)
Mr. Chu Chun Wah, Haeta
(Co-Chief Executive Officer)

Registered office:

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Non-executive Directors:

Mr. Chong Hot Hoi (*Chairman*)
Mr. Chong Hok Hei, Charles
Mr. Yu Fuk Lun

*Head Office and Principal Place
of Business in Hong Kong:*

Flat F–J, 11th Floor
Block 2, Kwai Tak Industrial Centre
15–33 Kwai Tak Street
Kwai Chung
New Territories
Hong Kong

Independent non-executive Directors:

Mr. Wan Kam To
Mr. Yau Tat Wang, Dennis
Mr. Lam Man Tin

27 April 2017

To the Shareholders

Dear Sir or Madam,

**(I) THE MANAGEMENT AGREEMENT AND THE CONTINUATION
OF SUBSIDIARY SERVICE AGREEMENTS CONSTITUTING
POSSIBLE EXEMPT CONTINUING CONNECTED TRANSACTIONS;**

(II) POSSIBLE SPECIAL DEALS;

AND

(III) NOTICE OF EGM

1. INTRODUCTION

References are made to the First Joint Announcement, the Announcement and the Second Joint Announcement.

LETTER FROM THE BOARD

The purpose of this circular is to give you further information regarding: (i) further details of the Special Deals; (ii) the recommendation from the Code Independent Board Committee to the Independent Shareholders on the Special Deals; (iii) the letter of advice from the Independent Financial Adviser to the Code Independent Board Committee and the Independent Shareholders in relation to the Special Deals; and (iv) notice of the EGM.

2. THE MANAGEMENT AGREEMENT

Under the proposed terms of the Management Agreement, the Company, S. Culture (BVI) and the SPV will enter into the Management Agreement, pursuant to which the Company will appoint the SPV as the service provider to provide management services to the S. Culture (BVI) Group. The Management Agreement is expected to be entered into at Completion and to take effect upon satisfaction of the conditions precedent contained therein.

The principal terms of the Management Agreement are summarised below.

Parties

- (i) the Company
- (ii) S. Culture (BVI)
- (iii) SPV

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and whose Shares have been listed on the Stock Exchange since 11 July 2013. The principal activity of the Company is investment holding, whilst its major operating subsidiaries are engaged in the trading of footwear products.

S. Culture (BVI) is a company incorporated in the British Virgin Islands. As at the Latest Practicable Date, S. Culture (BVI) is a wholly-owned subsidiary of the Company. S. Culture (BVI) is principally an investment holding company and is the intermediate holding company of all the operating subsidiaries of the Group.

The SPV is a company incorporated in the BVI which is principally engaged in investment holding. The entire issued share capital of the SPV is held by the Vendors, who together hold approximately 58.41% of the entire issued share capital of the Company. Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu, Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi and Ms. Wu Se are directors of the SPV. As such, the SPV is an associate of Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu, Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi and Ms. Wu Se and accordingly, the SPV is a connected person of the Company.

As confirmed by the Vendors, none of the Vendors has any intention to acquire, directly or through the SPV, any interest in S. Culture (BVI) from the Company within the two years following the close of the Offer.

LETTER FROM THE BOARD

Term

For a term of three years from the date of the Management Agreement, unless terminated in accordance with the Management Agreement. The parties to the Management Agreement may renew the Management Agreement upon and subject to further negotiations and mutual agreement before expiry of such initial term, subject to compliance with the Listing Rules.

Service Fee

A nominal fee of HK\$1.00 during the term of the Management Agreement.

S. Culture (BVI) shall reimburse the SPV for all out-of-pocket expenses reasonably incurred in providing the services under the Management Agreement, provided that such cost shall not exceed HK\$1,200,000 on an annual basis.

It is a term of the Management Agreement that each of the executive Directors and the Subsidiaries' Directors will remain as directors of all the subsidiaries of the S. Culture (BVI) Group. As such, the Subsidiary Service Agreements and the Subsidiary Employment Agreements will continue to be in force and those directors will continue to receive remuneration under their respective Subsidiary Service Agreements and Subsidiary Employment Agreements.

Though the SPV will receive a nominal fee of HK\$1.00 during the term of the Management Agreement, each of the executive Directors and the relevant Subsidiaries' Directors (being Ms. Chan Mei Yin, Ms. Chu and Mr. Wong Kai Cho (without any written agreement)) will continue to receive remuneration from the S. Culture (BVI) Group.

Conditions Precedent

The Management Agreement shall come into effect upon satisfaction of the following conditions:

- (i) the consent or approval from the SFC having been obtained for the Management Agreement and the Continuation of the Subsidiary Service Agreements pursuant to Rule 25 of the Takeovers Code; and
- (ii) if applicable, the Independent Shareholders having passed the relevant resolutions at the EGM approving the Management Agreement and the transactions contemplated thereunder.

None of the above conditions precedent can be waived. As at the Latest Practicable Date, none of the above conditions precedent has been satisfied.

LETTER FROM THE BOARD

Scope of Services

The scope of services provided by the SPV to the S. Culture (BVI) Group include:

- (i) providing advice and exercising power to perform the day to day management of the business operations of the S. Culture (BVI) Group;
- (ii) providing advice to the execution of the business plan of the S. Culture (BVI) Group;
- (iii) formulating business and operational strategies;
- (iv) formulating the overall risk management strategies of the S. Culture (BVI) Group;
- (v) identifying and soliciting suitable candidates for consideration by the Company to fill the vacancy of the board of directors of S. Culture (BVI); and
- (vi) any other services that may be requested by the S. Culture (BVI) Group from time to time.

Undertakings by the SPV

The SPV, as the service provider, undertakes to the Company that:

- (i) it shall not commit any fraudulent or dishonest acts in the course of providing the services to the S. Culture (BVI) Group;
- (ii) it shall not do anything that is materially in breach of any of its obligations under the Management Agreement;
- (iii) it shall not do anything that will materially and adversely affect the business operations of the S. Culture (BVI) Group;
- (iv) it shall not do anything that will result in the S. Culture (BVI) Group going into winding up or liquidation (whether compulsory or voluntary, except for the purpose of a *bona fide* reconstruction or amalgamation with the prior written consent of S. Culture (BVI) and/or the Company);
- (v) it shall use its reasonable endeavours to maintain the business relationships with the S. Culture (BVI) Group's major existing suppliers; and
- (vi) it shall use its reasonable endeavours to ensure that the S. Culture (BVI) Group has sufficient operating cash flow to run its business from time to time.

LETTER FROM THE BOARD

Termination

Each of the Company and the SPV is entitled to terminate the Management Agreement during the term forthwith by giving 30 days' notice in writing.

The Management Agreement shall be terminated with immediate effect if (i) the ultimate beneficial shareholders of the Offeror as at the date of the Management Agreement and its parties acting in concert hold less than 30% in the issued shares of the Company or that the Offeror ceases to be the single largest shareholder of the Company; or (ii) the directorships of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu with all the subsidiaries of the S. Culture (BVI) Group and the Subsidiaries' Directors are removed by the Company for whatever reason.

3. THE CONTINUATION OF THE SUBSIDIARY SERVICE AGREEMENTS

Nomination of Representatives under the Management Agreement

As at the Latest Practicable Date, Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu are executive Directors as well as directors of S. Culture (BVI) and all subsidiaries of the S. Culture (BVI) Group. They will also be directors of the SPV and the representatives of the SPV in carrying out the services to the S. Culture (BVI) Group. It is a term of the Management Agreement that they will remain as directors of S. Culture (BVI) and all the subsidiaries of the S. Culture (BVI) Group.

Apart from Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu, it is also a term of the Management Agreement that the current directors and senior management role of the S. Culture (BVI) Group will remain unchanged. The Subsidiaries' Directors who will remain as directors of the subsidiaries of the S. Culture (BVI) Group include (i) Ms. Chan Mei Yin; (ii) Mr. Chong Hok Hei, Charles; (iii) Mr. Chong Hot Hoi; (iv) Ms. Chu; (v) Mr. Wong Kai Cho; (vi) Ms. Wu Se; and (vii) Ms. Wong May Heung.

As such, their Subsidiary Service Agreements and Subsidiary Employment Agreements will continue to be in force.

Save and except for Ms. Chan Mei Yin and Mr. Wong Kai Cho, all the above Subsidiaries' Directors are also the Vendors. As at the Latest Practicable Date, Mr. Wong Kai Cho holds 4,058,284 Shares and is entitled to a monthly salary of HK\$21,089. Ms. Chu is one of the Vendors holding 1,653,011 Shares and Ms. Chan Mei Yin holds 596,559 Shares. The Offeror has procured the irrevocable undertakings from Mr. Wong Kai Cho that he shall accept or procure the acceptance of, the Offer in respect of 4,058,284 Shares held by him.

Mr. Chu is father of Mr. Dominic Chu, Mr. Haeta Chu and Ms. Chu.

LETTER FROM THE BOARD

The Subsidiary Service Agreements and the Subsidiary Employment Agreements

As disclosed in the Company's prospectus dated 28 June 2013 (the "Prospectus"), each of the executive Directors entered into a master service agreement with the Company for an initial term of three years with effect from 1 May 2013. Either party thereto has the right to give not less than six months' written notice to terminate the agreement. The master service agreement between each of the executive Directors and the Company was renewed for another term of three years on 29 April 2016 with effect from 1 May 2016 with similar terms.

In addition to the master service agreements entered into with the Company, each of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu has separately entered into a Subsidiary Service Agreement on 29 April 2016 with one or more of the operating subsidiaries of the Company with effect from 1 May 2016. Each of Ms. Chu and Ms. Chan Mei Yin has entered into the Subsidiary Employment Agreements on 1 May 2013. Details of the Subsidiary Service Agreements and the Subsidiary Employment Agreements are set out as follows:

Name of executive Director/ Subsidiaries' Director	Name of Subsidiary(ies)	Types of Subsidiary Service Agreements	Job title	Remuneration
Mr. Chu	KTSG	Service agreement	Director	HK\$280,000 per month (Notes 1 and 2)
Mr. Dominic Chu	KTSG	Service agreement	Director	HK\$174,300 per month (Note 1)
Mr. Haeta Chu	KTSG and Grand Asian Limited	Service agreement	Director	HK\$174,300 per month (Note 1)
Ms. Chu	KTSG	Employment agreement	Director of Business Relations	HK\$75,000 per month with one month basic salary as double pay
Ms. Chan Mei Yin	KTSG	Employment agreement	Director of Administration	HK\$93,240 per month with one month basic salary as double pay

Note 1: An annual bonus equal to one month's salary shall be paid.

Note 2: Mr. Chu is entitled to a monthly service fee of HK\$180,000 per month and monthly housing allowance of HK\$100,000 per month.

As disclosed in the Prospectus, the Subsidiary Service Agreements shall terminate automatically on the termination or expiration of its related master service agreements or his other subsidiary service agreement. If the master service agreement between each of the executive Directors and the Company is terminated as a result of their resignation, their respective Subsidiary Service Agreements will be terminated automatically.

As such, it is proposed that Supplemental Subsidiary Service Agreements will be entered into between each of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu and the relevant subsidiaries at Completion to remove the automatic termination clause in the

LETTER FROM THE BOARD

Subsidiary Service Agreements, such that in the event that each of them ceases to be a Director, their respective Subsidiary Service Agreements shall remain in force upon the Management Agreement becoming effective.

The Continuation of the Subsidiary Service Agreements, which comprises (i) the entering into of the Supplemental Subsidiary Service Agreements; and (ii) the continuation of the Subsidiary Employment Agreements are arrangements following the terms under the Management Agreement, the effectiveness of which is subject to approval from the Independent Shareholders and the consent from the SFC. As such, they are regarded as parts of the Special Deals.

Save as disclosed above, other Subsidiaries' Directors do not have any service agreement or employment agreement with any member of the S. Culture (BVI) Group and do not receive any remuneration from any member of the S. Culture (BVI) Group.

4. REASONS FOR AND BENEFIT OF ENTERING INTO THE SPECIAL DEALS

Although Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi, Mr. Dominic Chu, Mr. Haeta Chu, Mr. Chu, Ms. Wong May Heung, Ms. Wu Se and Ms. Chu are already existing directors of the Group, it is the intention of the Company to enter into a formal written agreement, i.e. the Management Agreement with the SPV, to motivate and retain the existing management of the Group in order to maintain the confidence of the Company's stakeholders on the stability of the Group's operations and at the same time provide a continuity for a three-year transitional period after Completion.

As disclosed in the paragraph headed "Information and Intention of the Offeror" in the First Joint Announcement, it is the intention of the Offeror that the Group will continue to focus on the development and operation of its existing business, and does not intend to introduce any major changes to the existing operations and business of the Company immediately after the completion of the Sale and Purchase Agreement and the close of the Offer. In addition, the Offeror does not have prior knowledge and experience in the existing business of the Group, i.e. distribution and retailing of lifestyle comfort footwear.

The Group relies heavily on the existing management of the Group to maintain a stable business relationship with the Group's major suppliers and their relevant experience and expertise in managing the existing business of the Group.

In addition, some of the major distribution agreements contain a change of management covenant whereby the suppliers do not anticipate change of management during the subsistence of the distribution agreements. Having considered all of the above, it is in the interest of the Group to engage the SPV to manage the business of the S. Culture (BVI) Group under the terms of the Management Agreement and to continue with the Subsidiary Service Agreements with the executive Directors and current directors and senior management of the subsidiaries in the Group for the provision of their services to the S. Culture (BVI) Group so as to to apply their knowledge and experience to continue the development of the existing business of the Group.

LETTER FROM THE BOARD

5. LISTING RULES IMPLICATIONS ON THE MANAGEMENT AGREEMENT AND THE CONTINUATION OF THE SUBSIDIARY SERVICE AGREEMENTS

The Management Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As the fee payable under the Management Agreement is HK\$1.00, the transactions contemplated under the Management Agreement are fully exempt under Rule 14A.76 of the Listing Rules.

The Continuation of the Subsidiary Service Agreements with the directors of the subsidiaries in the Group who are regarded as connected persons of the Company, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. However, the Continuation of the Subsidiary Service Agreements is fully exempt under Rule 14A.95 of the Listing Rules.

6. TAKEOVERS CODE IMPLICATIONS ON THE SPECIAL DEALS

The Management Agreement together with the Continuation of the Subsidiary Service Agreements constitute special deals under Rule 25 of the Takeovers Code, which will require the consent of the Executive. The Company has made an application to the Executive for his consent under Rule 25 of the Takeovers Code in relation to the Special Deals. Such consent, if granted, will be conditional upon the approval of the Independent Shareholders, whose votes will be taken by way of poll at the EGM of the Company.

7. VOTING BY INDEPENDENT SHAREHOLDERS

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, other than the Vendors, the Offeror, Mr. Wong Kai Cho and Ms. Chan Mei Yin, who are parties involved in or interested in the Sale and Purchase Agreement and/or the Special Deals and their respective concert parties and associates, no other Shareholders will be required to abstain from voting at the EGM to be convened for the purpose of considering and, if thought fit, approving the Special Deals.

Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu, Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles have abstained from voting on the board resolutions for approving the Special Deals. Save as disclosed above, none of the Directors has a material interest in the Special Deals who is required to be abstained from voting on the board resolutions approving the same.

8. EGM

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular. At the EGM, resolutions will be proposed to approve the Special Deals.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, all the proposed resolutions will be put to vote by way of poll at the EGM. An announcement on the poll vote results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.s-culture.com). Whether or not you are able to attend the EGM, please complete and sign the form of proxy in accordance with the instructions printed thereon and return it, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority, to the Company's branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish and in such event, your proxy form shall be deemed to be revoked.

9. RECOMMENDATION

The Code Independent Board Committee has been established to make recommendations to the Independent Shareholders in respect of the Offer and the Special Deals.

The Independent Financial Adviser has been appointed by the Company to advise the Code Independent Board Committee and the Independent Shareholders in relation to the Offer and the Special Deals under the Takeovers Code.

The Board (excluding the members of the Code Independent Board Committee whose views are set out in the Letter from the Code Independent Board Committee in this circular) is of the view that the Special Deals are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and recommends the Independent Shareholders to vote in favour of the resolutions set out in the notice of EGM enclosed to this circular.

10. GENERAL INFORMATION

Your attention is also drawn to the letter from the Code Independent Board Committee, the letter from the Independent Financial Adviser and the additional information set out in the appendix to this circular and the notice of EGM.

Yours faithfully,
By order of the Board
Chong Hot Hoi
Chairman of the Board

LETTER FROM THE CODE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Code Independent Board Committee to the Independent Shareholders in relation to Special Deals for inclusion in this circular:



S. CULTURE INTERNATIONAL HOLDINGS LIMITED

港大零售國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1255)

27 April 2017

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 27 April 2017 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Pursuant to the Takeovers Code, we have been appointed by the Board as members to form the Code Independent Board Committee and to advise you on whether the terms of the Special Deals are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The Independent Financial Adviser has been appointed to advise the Code Independent Board Committee and the Independent Shareholders as to whether the terms of the Special Deals are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and whether such terms are in the interests of the Company and the Independent Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 16 to 34 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 13 of the Circular and the additional information set out in the appendix to the Circular.

LETTER FROM THE CODE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Special Deals and having taken into account the advice of the Independent Financial Adviser, we are of the view that the terms of the Special Deals are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Special Deals.

Yours faithfully
For and on behalf of the
Code Independent Board Committee
Yu Fuk Lun
Non-executive Director

Wan Kam To
*Independent non-executive
Director*

Yau Tat Wang, Dennis
*Independent non-executive
Director*

Lam Man Tin
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from BaoQiao Partners Capital Limited to the Code Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 501, 5/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

27 April 2017

*To the Code Independent Board Committee and the Independent Shareholders
of S. Culture International Holdings Limited*

Dear Sir or Madam,

**(I) THE MANAGEMENT AGREEMENT AND THE CONTINUATION
OF SUBSIDIARY SERVICE AGREEMENTS CONSTITUTING
POSSIBLE EXEMPT CONTINUING CONNECTED TRANSACTIONS;
AND
(II) POSSIBLE SPECIAL DEALS**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Code Independent Board Committee and the Independent Shareholders in respect of the terms of the Special Deals, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 27 April 2017 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 12 January 2017 (after trading hours), the Offeror entered into the Sale and Purchase Agreement with the Vendors, pursuant to which the Offeror has conditionally agreed to purchase and the respective Vendors have conditionally agreed to sell the Sale Shares being 116,814,797 Shares for an aggregate cash consideration of HK\$467,259,188 (equivalent to HK\$4.00 per Sale Share), representing approximately 58.41% of the entire issued share capital of the Company as at the Latest Practicable Date.

The completion of the Sale and Purchase Agreement is conditional upon the fulfillment or waiver (where applicable) of the conditions precedent to the Sale and Purchase Agreement, which amongst others, include (i) the passing of all necessary resolutions by the Shareholders at the EGM to approve the Management Agreement and the transactions contemplated thereunder; and (ii) the Executive granting “special deal” consent under Rule

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

25 of the Takeovers Code in respect of the entering into the Management Agreement and the transactions contemplated thereunder in accordance with applicable requirements under the Takeovers Code and any conditions attaching to such consent become unconditional.

A brief description of the Special Deals is as follows:

- (i) Management Agreement: the conditional agreement between the Company, S. Culture (BVI) and the SPV pursuant to which the Company will appoint the SPV as the service provider to provide management services to S. Culture (BVI) Group and the transactions contemplated thereunder; and
- (ii) Continuation of the Subsidiary Service Agreements: a term under the Management Agreement that all current directors and senior management of the S. Culture (BVI) Group will remain unchanged and Supplemental Subsidiary Service Agreements will be entered into between each of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu and the relevant subsidiaries under the S. Culture (BVI) Group.

As at the Latest Practicable Date, the major terms of the Management Agreement and the Supplemental Subsidiary Service Agreements have been finalized. It is expected that the Management Agreement and the Supplemental Subsidiary Service Agreements will be entered into and take effect subject to the fulfillment to the conditions precedent to the Management Agreement.

As stated in the Letter from the Board, Mr. Chu, Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi, Mr. Dominic Chu and Mr. Haeta Chu are all Directors and Vendors. As such, they are all interested in the Special Deals and none of them will vote nor be counted in the quorum at the Board meeting to be held for the approval of the Special Deals. The Board will defer its views on and the approval of the Special Deals to the Code Independent Board Committee. As such, the Special Deals will be approved by the Code Independent Board Committee having formed its views after consideration among others, the advice of the Independent Financial Adviser in respect of the Special Deals. The Code Independent Board Committee, whether or not they have made reference to the advice of the Independent Financial Adviser, is fully responsible for the decision on whether or not to approve the Special Deals.

As disclosed in the Letter from the Board, the Management Agreement, once entered into by the Company, S. Culture (BVI) and the SPV, will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the fee payable under the Management Agreement is HK\$1.00, the transactions contemplated under the Management Agreement are fully exempt under Rule 14A.76 of the Listing Rules. Subject to the entering into of the Management Agreement, the Continuation of the Subsidiary Service Agreements with the Directors who are regarded as connected persons of the Company, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. However, the Continuation of the Subsidiary Service Agreements is fully exempt under Rule 14A.95 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Management Agreement together with the Continuation of the Subsidiary Service Agreements constitute special deals under Rule 25 of the Takeovers Code and require, among other things, the consent of the Executive and the approval by the Independent Shareholders, whose votes will be taken by way of poll at the EGM.

The Vendors (namely, Chong Hok Hei, Charles, Chong Hok Shan, Chong Hot Hoi, Chu Chun Ho, Dominic, Chu Chun Wah, Haeta, Chu Yuen Fan, Peggie, Wong May Heung, Wu Se and Come Good Investment (BVI) Limited), the Offeror, Mr. Wong Kai Cho and Ms. Chan Mei Yin, are parties involved in and have a material interest in the Sale and Purchase Agreement and/or the Special Deals. As such, they and their respective concert parties and associates will be required to abstain from voting at the EGM to be convened for the purpose of considering and, if thought fit, approving the Special Deals.

CODE INDEPENDENT BOARD COMMITTEE

The Code Independent Board Committee comprising all the non-executive Directors (other than Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles), namely, Mr. Yu Fuk Lun and all the independent non-executive Directors, namely Mr. Wan Kam To, Mr. Lam Man Tin and Mr. Yau Tat Wang, Dennis, has been established to make recommendations to (i) the Independent Shareholders on the Special Deals; and (ii) the Shareholders other than the Offeror and parties acting in concert with them in respect of the Offer as to whether the terms of the Offer are fair and reasonable as to the acceptance of the Offer. Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, being two of the shareholders of the SPV and the Vendors, are considered to be materially interested in the Special Deals and are therefore excluded from the Code Independent Board Committee.

We, BaoQiao Partners Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Code Independent Board Committee and the Independent Shareholders on the Special Deals and the Offer, and such appointment has been approved by the Code Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser in relation to the Offer and the Special Deals, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Code Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the announcements of the Company dated 19 January 2017, 24 March 2017, 7 April 2017 and 7 April 2017, the Circular and the information and representations provided to us by the Company, the Directors and the management (the “**Management**”). We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as at the Latest Practicable Date. Should there be any subsequent material changes in such information, the Company should inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided in the Circular and our opinion as soon as possible after the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Management in the Circular were reasonably made after due enquiries and careful consideration. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Code Independent Board Committee and the Independent Shareholders solely in connection with their consideration of approving the Special Deals, and this letter, except for its inclusion in the Circular and for inspection as required under the Listing Rules and the Takeovers Code, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE SPECIAL DEALS

In giving our recommendation to the Code Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the Special Deals, we have taken into consideration the following factors and reasons:

1. Background Information of the Group

1.1 Information on the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and the Shares have been listed on the Stock Exchange since 11 July 2013. The Company is an investment holding company and its subsidiaries (i.e. the S. Culture (BVI) Group) are engaged in distributing and retailing of lifestyle comfort footwear products. The S. Culture (BVI) Group is the sole operating arm of the Group. Other than the members of the S. Culture (BVI) Group, the Company has no other subsidiaries.

1.2 Historical financial performance of the Group

Set out below is the audited consolidated financial information of the Group for the two years ended 31 December 2015 (“FY2015”) and 2016 (“FY2016”) as extracted from the annual report of the Company for the year ended 31 December 2016 (the “2016 Annual Report”):

The Group

	FY2015	FY2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Revenue	561,028	562,474
(Loss) before taxation	(16,360)	(37,312)
(Loss) for the year	(16,373)	(34,607)
	As at 31 December	
	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Total assets	454,284	413,824
Total liabilities	236,707	229,756
Net assets	217,577	184,068

As advised by the Management and based on our review of the 2016 Annual Report and the consolidated management accounts of the Company for FY2015 and FY2016, the Group has historically derived all of its revenue

from the footwear distribution and retail operations of the S. Culture (BVI) Group and the financial results, assets and liabilities of the Group are principally contributed by the S. Culture (BVI) Group. The Company has no revenue, material assets and liabilities as at each of 31 December 2015 and 31 December 2016.

Financial Performance of the Group

For FY2016, the Group recorded revenue of approximately HK\$562.5 million, representing an increase of approximately HK\$1.5 million or approximately 0.3% from approximately HK\$561.0 million for FY2015 as disclosed in the 2016 Annual Report.

The Group has two major segments of operations which consist of i) retail operation and ii) wholesale operation. The retail operation and wholesale operation have accounted for approximately 92.2% and 7.8% respectively for FY2016 and approximately 91.5% and 8.5% respectively for FY2015 of the Group's total revenue. In FY2016, the revenue from retail operation of the Group has amounted to approximately HK\$518.8 million, representing an increase of approximately HK\$5.7 million or approximately 1.1% from that of approximately HK\$513.1 million for FY2015. The revenue from wholesale operation of the Group decreased from approximately HK\$47.9 million in FY2015 to approximately HK\$43.7 million in FY2016, representing a decrease of approximately HK\$4.2 million or 8.8%.

The Group operates in four major geographical areas which include i) Hong Kong; ii) Taiwan; iii) Macau; and iv) the PRC, which accounted for approximately 79.2%, 17.6%, 2.2% and 1.0% respectively for FY2016 and approximately 77.9%, 18.7%, 2.4% and 1.0% respectively for FY2015 of the Group's total revenue.

Of the four major areas where the Group operates in, Hong Kong is the largest market which accounted for the majority of the total revenue of Group. As disclosed in the 2016 Annual Report, revenue from Hong Kong region increased slightly from approximately HK\$437.0 million in FY2015 to approximately HK\$445.3 million in FY2016, mainly driven by the increasing sales from the newly added short-term lease promotion outlets which enhanced better reach to target consumers.

In respect of the Taiwan region, the Group recorded a decrease in revenue from approximately HK\$105.1 million for FY2015 to approximately HK\$98.9 million for FY2016, representing a year-on-year decline of approximately HK\$6.2 million or 5.9%. The sales in the PRC remained steady at approximately HK\$5.9 million for FY2016 and approximately HK\$5.8 million for FY2015. The sales in Macau decreased from approximately HK\$13.2 million in FY2015 to approximately HK\$12.3 million in FY2016.

Retail Operation

According to the 2016 Annual Report, despite the increase in sales in the Hong Kong market, the same store sales in Hong Kong (i.e. year-on-year sales comparison of existing retail stores) for FY2016 declined by approximately 2.8% as compared to FY2015 due to the weak retail climate in Hong Kong.

The Group recorded a same store sales decline in Taiwan (i.e. year-on-year sales comparison of existing retail stores) of approximately 5.9% for FY2016 as compared to FY2015 due to the stagnant retail market in Taiwan while the sales in PRC and Macau has maintained roughly the same in FY2016 as compared to FY2015.

As at 31 December 2016, the Group operated 72 (2015: 79) retail outlets (including 11 short-term lease promotion outlets) in Hong Kong, 2 (2015: 2) retail outlets in Macau, 3 (2015: 4) retail outlets in Mainland China, and 48 (2015: 50) retail outlets in Taiwan as disclosed in the 2016 Annual Report.

Wholesale Operation

In addition to retail sales, the Group sells its products to wholesale customers, such as footwear retail chain stores and department stores in Hong Kong, the PRC and Taiwan in order to enhance the public awareness of its products and complement its retail sales network as advised by the Management. The wholesale operation accounted for approximately 7.8% and 8.5% of the total revenue of S. Culture (BVI) Group for FY2016 and FY2015 respectively. As advised by the Management, the Group would continue to maintain the current scale of the wholesale operation.

Major Brands

The S. Culture (BVI) Group has entered into distribution agreements (the “**Distribution Agreements**”) with certain major brands such as “**Clarks**”, “**Josef Seibel**”, “**The Flexx**”, and “**Petite Jolie**” respectively (together, the “**Major Brands**”). The S. Culture (BVI) Group is the exclusive distributor for Clarks in Hong Kong, Taiwan, Macau and a specific location in the PRC. Its exclusive distributorships are also extended to Hong Kong, Taiwan, Macau and the entire PRC for several licensed footwear brands, including Josef Seibel, The Flexx and Petite Jolie. As advised by the Management, the revenue generated by the Major Brands accounted for approximately 95.8% of the Group’s total revenue for both FY2016 and FY2015.

Of the four Major Brands, “Clarks” contributed to the majority of the total revenue of the Group, accounting for approximately 77.0% and 73.6% for FY2016 and FY2015 respectively and has recorded a year-on-year increase in revenue from approximately HK\$412.9 million in FY2015 to approximately HK\$433.1 million in FY2016 which the Company considered

it as an encouraging performance indicator that reaffirmed the brand value in the Group's target market as disclosed in the 2016 Annual Report. The other Major Brands such as "Josef Seibel", "The Flexx", and "Petite Jolie" had all recorded a decrease in revenue by approximately 20.5%, 2.1% and 2.9% respectively from FY2015 to FY2016, mainly due to the sluggishness in the Hong Kong retail market as per our discussion with the Management.

As disclosed in the 2016 Annual Report, the Group reported net losses of approximately HK\$34.6 million for FY2016 as compared to approximately HK\$16.4 million for FY2015. Despite the increase in sales for FY2016, such unsatisfying financial performance and increase in loss were mainly resulted from the drop in gross profit margin as greater promotions and sales discounts were offered to customers in order to maintain the Group's market shares.

Financial positions of the Group

The financial positions of the Group have been deteriorating with net assets of the Group decreased from approximately HK\$217.6 million as at 31 December 2015 to approximately HK\$184.1 million as at 31 December 2016, primarily due to the unsatisfactory financial performance for FY2016.

As at 31 December 2016, the total assets of the Group were approximately HK\$413.8 million, which mainly comprised property, plant and equipment of approximately HK\$46.9 million and inventories of approximately HK\$227.1 million. The cash and bank balances of the Group were approximately HK\$26.2 million and the trade and other receivables were approximately HK\$87.0 million as at 31 December 2016.

As at 31 December 2016, the total liabilities of the Group were approximately HK\$229.8 million, which mainly comprised trade and other payables of approximately HK\$24.5 million and bank borrowings of approximately HK\$205.1 million. As advised by the Management, bank borrowings bore interests at rates between 1.9% to 2.8% per annum as at 31 December 2016.

Outlook of the Group

As disclosed in the 2016 Annual Report, it is expected by the Management that the near term outlook for retail sales will still be constrained by the weak performance on inbound tourism and slow growth of local consumption. As the Group principally operates its retail/distribution footwear business in Hong Kong, we have reviewed the performance of Hong Kong retails sector as below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the statistics of Business Receipts Indices for Service Industry, which is intended to measure the sales receipts of goods sold by local retail sector from 2014 to 2016, published by the Census and Statistics Department of Hong Kong:

Retail Sales

Year	Value <i>Index</i> <i>(Average</i> <i>monthly</i> <i>index from</i> <i>Oct 2014 to</i> <i>HK\$ Sep 2015 =</i> <i>(million) 100)</i>	Year-on- year % change	Volume <i>(Note 1)</i> <i>Index</i> <i>(Average</i> <i>monthly</i> <i>index from</i> <i>Oct 2014 to</i> <i>Sep 2015 =</i> <i>100)</i>	Year-on- year % change	
2014	493,236	102.0	-0.2	100.4	-0.2
2015	475,156	98.3	-3.7	98.9	-1.5
2016	436,623	90.3	-8.1	91.9	-7.1

Source: Census and Statistics Department of Hong Kong

Notes:

1. The value index measures the changes in value terms, while the volume index is derived from the value index of retail sales by adjusting for price changes.

Challenges in the Hong Kong retail sector remain amid the continuous drop in tourist arrival. As illustrated in the above table, the value of retail sales has been in decline for the past three years since 2014. The downturn seen in visitor arrivals and spending among inbound tourists led to severe contractions in sales receipts in retailing. Based on the data from the Hong Kong Tourism Board, the numbers of tourist arrivals dropped by 4.5% year-on-year in 2016, in which those from the Mainland saw a steeper deterioration of 6.7%.

Based on the above and as stated in the 2016 Annual Report, we concur with the Management's view that there are certain risks and uncertainties related to the operating environment of Hong Kong retail sector, which could have an effect on overall operation of the Group.

2. The Special Deals

2.1 *The Management Agreement*

As disclosed in the Letter from the Board and as advised by the Management, although Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi, Mr. Dominic Chu, Mr. Haeta Chu, Mr. Chu, Ms. Wong May Heung, Ms. Wu Se and Ms. Chu are already existing directors of the Group, it is the intention of the Company to enter into a formal written agreement, i.e. the Management Agreement with the SPV, to motivate and retain the existing management of the Group in order to maintain the confidence of the Company's stakeholders on the stability of the Group's operations and at the same time provide a continuity of management for a three-year transitional period after Completion.

As such, the Company, S. Culture (BVI) and the SPV proposed to enter into the Management Agreement, pursuant to which the Company will appoint the SPV as the service provider to provide management services to S. Culture (BVI) Group (i.e. the sole operating arm of the Group's distributing and retailing of footwear business) for a term of three years from the date of the Management Agreement, at a nominal fee of HK \$1.00. The SPV is owned by the Vendors and Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu, Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi and Ms. Wu Se are the directors of the SPV.

We understand from the Management that the proposed Management Agreement is necessary to demonstrate the management continuity and maintain confidence of the Group's principal business partners, in particular, the Major Brands after the change of control. As most of the Distribution Agreements with the Major Brands contain change of management covenant, the entering into of the Sales and Purchase Agreement as well as the Offer may affect the continuity of such agreements. As discussed with the Management, the Major Brands are all overseas brands, their senior management is not in Hong Kong and they are not familiar with the regulatory environment in Hong Kong, especially those under the Takeovers Code. It is difficult for the Company, the Offeror as well as the existing management/directors to demonstrate management continuity without a formal management agreement especially when the Offeror has no prior business relationship with the Company's business partners. The entering into of a formal management agreement for a three-year period serves the purpose of management continuity and demonstrates the commitment of the Company, the Offeror as well as the existing management towards the suppliers and business partners of the Group.

As disclosed in paragraph headed "Termination" below, despite that the Management Agreement can be terminated by either parties by giving 30 days notice, we understand from the Management that (i) as all of the principal terms of the Management Agreement have been fully disclosed to the business partners, the business partners are fully aware that the Management Agreement is for transitional purpose; (ii) pursuant to the terms of the Management Agreement,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the SPV will from time to time report to the Company and its directors the business operations of the S. Culture (BVI) Group and it is also the intention of the Offeror to have a detailed review of the Group's existing operations following the Offer as disclosed in the First Joint Announcement; and (iii) the continuation of the Subsidiary Service Agreements (details of which have been disclosed in subsection headed "2.2 Continuation of the subsidiary Service Agreements"), as part of the arrangement under the Management Agreement provide the Company with sufficient time to find suitable replacement(s) and liaise with its business partners should the Management Agreement be terminated.

Having considered the above, we concur with the view of the Management that the entering into the proposed Management Agreement is to maintain the confidence of the Company's stakeholders on the stability of the Group's operations and at the same time provides continuity of management for a three-year transitional period after Completion.

The Management Agreement will be effective upon satisfaction of the conditions, which include (i) the consent or approval from the SFC having been obtained by the Company on the Management Agreement and the Continuation of the Subsidiary Service Agreements pursuant to Rule 25 of the Takeovers Code; and (ii) if applicable, the passing by the Independent Shareholders of the Management Agreement and the transactions contemplated thereunder at the EGM. None of the above conditions can be waived.

Set out below are the principal terms of the Management Agreement:

Scope of Services

- (i) providing advice and exercising power to perform the day-to-day management of the business operations of the S. Culture (BVI) Group;
- (ii) providing advice to the execution of the business plan of the S. Culture (BVI) Group;
- (iii) formulating business and operational strategies;
- (iv) formulating the overall risk management strategies of the S. Culture (BVI) Group;
- (v) identifying and soliciting suitable candidates for consideration by the Company to fill the vacancy of the board of directors of S. Culture (BVI); and
- (vi) any other services that may be requested by the S. Culture (BVI) Group from time to time.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Nomination of Representatives under the Management Agreement

As disclosed in the Letter from the Board, Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu are executive Directors as well as directors of S. Culture (BVI) and all subsidiaries of the S. Culture (BVI) Group. They will also be directors of the SPV and the representatives of the SPV in carrying out the services to the S. Culture (BVI) Group.

Apart from Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu, it is a term of the Management Agreement that the existing directors and senior management role of the S. Culture (BVI) Group will remain unchanged. The Subsidiaries Directors who will remain as directors of the S. Culture (BVI) Group include (i) Ms. Chan Mei Yin, (ii) Mr. Chong Hok Hei, Charles, (iii) Mr. Chong Hot Hoi, (iv) Ms. Chu, (v) Mr. Wong Kai Cho, (vi) Ms. Wu Se; and (vii) Ms. Wong May Heung.

Based on our review of the background of the Subsidiaries' Directors, apart from Mr. Chu being one of the founders of the Group and both Mr. Dominic Chu and Mr. Haeta Chu are currently the executive Directors and co-chief executive officer of the Group, all of them have been working for the Group for over 10 years and possess extensive experience in footwear distribution, business development and retail operations.

Service Fee

The service fee of the Management Agreement will be a nominal fee of HK\$1.00 during the term of the Management Agreement and the Company shall reimburse the SPV for all out-of-pocket expenses reasonably incurred in providing the service, provided that such cost shall not exceed HK\$1,200,000 on an annual basis. The Company shall make such reimbursement within ten (10) Business Days after its receipt of the SPV's claim together with the relevant receipts or other documentary evidence in support of such expenses.

As advised by the Management and disclosed in the paragraph headed "2.2 Continuation of the Subsidiary Service Agreements" below, given (i) the scope of services provided by the SPV are similar to the duties and responsibilities currently taken up by Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu, the existing executive Directors and the representatives of the SPV; (ii) the Subsidiaries' Directors, being the key senior management and directors of the S. Culture (BVI) Group will remain unchanged; (iii) Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu and all the Subsidiaries Directors will continue to be entitled to the same remuneration packages under the Subsidiary Service Agreements and Subsidiary Employment Agreements; and (iv) there is sufficient internal control measures in place to monitor the reimbursement claims of the SPV which we have been provided with the relevant internal control policy, we consider the nominal service fee of HK\$1.00 and the reimbursement of out-of-pocket expenses of no more than HK\$1,200,000 per annum is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Undertakings by the SPV

We note that the SPV has given undertakings (the “**Undertakings**”) which are customary in circumstances and mainly in respect of (among others) the financial conditions, business and operations of the members of the S. Culture (BVI) Group, in particular, the SPV (i) shall use its reasonable endeavor to maintain the business relationship with the S. Culture (BVI) Group’s major existing suppliers; and (ii) it shall use its reasonable endeavors to ensure that the S. Culture (BVI) Group has sufficient operating cash flow to run its business from time to time. As discussed in paragraph headed “Termination” below, if a defaulting party commits any material breach of any of its obligations under the agreement and fails to remedy such breach (if capable of remedy) within thirty (30) days after being given notice, the Management Agreement will be terminated by default and each party retains the rights against any other party in connection with any breach or claim that has arisen before termination. Details of the undertakings given by the SPV are included in the section headed “Undertakings by the SPV” in the Letter from the Board.

Service pledge

We also note that the Management Agreement contains a service pledge to track the performance and services of the SPV, which includes, among others, provision of timely updates, budgets, forecasts and other relevant financial information and statements to the Company relating to the business operation of the S. Culture (BVI) Group and full access of the S. Culture (BVI) Group’s records by the auditors of the Company.

Termination

Pursuant to the Management Agreement, the Management Agreement shall be terminable by either the Company or the SPV by giving 30 days’ notice in writing to the other parties. In addition, the Management Agreement shall terminate with immediate effect if (i) the ultimate beneficial shareholders of the Offeror as at the date of the Management Agreement and its parties acting in concert (as defined in the Takeovers Code) holds less than 30% in the issued shares of the Company or that the Offeror ceases to be the single largest shareholder of the Company; or (ii) the directorships of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu with all the subsidiaries of the S. Culture (BVI) Group and the Subsidiaries’ Directors (as defined below) are removed by the Company for whatever reason.

The Management Agreement also contains a clause allowing termination for default, through which the non-defaulting party shall be entitled to terminate the Management Agreement by giving notice in writing to the defaulting party if the defaulting party shall, among others, commit

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

any breach of any of its obligations under the Management Agreement and fails to remedy such breach (if capable of remedy) within 30 days after being given notice by the non-defaulting party.

2.2 Continuation of the Subsidiary Service Agreements

Each of Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu, Ms. Chan Mei Yin, Ms. Chu has entered into service/employment agreements with member companies of S. Culture (BVI) Group as set out below.

Save and except for Ms. Chan Mei Yin and Mr. Wong Kai Cho, all the Subsidiaries' Directors are also the Vendors. As disclosed in the Letter from the Board, Ms. Chan Mei Yin holds 596,559 Shares and Mr. Wong Kai Cho holds 4,058,284 Shares as at the Latest Practicable Date and the Offeror has procured the irrevocable undertakings from Mr. Wong Kai Cho that he shall accept or procure the acceptance of, the Offer in respect of 4,058,284 Shares held by him.

Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu

As disclosed in the Letter from the Board and in the Company's prospectus dated 28 June 2013, each of the executive Directors (i.e. Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu) entered into a master service agreement with the Company for an initial term of three years with effect from 1 May 2013. The master service agreement between each of the executive Directors and the Company was renewed for another term of three years with effect from 1 May 2016 with similar terms.

In addition to the master service agreement entered into with the Company, each of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu has separately entered into a Subsidiary Service Agreement on 29 April 2016 with one or more of the operating subsidiaries in the following manner:

Name of Subsidiary(ies)	Name of executive Director	Remuneration
KTSG	Mr. Chu	HK\$280,000 per month <i>(Note 1 and 2)</i>
KTSG	Mr. Dominic Chu	HK\$174,300 per month <i>(Note 1)</i>
KTSG and Grand Asian Limited	Mr. Haeta Chu	HK\$174,300 per month <i>(Note 1)</i>

Note 1: an annual bonus equal to one month's salary shall be paid.

Note 2: Mr. Chu is entitled to a monthly service fee of HK\$180,000 per month and monthly housing allowance of HK\$100,000 per month.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The above service agreements shall terminate automatically on the termination or expiration of its related master service agreements or other subsidiary service agreements. As such, it is proposed that Supplemental Subsidiary Service Agreements will be entered into between each of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu and the relevant subsidiaries to remove the Automatic Termination Clause (the “**Automatic Termination Clause**”) in these agreements, such that in the event that each of them ceases to be a Director, the above Subsidiary Service Agreements shall remain in force upon the Management Agreement becoming effective.

Ms. Chan Mei Yin and Ms. Chu

In addition, the following Subsidiaries’ Directors have also entered into Subsidiary Employment Agreements on 1 May 2013 with KTSG:

Name of Subsidiaries’ Directors	Position	Remuneration
Ms. Chu	Director of Business Relations	HK\$75,000 per month with one month basic salary as double pay
Ms. Chan Mei Yin	Director of Administration	HK\$93,240 per month with one month basic salary as double pay

Mr. Wong Kai Cho

Mr. Wong Kai Cho, one of the Subsidiaries’ Directors, is entitled to a monthly salary of HK\$21,089. As confirmed with the Management, Mr. Wong Kai Cho has not entered into an employment agreement with any member of the S. Culture (BVI) Group.

Others

As confirmed with the Management, save as disclosed above, other Subsidiaries’ Directors do not have any service agreement or employment agreement with any member of the S. Culture (BVI) Group and do not receive any remuneration from any member of the S. Culture (BVI) Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Continuation of the Subsidiary Service Agreements, which comprises (i) the entering into of the Supplemental Subsidiary Service Agreements; and (ii) the continuation of the Subsidiary Employment Agreements are arrangements following the terms under the Management Agreement, the effectiveness of which is subject to approval from the Independent Shareholders and the consent from the SFC. As such, they are regarded as parts of the Special Deals.

As discussed with the Management, in addition to retaining the existing management of the S. Culture (BVI) Group, the Continuation of the Subsidiary Service Agreements, as part of the arrangement under the Management Agreement is necessary to provide the Company with sufficient time to find suitable replacement(s) should the Management Agreement be terminated. We note that the Subsidiary Service Agreements and Subsidiary Employment Agreements shall remain in force after the Management Agreement is terminated and based on our review of the Subsidiary Service Agreements and Subsidiary Employment Agreements, the termination clause under such agreements requires a written notice of three to six months which, as discussed with the Management, shall give the Company sufficient time to find suitable replacement(s).

We have reviewed the background of Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu and all Subsidiaries' Directors, the existing Subsidiaries Service Agreements, Subsidiaries Employment Agreements and the Supplemental Subsidiary Service Agreements and given (i) Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu and all the Subsidiaries' Directors have been working for the members of the S. Culture (BVI) Group for over 10 years and have extensive experience in the existing business of the S. Culture (BVI) Group; (ii) the terms of the existing service/employment contract between the relevant members of S. Culture (BVI) Group and each of Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu and the Subsidiaries' Directors remain unchanged, except for the removal of Automatic Termination Clause in the Supplemental Subsidiary Service Agreements to be entered into between each of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu and the relevant subsidiaries; and (iii) the Continuation of the Subsidiary Service Agreements is part of the arrangement under the Management Agreement in order to maintain the operating continuity of the S. Culture (BVI) Group, we are of the view that the arrangement of the Continuation of the Subsidiaries Service Agreements is commercially justifiable.

Apart from the review of the background of Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu and the Subsidiaries' Directors and the terms of the Continuation of the Subsidiaries Service Agreements, we have also reviewed other major terms of the Management Agreement, including, the scope of services and the Undertakings, the service pledge and the termination clauses, which we are not aware of any terms being unusual.

In view that (i) the service fee under the Management Agreement will be HK\$1.00 and there is sufficient internal control measures in place to monitor the reimbursement claims of the SPV; (ii) the background and experience of the representatives, namely, Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu, nominated by the SPV; (iii) the undertakings and service pledge given by the SPV for the assessment of the performance of S. Culture (BVI) Group's business and financial operations; (iv) the Management Agreement contains termination clauses which provide the Company with the flexibility to terminate the Management Agreement by giving 30 days' notice in writing to the other parties; and (v) the arrangement of the Continuation of the Subsidiaries Service Agreements is commercially justifiable, we consider the terms of the Management Agreement to be fair and reasonable.

2.3 Reasons for and benefits of the entering into the Special Deals

As disclosed in the Letter from the Board, it is the intention of the Offeror that the Group will continue to focus on the development and operation of its existing business and the Offeror does not intend to introduce any major changes to the existing operations and business of the Company immediately after the completion of the Sale and Purchase Agreement and the close of the Offer. In addition, as disclosed in the Announcement, given that (i) the Offeror intends to continue to develop and operate the existing business of the Group after Completion while it does not possess prior knowledge and experience in such business area; (ii) the Company would like to retain the existing management of the Group, which possess relevant experience and expertise in managing the operation of lifestyle comfort footwear business, so as to ensure the consistency of the Group's management; and (iii) stable relationships have to be maintained with the existing business partners, among others, the creditors, suppliers and distributors in view that some of the major distribution agreements and loan agreements contain covenants whereby suppliers and creditors (as the case may be) do not anticipate change of management during the subsistence of the respective agreements, the Directors consider that it is in the interests of the Company and the Shareholders as a whole to enter into the Management Agreement with the SPV.

Based on our discussion with the Management and the information of the Offeror as disclosed in the First Joint Announcement regarding, among others, the Sale and Purchase Agreement and the Offer, although the Offeror has working track record and experience in managing companies from different sectors (e.g. equity investment, project investment, real estate investment, electronic commerce and internet financing), we concur with the Company's view that the Offeror does not have prior knowledge and experience in the existing business of the Group (i.e. distribution and retailing of lifestyle comfort footwear).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As mentioned in the sub-paragraph headed “1.2 Historical Financial information of the Group” under the paragraph headed “1. Background Information of the Group” above, the financial performance of the Group for FY2015 and FY2016 was unsatisfactory and it incurred losses of approximately HK\$16.4 million and HK\$34.6 million for FY2015 and FY2016 respectively and there are certain risks and uncertainties related to the operating environment of Hong Kong retail sector, which could have an effect on overall operation of the Group. Despite the unsatisfactory financial performance of the Group for FY2015 and FY2016, we share the same view with the Company and consider it to be in the interests of the Company to ensure management continuity following Completion and continue to leverage on the experience and expertise of Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu and all the Subsidiaries’ Directors to assist the Company in managing the business operation of the S. Culture (BVI) Group under such unfavorable retail market condition in Hong Kong.

In addition, the SPV provides certain undertakings and performance pledge to the Company in relation to the business and financial operations of S. Culture (BVI) Group, which the Company considers that the entering into of the Management Agreement not only shows the commitment of the Company, the Offeror as well as Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu and all the Subsidiaries’ Directors to strive for improving the business performance of the Group, it also enhances the confidence of the stakeholders on the stability of the Group’s operations after the change of control.

We understand from the Management that the Group relies heavily on the existing management of the S. Culture (BVI) Group to maintain stable business relationships with the major suppliers and their rich experience in managing the existing business of the Group. As abovementioned, some of the distribution agreements of Major Brands contain change of management covenant whereby the suppliers do not anticipate change of management during the subsistence of the distribution agreements. Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu, among others, being the ultimate beneficial owners of the SPV and the representatives nominated by the SPV to carry out the services under the Management Agreement, have been working for and contributing to the Group for a long period of time and have maintained long established relationships with the Major Brands. Mr. Chu is one of the founders of the Group and both Mr. Dominic Chu and Mr. Haeta Chu have extensive experience in wholesale and retailing of footwear industry and are currently the executive Directors and co-chief executive officers of the Group. In addition, the retainment of other experienced senior management and directors of the S. Culture (BVI) Group as well as the continuation of the Subsidiary Services Agreements and Subsidiary Employment Agreements is essential to motivate and retain the existing management of the Group in order to maintain the confidence of the Company’s stakeholders, such as its suppliers, partners and bankers, in the stability of the Group’s operations for a three-year transitional period after the change in control of the Company upon Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered (i) the terms of the Special Deals, namely the Management Agreement and the Continuation of the Subsidiary Service Agreements as discussed under the section headed “2. The Special Deals” are fair and reasonable; (ii) the lack of prior knowledge and experience of the Offeror in the existing business of the S. Culture (BVI) Group; and (iii) the benefits of operating continuity and the entering into the Management Agreement and the Continuation of the Subsidiary Service Agreement serve as an incentive to motivate the Subsidiaries’ Directors, in particular, Mr. Chu, Mr. Dominic Chu and Mr. Haeta Chu to further develop the footwear business and create the shareholders’ value of the S. Culture (BVI) Group, we are of the view that the entering into the Special Deals are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Taking into account of the above principal factors and reasons, we consider that the terms of the Special Deals are fair and reasonable so far as the Company and the Independent Shareholders are concerned. We also consider the entering into the Special Deals is on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we would recommend, and advise the Code Independent Board Committee to recommend to the Independent Shareholders, the Independent Shareholders, to vote in favour of the resolution(s) to approve the Management Agreement and the Continuation of the Subsidiary Service Agreements at the EGM.

Yours faithfully,
For and on behalf of
BaoQiao Partners Capital Limited
Monica Lin
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there is no omission of other matters which would make any statement herein or this circular misleading.

This circular, for which the Directors (and in the case of Mr. Chu, Mr. Dominic Chu, Mr. Haeta Chu, Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, in their respective capacity as the Vendors or the ultimate beneficial shareholder of one of the Vendors) jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The information in relation to the Offeror and the Offer were extracted from the First Joint Announcement and the Second Joint Announcement. The Directors jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information and confirm that such extraction is not misleading, and that, to the best of their knowledge, there are no other facts not contained in this circular, the omission of which would make any such extracted statement misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares and underlying shares of the Company as at the Latest Practicable Date:

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Mr. Chu	Interest held by controlled corporation	24,261,153 (Note 1)	12.13%
	Interest held by spouse	1,670,000 (Note 2)	0.84%
Mr. Dominic Chu	Beneficial owner	1,713,091	0.86%
Mr. Haeta Chu	Beneficial owner	1,631,289	0.82%
Mr. Chong Hot Hoi	Beneficial owner	28,566,163	14.28%
Mr. Chong Hok Hei, Charles	Beneficial owner	28,566,164	14.28%

Notes:

- (1) These 24,261,153 Shares were held by Come Good Investment (BVI) Limited, a controlled corporation of Mr. Chu. Accordingly, Mr. Chu was deemed to be interested in these shares of the Company pursuant to the SFO.
- (2) These 1,670,000 Shares were held by Ms. Wong May Heung, the wife of Mr. Chu. Accordingly, Mr. Chu was deemed to be interested in these shares of the Company pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352

of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial Shareholders

So far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, other than the interests of the Director or chief executive officer of the Company who had interests or short positions in the shares or underlying shares of the Company as disclosed above, the following person had interests or short positions in the Shares of underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name	Nature of interest	Number of shares held	Approximate percentage of Shareholding
Mr. Chong Hok Shan	Beneficial owner	28,566,162	14.29%
	Interest held by spouse	187,764 (Note 1)	0.09%
Come Good Investment (BVI) Limited	Beneficial owner	24,261,153 (Note 2)	12.13%
The Offeror	Beneficial owner	132,464,516 (Notes 3 and 5)	66.23%
Yang Jun	Interest of a controlled corporation	132,464,516 (Notes 3 and 5)	66.23%
Law Fei Shing	Interest of a controlled corporation	116,814,797 (Note 4)	58.41%
True Promise Investments Limited	Interest of a controlled corporation	116,814,797 (Note 4)	58.41%
Excel Precise International Limited	Beneficial owner	116,814,797 (Note 4)	58.41%

Notes:

- (1) These 187,764 Shares were held by Ms. Wu Se, the wife of Mr. Chong Hok Shan. Accordingly, Mr. Chong was deemed to be interested in these Shares pursuant to the SFO.
- (2) Mr. Chu holds the entire issued share capital in Come Good Investment (BVI) Limited. Accordingly, Mr. Chu was deemed to be interested in these 24,261,153 Shares pursuant to the SFO.

- (3) Mr. Yang Jun holds the entire issued share capital in Shang Ying Financial Holding Co., Limited. Accordingly, Mr. Yang was deemed to be interested in these 132,464,516 Shares pursuant to the SFO.
- (4) Excel Precise International Limited (“**Excel Precise**”) entered into a loan agreement (the “**Loan Agreement**”) with the Offeror on 12 January 2017 for the financing of the Offer. Pursuant to the provisions of the Loan Agreement, the Offeror will charge all the shares acquired under the Sale and Purchase Agreement and the Shares under the Offer to be and/or possibly to be acquired under the Offer in favour of Excel Precise to secure the repayment obligations of the Offeror. As such, Excel Precise had an interest in 116,814,797 Shares pursuant to the SFO. Mr. Law Fei Shing holds the entire issued share capital in True Promise Investments Limited. True Promises Investments Limited and Mr. Law Fei Shing holds 73.5% and 25% interest in Excel Precise International Limited. Accordingly, Mr. Law and True Promise Investments Limited were deemed to be interested in these 116,814,797 Shares pursuant to the SFO.
- (5) As at the Latest Practicable Date, completion of the Sale and Purchase Agreement has not yet taken place.

Save as disclosed above, so far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no persons other than a Director or chief executive of the Company had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

3. LITIGATION

So far as known to the Directors, there was no litigation, arbitration or claim of material importance in which the Group was engaged or pending or threatened against the Group as at the Latest Practicable Date.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contracts with the Company or any other member of the Group that is not determinable within one year without payment of compensation (other than statutory compensation).

5. EXPERT

The qualifications of the expert who has given its opinion in this circular is as follows:

Name	Qualification
BaoQiao Partners Capital Limited	corporation licensed under the SFO and permitted to carry out in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

The Independent Financial Adviser has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective report and letter(s) and reference to its respective name in the form and context in which they are included.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member of the Group and did not have any right (whether legally enforceable or not) to subscribe or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any interest, direct or indirect in any assets which had been, since 31 December 2016, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. COMPETING INTEREST

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or the substantial shareholders (as defined under the Listing Rules), nor their respective associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under the Listing Rules.

7. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had, since 31 December 2016, being the date of the latest published audited accounts of the Company, been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

8. INTEREST IN CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, save as disclosed in the section headed “Fully Exempt Continuing Connected Transaction” in the annual report for the year ended 31 December 2016, there were no transactions, arrangements or contracts of significance in relation to the Group’s business to which the Company or any of its subsidiaries was a party and in which any Director or his connected entity had a material interest, whether directly or indirectly.

9. MATERIAL CONTRACTS

No other contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of the Latest Practicable Date which are or may be material.

10. GENERAL

- (a) The registered office of the Company is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (b) The Company's share registrar and transfer office in Hong Kong is Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company in Hong Kong at Flat F–J, 11th Floor, Block 2, Kwai Tak Industrial Centre, 15–33 Kwai Tak Street, Kwai Chung, New Territories, Hong Kong during normal business hours on any weekdays (except public holidays) from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (a) the Management Agreement;
- (b) the Subsidiary Service Agreements;
- (c) the Subsidiary Employment Agreements;
- (d) the Supplemental Subsidiary Service Agreements;
- (e) the articles of association of the Company;
- (f) the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016;
- (g) the letter from the Board, the text of which is set out on pages 5 to 13 in this circular;
- (h) the letter from the Code Independent Board Committee, the text of which is set out on pages 14 to 15 of this circular;
- (i) the letter from the Independent Financial Adviser, the text of which is set out on pages 16 to 34 of this circular;
- (j) the written consent from the expert as referred to in the paragraph headed "Expert" above; and
- (k) this circular.

NOTICE OF EGM



S. CULTURE INTERNATIONAL HOLDINGS LIMITED

港大零售國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1255)

NOTICE IS HEREBY GIVEN that a general meeting of S. Culture International Holdings Limited (the “**Company**”) will be held at Flat F–J, 11th Floor, Block 2, Kwai Tak Industrial Centre, 15–33 Kwai Tak Street, Kwai Chung, New Territories, Hong Kong at 10:00 a.m. on 16 May 2017 (Tuesday) for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) a management agreement (the “**Management Agreement**”, substantially in the form as produced to the EGM marked “A” and initialed by the Chairman of the EGM for the purpose of identification) to be entered into among the Company, S. Culture (BVI) Holdings Limited and Ample Faith Ventures Limited and the transactions contemplated thereunder, be and are hereby approved; and
- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps which he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Management Agreement and the transactions contemplated thereunder.”

2. “**THAT:**

- (a) the supplemental service agreements to be entered into between each of Mr. Chu Siu Ming, Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta and Kong Tai Sundry Goods Company Limited and/or Grand Asian Limited (the “**Supplemental Subsidiary Service Agreements**” and each a “**Supplemental Subsidiary Service Agreement**”, substantially in the form as produced to the EGM marked “B” and initialed by the Chairman of the EGM for the purpose of identification), be and are hereby approved; and

NOTICE OF EGM

- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps which he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Supplemental Subsidiary Service Agreements and the transactions contemplated thereunder.”

By order of the Board
Chong Hot Hoi
Chairman of the Board

Hong Kong, 27 April 2017

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled hereto, but if more than one of such joint holders are present at the meeting, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
- (3) To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of that power or authority, must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the EGM or any adjournment thereof and in such event, the form of proxy will be deemed to be revoked.
- (4) The register of members will be closed from 11 May 2017 to 16 May 2017, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the identity of the shareholders of the Company who are entitled to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 10 May 2017.

NOTICE OF EGM

- (5) Shareholders are advised to read the circular to the shareholders of the Company dated 27 April 2017 which contains information concerning the resolutions to be proposed in this notice.
- (6) According to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting of the Company must be taken by poll. Accordingly, the Chairman of the EGM will exercise his power under the articles of association of the Company to demand a poll in relation to the proposed ordinary resolutions at the EGM.

As at the date of this notice, the Board comprises:

Executive Directors:

Mr. Chu Siu Ming
Mr. Chu Chun Ho, Dominic
Mr. Chu Chun Wah, Haeta

Non-executive Directors:

Mr. Chong Hot Hoi
Mr. Chong Hok Hei, Charles
Mr. Yu Fuk Lun

Independent non-executive Directors:

Mr. Wan Kam To
Mr. Yau Tat Wang, Dennis
Mr. Lam Man Tin