

Interim Report 2013



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



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CORPORATE INFORMATION

Board of Directors

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*)

Non-executive Directors

Mr. Chong Hot Hoi (*Chairman*)
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

Authorized Representatives

Mr. Chu Chun Ho, Dominic
Mr. Chow Wing Hang, John

Audit Committee

Mr. Wan Kam To (*Chairman*)
Mr. Yau Tat Wang, Dennis
Mr. Lam Man Tin

Remuneration Committee

Mr. Yau Tat Wang, Dennis (*Chairman*)
Mr. Chong Hot Hoi
Mr. Yu Fuk Lun
Mr. Wan Kam To
Mr. Lam Man Tin

Nomination Committee

Mr. Lam Man Tin (*Chairman*)
Mr. Chong Hot Hoi
Mr. Yau Tat Wang, Dennis

Company Secretary

Mr. Chow Wing Hang, John

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

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15–33 Kwai Tak Street
Kwai Chung
New Territories
Hong Kong

Stock Code

1255

Website

www.s-culture.com

Compliance Adviser

RHB OSK Capital Hong Kong Limited
12th Floor
World-Wide House
19 Des Voeux Road Central
Hong Kong

Legal Adviser

Wilkinson & Grist
6th Floor, Prince's Building
10 Chater Road
Hong Kong

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Cayman Share Registrar

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bangkok Bank Public Company Limited
Hang Seng Bank Limited

FINANCIAL HIGHLIGHTS

Six months ended 30 June

| | | 2013 | 2012 |
|-----------------------------------------------------|----------|----------------|---------|
| Revenue | HK\$'000 | 255,152 | 237,922 |
| Gross profit | HK\$'000 | 168,096 | 154,369 |
| Operating profit | HK\$'000 | 11,128 | 10,252 |
| Profit attributable to owners of the Company | HK\$'000 | 9,055 | 8,694 |
| Gross profit margin | % | 65.9 | 64.9 |
| Operating profit margin | % | 4.4 | 4.3 |
| Profit margin attributable to owners of the Company | % | 3.5 | 3.7 |
| Earnings per share — basic | HK\$ | 0.06 | 0.06 |

As at

| | 30 June 2013 | 31 December 2012 |
|--------------------------------------------|-------------------|---------------------|
| Current ratio | 1.8 times | 1.7 times |
| Gearing ratio (total debt to total equity) | 55.7% | 62.2% |
| Average trade receivables turnover period | 29.4 days | 35.9 days |
| Average trade payables turnover period | 12.2 days | 16.8 days |
| Average inventory turnover period | 269.9 days | 225.5 days |



CHAIRMAN'S STATEMENT



Chairman's Statement (Continued)

Dear Shareholders,

I am pleased to announce, on behalf of the board of directors (the "Board") of S. Culture International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), the Company's first interim results after its successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 July 2013.

We wish to express our appreciation of the support of our investors and the dedicated efforts of all our staff for our successful listing. The listing marks an important milestone in the Group's long established history and opens up opportunities for the Group's future.

The Group is an established distributor and retailer of lifestyle comfort footwear products of international brands, including Clarks, Josef Seibel, The Flexx and Yokono in our current operating territories of Hong Kong, Taiwan and Macau. With a history of over 38 years in these territories, the Group has developed and maintained strong and successful relationships with our suppliers of international brands of footwear products.

Over the past several decades the Group's footwear business has grown with the continuing support from customers in our operating territories. We have put in relentless efforts to provide customers with high quality footwear products with comfortable and pleasant wearing experience. The Board believes that it is through these efforts that our retail platforms, namely, S.Culture, SCOOPS and shoe mart as well as brand specialty stores such as Clarks, Clarks Originals and Josef Seibel stores, have established strong market recognition and customer loyalty and support.

For the six months ended 30 June 2013 (the "Period"), the Group continued its expansion efforts with the successful opening of a new Clarks specialty store in Hong Kong. I am also pleased to share with you that, as of the date of this report, we had also opened another Clarks specialty store and an outlet of SCOOPS in V City, Tuen Mun, the New Territories of Hong Kong. The Group is actively looking for suitable locations for further retail outlet expansion in its current operating territories. In the meantime, the Group has also been studying diligently the retail market in Mainland China, especially in Shanghai where we are planning four concession outlet counters introducing our footwear products to customers in Mainland China.

We were able to maintain our growth during the Period. We had recorded an overall growth in profit before tax of approximately 8.5% for the Period. Setting aside one-time listing expenses charged to profit before tax, we charted an operating growth of close to 36.5% for the Period. This is indeed the result of the hard work and relentless efforts of our colleagues in the past few months.

We are confident that the Group would keep up with the trend of its past performance while remaining cautious in taking steps forward in expansion of its business in the future.

By Order of the Board

S. Culture International Holdings Limited

Chong Hot Hoi

Chairman and Non-executive Director

13 August 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

Retail Operations

Revenue of the Group's retail business for Period was HK\$231.5 million, representing a 7.8% increase from the HK\$214.8 million of the even period of 2012. We had also managed to record 7.2% increase of comparable retail outlet sales during comparable periods for the Period (1.8% increase for the year ended 31 December 2012). This was mainly due to the enhanced effectiveness in converting sales by our experienced sales team.

Hong Kong

Hong Kong is still contributing a majority of sales as we have over 52 retail outlets in the locality. The Group opened a new Clarks specialty store at Maritime Square, Tsing Yi during the Period which increased the number of Clarks specialty store of the Group to 18 as of 30 June 2013. We have charted a period-on-period growth rate of 9.3% in revenue for the Period. While we are expanding our operations in Hong Kong, we are also mindful of the rising costs of operations, including but not limited to rental and staff expenses. The management is confident that we are able to execute our operating and expansion plan with due regard to the containment of the corresponding costs amid the increasing trend in the general price level.

Taiwan

The Group maintained the number of its retail outlets in Taiwan at 45 during the Period. Revenue generated from Taiwan had experienced an increase of 5.6% for the Period. We had managed to maintain growth in the revenue generated in Taiwan as the effect of economy of scale we had built in the market started to bear fruit. The Group has already identified a number of suitable department stores where our retail outlets were situated for the planned expansion in the latter half of the year. The management anticipates to introduce and adopt more effective operating and financial control and measure in our Taiwan operations to help boost the operating margin further towards the end of 2013.

Macau

The Group adjusted the mix of its retail outlets in Macau so that the outlets would be more effective in the utilization of both display areas and sales per visit. Accordingly, the Group had closed one retail outlet in Macau during the Period.



Wholesale Operations

The Group's wholesale operations has been the other main segment of our overall operations. It complements our retail operations as our wholesale customers are able to maintain their performance in selling our footwear products. The management expects this segment to continue to contribute to the Group as we shall continue to put in a reasonable level of operating resources to maintain the current scale of operations.

Prospects

The Group is poised to maintain its growth momentum in its retail operations. While we were adjusting the mix of our retail outlets in the existing strategic locations such that the number of retail outlets had reduced from 102 as of 31 December 2012 to 99 as of 30 June 2013, we experienced growth in both revenue and gross profit thereof. As detailed in our prospectus dated 28 June 2013, we have put in place a cautious yet promising expansion plan to open new retail outlets in the above operating locations as well as in the Shanghai region of Mainland China. In this regard, as part of our expansion plan, the Group is setting up a subsidiary in Shanghai with a view to kick start the operations in the Mainland. We expect that the above shall bode well for the prospect of the retail operations of the Group.

The management is confident that the Group's relentless efforts in pursuing excellence in product and service quality, developing a highly trained and motivated work force, and adopting proven and forward looking business strategies would enable the Group to continue to grow.



Financial Review

Revenue

Revenue of the Group's business for the Period was HK\$255.2 million, representing a 7.2% increase from the HK\$237.9 million of the even period of 2012.

With regard to the sales of the major brands under exclusive distribution agreements for the Period compared with the even period of 2012, their respective sales had recorded positive performances. Sales of Clarks footwear products had increased by 0.4%. Sales of Josef Seibel footwear products had maintained its high growth rate of 44.3%, which is an encouraging performance indicator that reaffirms our strategy in introducing and cultivating quality brands in our target markets. Sales of The Flexx and Yokono footwear products had also maintained a growth rate of 13.7% and 110.7% respectively.

Management Discussion and Analysis

(Continued)



Revenue (continued)

As at 30 June 2013, the Group operated 52 retail outlets in Hong Kong, 2 retail outlets in Macau and 45 retail outlets in Taiwan. As at the even date of 2012, the Group operated 55 retail outlets in Hong Kong, 3 retail outlets in Macau and 40 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK\$87.1 million for the Period, representing 34.1% of revenue (30 June 2012: HK\$83.6 million, representing 35.1% of revenue). The increase in cost of goods sold was mainly due to the increase in sales activities of the Group.

Gross Profit

Gross profit (gross profit equals revenue minus cost of goods sold) of the Group for the Period was HK\$168.1 million, representing an increase of 8.9% from HK\$154.4 million of the even period of 2012. The increase was mainly due to the continuous strong demand for our in-season footwear products and our ability to time the market with the execution of appropriate discount policies for our products.

Gross Profit Margin

Gross profit margin of the Group for the Period was 65.9% (30 June 2012: 64.9%) .

Staff Costs

Staff costs for the Period were HK\$48.2 million, representing 18.9% of revenue (30 June 2012: HK\$40.4 million, representing 17.0% of revenue). The increase in overall staff costs was mainly due to the increase in number of staff of the Group and the general increase of commissions, as part of salaries, which increased with sales made during the Period.



Management Discussion and Analysis
(Continued)



Management Discussion and Analysis

(Continued)

Depreciation

Depreciation accounted for 2.2% of revenue for the Period (30 June 2012: 2.0% of revenue).

Retail Outlet Rentals and Related Expenses

Our property rentals and related expenses for the Period amounted to HK\$78.1 million, representing 30.6% of revenue (30 June 2012: HK\$76.1 million, representing 32.0% of revenue). The decrease was mainly due to the reduction in the number of our self-rented shops during the Period. Our concession fees for the Period amounted to HK\$25.4 million (30 June 2012: HK\$22.4 million). The increase was mainly due to the corresponding increase in the sales made through these concessions, based on which part of the fees were charged.

Finance Costs

Our finance costs amounted to HK\$0.8 million for the Period (30 June 2012: HK\$0.8 million). The finance costs were mainly interest expenses incurred on the mortgage facilities for our office premises at Taiwan and trade related financing facilities with banks. The effective interest rates on the Group's borrowings were ranged from 1.6% to 3.2%.

Listing Expenses

The Company was successfully listed on 11 July 2013 (the "Listing Date"). Part of the listing expenses of approximately HK\$2.9 million were recorded as expenses during the Period while HK\$3.1 million had been recorded as expenses in the year ended 31 December 2012.

Profits Before Tax

As a result of the foregoing, our profit before tax increased by HK\$0.8 million, or 8.5%, to HK\$11.1 million for the Period, from HK\$10.3 million for the six months ended 30 June 2012 .

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 30 June 2013, the Group had bank deposits and cash amounting to HK\$21.2 million (31 December 2012: HK\$28.0 million), representing a decrease of 24.4% from 31 December 2012. Most bank deposits and cash were denominated in Hong Kong dollars and New Taiwan dollars.

As at 30 June 2013, the Group had short term bank borrowings amounting to HK\$62.5 million (31 December 2012: HK\$77.7 million), representing a decrease of 19.5% from 31 December 2012. As at 30 June 2013, the Group had long term bank borrowings, comprising mainly mortgage for our office premises at Taiwan, amounting to HK\$14.6 million (31 December 2012: HK\$15.4 million), representing a decrease of 4.7% from 31 December 2012.



Foreign Currency Risk

The Group's sales and purchases for the Period were mostly denominated in Hong Kong dollars, Renminbi, Macau Pataca, New Taiwan dollars, Euros and US dollars. The Renminbi is not a freely convertible currency. The currency market for Macau Pataca is relatively small and undeveloped. Therefore, our ability to convert large amounts of Macau Pataca into Hong Kong dollars over a relatively short period may be limited. The exchange of New Taiwan dollars is restricted and governed by various government rules regarding the application of outward remittance. In view of the above, future exchange rates of the above currencies could vary significantly from the current or historical exchange rates as a result of the controls that could be imposed by the respective governments and the depth and breadth of the respective markets of currency exchange. The respective exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the respective currencies. The appreciation or devaluation of the respective currencies against Hong Kong Dollar may have impact on the Group's results.

Human Resources

As at 30 June 2013, the Group employed approximately 417 employees (31 December 2012: 394). Remuneration packages are generally structured by reference to market terms and individual qualifications and experience.

During the Period, various training activities, such as training of product and service knowledge, management skills as well as local consumer laws, have been conducted to improve the quality of sales services.

Dividends

On 11 June 2013, the Company declared a dividend of HK\$20,000,000, representing HK\$2,000 per share, to its then shareholders of the Company. The dividend will be settled by the net proceeds from the Listing.

No dividend has been paid or declared by the Company in respect of the six months ended 30 June 2012.

The Board has resolved not to declare an interim dividend by the Company on the profits attributable to the shareholders recorded for the Period.



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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TO THE BOARD OF DIRECTORS OF S. CULTURE INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of S. Culture International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 27, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2012 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

13 August 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

| | NOTES | Six months ended 30 June | |
|---------------------------------------------------------------|-------|---------------------------------|---------------------------------|
| | | 2013 HK\$'000 (unaudited) | 2012 HK\$'000 (unaudited) |
| Revenue | 3 | 255,152 | 237,922 |
| Cost of goods sold | | (87,056) | (83,553) |
| Gross profit | | 168,096 | 154,369 |
| Other income | | 72 | 133 |
| Other gains (losses) | | 325 | (582) |
| Selling and distribution costs | | (97,480) | (91,760) |
| Administrative expenses | | (56,183) | (51,125) |
| Finance costs | | (837) | (783) |
| Listing expenses | | (2,865) | — |
| Profit before taxation | 4 | 11,128 | 10,252 |
| Taxation | 5 | (2,073) | (1,558) |
| Profit for the period | | 9,055 | 8,694 |
| Other comprehensive (expense) income | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation | | (84) | 96 |
| Total comprehensive income for the period | | 8,971 | 8,790 |
| Earnings per share — basic (HK\$) | 7 | 0.06 | 0.06 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

| | NOTES | At 30.6.2013 HK\$'000 (unaudited) | At 31.12.2012 HK\$'000 (audited) |
|-----------------------------------------|-------|--------------------------------------------|-------------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 48,110 | 51,403 |
| Deferred tax assets | | 4,054 | 4,074 |
| Rental deposits | | 11,735 | 16,625 |
| | | 63,899 | 72,102 |
| Current assets | | | |
| Inventories | | 131,600 | 125,852 |
| Trade and other receivables | 9 | 51,824 | 67,013 |
| Amount due from a related party | | — | 1,630 |
| Bank balances and cash | | 21,189 | 28,028 |
| | | 204,613 | 222,523 |
| Current liabilities | | | |
| Trade and other payables | 10 | 44,845 | 34,924 |
| Amount due to immediate holding company | | 4,730 | 4,580 |
| Amounts due to related parties | | 861 | 11,000 |
| Taxation payable | | 2,248 | 1,392 |
| Bank borrowings — due within one year | | 62,543 | 77,697 |
| | | 115,227 | 129,593 |
| Net current assets | | 89,386 | 92,930 |
| Total assets less current liabilities | | 153,285 | 165,032 |
| Non-current liabilities | | | |
| Bank borrowings — due after one year | | 14,642 | 15,360 |
| Net assets | | 138,643 | 149,672 |
| Capital and reserves | | | |
| Share capital | 11 | — | 16 |
| Reserves | | 138,643 | 149,656 |
| Total equity | | 138,643 | 149,672 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

| | Attributable to owners of the Company | | | | | Total HK\$'000 |
|-------------------------------------------------------------------------------------------|---------------------------------------|---------------------------|---------------------------------------|---------------------------------|---------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Special reserve HK\$'000 (Note) | Translation reserve HK\$'000 | Accumulated profits HK\$'000 | |
| At 1 January 2013 (audited) | 16 | — | 15,784 | 161 | 133,711 | 149,672 |
| Profit for the period | — | — | — | — | 9,055 | 9,055 |
| Exchange difference arising on translation and other comprehensive expense for the period | — | — | — | (84) | — | (84) |
| Total comprehensive (expense) income for the period | — | — | — | (84) | 9,055 | 8,971 |
| Dividend declared | — | — | — | — | (20,000) | (20,000) |
| Issue of shares on group reorganisation | (16) | — | 16 | — | — | — |
| At 30 June 2013 (unaudited) | — | — | 15,800 | 77 | 122,766 | 138,643 |
| At 1 January 2012 (audited) | 6,000 | 9,800 | — | (304) | 108,632 | 124,128 |
| Profit for the period | — | — | — | — | 8,694 | 8,694 |
| Exchange difference arising on translation and other comprehensive income for the period | — | — | — | 96 | — | 96 |
| Total comprehensive income for the period | — | — | — | 96 | 8,694 | 8,790 |
| At 30 June 2012 (unaudited) | 6,000 | 9,800 | — | (208) | 117,326 | 132,918 |

Note: The special reserve of the Group represents the difference between the nominal amount of the share capital and share premium of Kong Tai Sundry Goods Company Limited ("Kong Tai Sundry Goods") and Grand Asian Limited ("Grand Asian"), subsidiaries of the Company, and the nominal amount of share capital of the Company pursuant to group reorganisation as explained in Note 1.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

| | Six months ended 30 June | |
|----------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2013 HK\$'000 (unaudited) | 2012 HK\$'000 (unaudited) |
| Net cash from operating activities | 20,564 | 9,974 |
| Net cash used in investing activities | | |
| Interest received | 6 | 7 |
| Purchase of property, plant and equipment | (2,313) | (4,667) |
| Repayment from a related party | — | 527 |
| Advance to related companies | — | (28) |
| | (2,307) | (4,161) |
| Net cash used in financing activities | | |
| New bank borrowings raised | 58,770 | 18,248 |
| Advance from (repayment to) immediate holding company | 150 | (16) |
| Repayment of bank borrowings | (74,642) | (46,701) |
| Repayments to related parties | (8,509) | — |
| Interest paid | (837) | (783) |
| Advance from related companies | — | 2,296 |
| | (25,068) | (26,956) |
| Net decrease in cash and cash equivalents | (6,811) | (21,143) |
| Cash and cash equivalents at beginning of the period | 28,028 | 32,448 |
| Effect of foreign exchange rate changes | (28) | 5 |
| Cash and cash equivalents at end of the period, representing by bank balances and cash | 21,189 | 11,310 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The companies now comprising the Group underwent a series of reorganisation in the preparation of the initial listing of the shares of the Company on the Main Board of the Stock Exchange (the "Listing"). Before the completion of the group reorganisation, Kong Tai Sundry Goods and Grand Asian were wholly and directly owned by CN Fashion Limited ("CN Fashion"), the then immediate holding company of the Company. To streamline the shareholding in the group entities, on 28 December 2012, Kong Tai Sundry Goods (BVI) Company Limited and Grandasian Retail (BVI) Holdings Limited, subsidiaries of the Company, acquired the entire issued share capital of Kong Tai Sundry Goods and Grand Asian (the "First Transfer") in consideration of the allotment of 2,000 shares of US\$1 each to S. Culture Holdings (BVI) Limited ("S. Culture BVI") and then S. Culture BVI allotted and issued 2,000 shares of US\$1 each to CN Fashion. To further effect the group reorganisation, on 25 January 2013, the Company acquired the entire issued share capital of S. Culture BVI from CN Fashion (the "Second Transfer") in consideration of the allotment of 9,999 shares of HK\$0.01 each to CN Fashion. Upon completion of the Second Transfer, the Company became the holding company of the Group as at 25 January 2013. The shares in the Company held by CN Fashion were then distributed in specie to its shareholders on 25 January 2013 and KTS International Holdings Inc. ("KTS International"), a major shareholder of CN Fashion, became the immediate holding company of the Company on the same date.

The Group resulting from the group reorganisation, which involves interspersing the Company and various investment holding companies between Kong Tai Sundry Goods, Grand Asian and the shareholders of CN Fashion, is regarded as a continuing entity. Accordingly, the condensed consolidated statements of profit or loss and other comprehensive income and cash flows for the six months ended 30 June 2013 and 30 June 2012 have been prepared to present the results and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the group reorganisation had been in existence throughout the periods, or since their respective dates of incorporation where this is a shorter period. The condensed consolidated statement of financial position of the Group as at 31 December 2012 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2012 included in the Accountants' Report in Appendix I of the prospectus issued by the Company.

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs"), amendments and interpretation ("INT") (hereinafter collectively referred to as "new and revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2013.

| | |
|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2009 — 2011 cycle |
| Amendments to HKFRS 7 | Disclosures — Offsetting financial assets and financial liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance |
| HKFRS 10 | Consolidated financial statements |
| HKFRS 11 | Joint arrangements |
| HKFRS 12 | Disclosure of interests in other entities |
| HKFRS 13 | Fair value measurement |
| Amendments to HKAS 1 | Presentation of items of other comprehensive income |
| HKAS 19 (as revised in 2011) | Employee benefits |
| HKAS 27 (as revised in 2011) | Separate financial statements |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures |
| HK(IFRIC) — INT 20 | Stripping costs in the production phase of a surface mine |

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

2. Principal Accounting Policies (Continued)

HKFRS 13 “Fair value measurement”

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values. As a result, there is no further disclosure in the condensed consolidated financial statements.

Amendments to HKAS 34 “Interim financial reporting” (as part of the Annual improvements to HKFRSs 2009–2011 cycle)

The Group has applied the amendments to HKAS 34 for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the condensed consolidated financial statements only when the amounts are regularly provided to the chief operating decision maker (the “CODM”) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the CODM does not review assets and liabilities of the Group’s reportable segments for performance assessment and resources allocation purposes, the Group has not included total assets information as part of segment information.

The application of other new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

3. Revenue and Segment Information

The Group's operating activities are attributable to operating segments focusing on retail sales and wholesale of footwear products. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the CODM, the executive directors of the Company. The executive directors of the Company regularly review revenue and results analysis by (i) retail sales and (ii) wholesale. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company.

- Retail sales: Retail sales channel refers to sales at the self-operated concession counters in department stores and self-operated retail stores.
- Wholesale: Wholesale refers to the sales to wholesale customers who resell the products to end-user consumers, typically at retail stores operated by wholesale customers.

The information of operating and reportable segments is as follows:

Segment revenue and results

For the six months ended 30 June 2013

| | Retail sales HK\$'000 (unaudited) | Wholesale HK\$'000 (unaudited) | Segment total HK\$'000 (unaudited) | Elimination HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|------------------------------------------|-----------------------------------------|--------------------------------------|------------------------------------------|----------------------------------------|----------------------------------|
| REVENUE | | | | | |
| External sales | 231,481 | 23,671 | 255,152 | — | 255,152 |
| Inter-segment sales | — | 91,808 | 91,808 | (91,808) | — |
| Segment revenue | 231,481 | 115,479 | 346,960 | (91,808) | 255,152 |
| Segment results | 6,677 | 7,416 | 14,093 | (1,341) | 12,752 |
| Unallocated income | | | | | 6 |
| Reversal of allowance for inventories | | | | | 2,394 |
| Unallocated expenses | | | | | (3,187) |
| Finance costs | | | | | (837) |
| Profit before taxation | | | | | 11,128 |

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2013

3. Revenue and Segment Information (Continued)

Segment revenue and results (Continued)

For the six months ended 30 June 2012

| | Retail sales HK\$'000 (unaudited) | Wholesale HK\$'000 (unaudited) | Segment total HK\$'000 (unaudited) | Elimination HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|-------------------------------|-----------------------------------------|--------------------------------------|------------------------------------------|----------------------------------------|----------------------------------|
| REVENUE | | | | | |
| External sales | 214,764 | 23,158 | 237,922 | — | 237,922 |
| Inter-segment sales | — | 89,688 | 89,688 | (89,688) | — |
| Segment revenue | 214,764 | 112,846 | 327,610 | (89,688) | 237,922 |
| Segment results | 5,792 | 6,904 | 12,696 | (978) | 11,718 |
| Unallocated income | | | | | 7 |
| Unallocated expenses | | | | | (690) |
| Finance costs | | | | | (783) |
| Profit before taxation | | | | | 10,252 |

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents the profit earned from each segment without allocation of central administration costs, reversal of allowance for inventories, listing expenses, interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resource allocation and performance assessment.

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

4. Profit Before Taxation

| | Six months ended 30 June | |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
| | 2013 HK\$'000 (unaudited) | 2012 HK\$'000 (unaudited) |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Operating lease rentals in respect of | | |
| — rented premises (minimum lease payments) | 409 | 428 |
| — retail stores (including in selling and distribution costs) | | |
| — minimum lease payments | 49,895 | 51,306 |
| — contingent rent (note a) | 2,353 | 2,000 |
| | 52,248 | 53,306 |
| — department store counters (including concessionaire commission) (included in selling and distribution costs) | | |
| — minimum lease payments | 3,038 | 1,859 |
| — contingent rent (note a) | 22,397 | 20,535 |
| | 25,435 | 22,394 |
| | 78,092 | 76,128 |
| Depreciation of property, plant and equipment | 5,550 | 4,670 |
| Staff costs, including directors' emoluments | 48,215 | 40,398 |
| Reversal of allowance for inventories (included in cost of goods sold) (note b) | (2,394) | — |
| Interest income | (6) | (7) |
| Net exchange (gain) loss | (325) | 582 |

Notes:

- (a) The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.
- (b) During the six months ended 30 June 2013, certain obsolete inventories were sold to customers at original cost or above and resulted in a reversal of allowance amounting to HK\$2,394,000 (six months ended 30 June 2012: nil).

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

5. Taxation

| | Six months ended 30 June | |
|-------------------------|--------------------------|-------------|
| | 2013 | 2012 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Current tax | | |
| Hong Kong Profits Tax | 2,014 | 1,292 |
| Taiwan income tax | — | 197 |
| Macau Complementary Tax | 59 | 69 |
| | 2,073 | 1,558 |

The Company was incorporated in the Cayman Islands, together with those group entities incorporated in the British Virgin Islands, are not subject to any income tax.

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2012: 16.5%) on the estimated assessable profit for the period.

Taiwan income tax is calculated at 17% (six months ended 30 June 2012: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods in Taiwan for the period.

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (six months ended 30 June 2012: 9% to 12%) on the estimated assessable profit for the period.

6. Dividend

On 11 June 2013, the Company declared a dividend of HK\$20,000,000, representing HK\$2,000 per share, to its then shareholders of the Company, included in other payable. The dividend will be settled by the net proceeds from the Listing.

No dividend has been paid or declared by the Company in respect of the six months ended 30 June 2012.

The Board has resolved not to declare an interim dividend by the Company on the profits attributable to the shareholders recorded for the six months ended 30 June 2013.

7. Earnings Per Share

The calculation of the basic earnings per share for the period is based on the consolidated profit attributable to owners of the Company and on 150,000,000 ordinary shares in issue during the period which is calculated on the assumption that the group reorganisation has been effective on 1 January 2012, and has been adjusted to reflect the capitalisation issue of 149,990,000 ordinary shares of HK\$0.01 each of the Company at par value on 11 July 2013.

No diluted earnings per share is presented as there are no potential ordinary shares during the period.

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

8. Property, Plant and Equipment

During the six months ended 30 June 2013, the Group spent HK\$2,313,000 (six months ended 30 June 2012: HK\$4,667,000) on purchase of property, plant and equipment.

9. Trade and Other Receivables

Retail sales are made at retail shops and concession counters in department stores. The department stores collect payments from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores range from 30 to 60 days. Sales made at retail shops are settled by cash or credit cards. For wholesale, the Group allows a credit period range from 30 to 60 days to its trade customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of each reporting period:

| | At 30.6.2013 HK\$'000 (unaudited) | At 31.12.2012 HK\$'000 (audited) |
|----------------|------------------------------------------------------------------------|-------------------------------------------|
| Within 30 days | 23,423 | 40,599 |
| 31 to 60 days | 4,419 | 2,945 |
| 61 to 90 days | 2,901 | 3,893 |
| Over 90 days | 2,019 | 2,004 |
| | 32,762 | 49,441 |

10. Trade and Other Payables

The following is an aged analysis of trade payables based on invoice date at the end of each reporting period:

| | At 30.6.2013 HK\$'000 (unaudited) | At 31.12.2012 HK\$'000 (audited) |
|----------------|------------------------------------------------------------------------|-------------------------------------------|
| Within 30 days | 2,333 | 4,758 |
| 31 to 60 days | 1,412 | 1,184 |
| 61 to 90 days | 921 | 912 |
| Over 90 days | 42 | 38 |
| | 4,708 | 6,892 |

The average credit period of trade payables is 30 days.

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

11. Share Capital

The movement in share capital of the Company are as follows:

| | Notes | Number of shares | Amount HK\$'000 |
|------------------------------------------------------------|-------|------------------|--------------------|
| Ordinary shares of HK\$0.01 each | | | |
| Authorised: | | | |
| On 17 December 2012 (date of incorporation) | | | |
| and at 31 December 2012 | (a) | 5,000,000 | 50 |
| Increase on 11 June 2013 | (b) | 495,000,000 | 4,950 |
| At 30 June 2013 | | 500,000,000 | 5,000 |
| Issued and fully paid: | | | |
| Issue of share on 17 December 2012 (date of incorporation) | | | |
| and at 31 December 2012 | (a) | 1 | — |
| Issue of shares upon the group reorganisation | (c) | 9,999 | — |
| At 30 June 2013 | | 10,000 | — |

Notes:

- The Company was incorporated on 17 December 2012 with an authorised share capital of 5,000,000 shares of HK\$0.01 each. On the same date, 1 share of HK\$0.01 was issued to CN Fashion as par to provide initial capital of the Company.
- Pursuant to the written resolutions passed by the shareholders of the Company on 11 June 2013, the authorised share capital of the Company was increased from HK\$50,000 to HK\$5,000,000 by the creation of 495,000,000 additional new shares of HK\$0.01 each in the capital of the Company.
- Pursuant to the group reorganisation, on 25 January 2013, the Company acquired the entire issued share capital of S. Culture BVI from CN Fashion in consideration of the allotment of 9,999 shares of HK\$0.01 each to CN Fashion.

The shares issued rank passu with other shares in issue in all respects.

The share capital as at 1 January 2012 and 30 June 2012 shown in the condensed consolidated financial statements represented the combined share capital of Kong Tai Sundry Goods and Grand Asian. The share capital as at 1 January 2013 represented the combined share capital of the Company and S. Culture BVI.

Notes to the Condensed Consolidated Financial Statements

(Continued)

For the six months ended 30 June 2013

12. Disposal of Subsidiaries

On 21 January 2013, the Group disposed of the 100% equity interests in its subsidiaries, Aiuti Company Limited and Cotteen Marketing Limited, to CN Fashion for a total consideration of HK\$41,000.

The net assets of these subsidiaries at the date of disposal were as follows:

| | HK\$'000 |
|------------------------------------------------------------------------|----------|
| Consideration received: | |
| Cash received | 41 |
| Analysis of assets and liabilities over which control was lost: | |
| Bank balances and cash | 41 |
| Other assets | 20 |
| Other payables | (20) |
| | 41 |
| Result on disposal of subsidiaries: | |
| Consideration received | 41 |
| Net assets derecognised | (41) |
| Result on disposal | — |
| Net cash flow arising on disposal: | |
| Cash consideration received | 41 |
| Cash and cash equivalents disposed of | (41) |
| | — |

13. Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had entered into the following related party transactions:

| Name of related companies | Nature of transactions | Six months ended 30 June | |
|---------------------------------------------------------------|------------------------|---------------------------------|---------------------------------|
| | | 2013 HK\$'000 (unaudited) | 2012 HK\$'000 (unaudited) |
| Becking Investment Limited ("Becking Investment") (note a) | Rental expense | 155 | 155 |
| Mr. Chong Hok Shan | Rental expense | 180 | 147 |
| Mr. Chu Siu Ming and Ms. Wong May Heung (note b) | Interest expense | 161 | 273 |
| Lekin Limited ("Lekin") (note c) | Recharge of expense | — | 134 |
| | Management fee income | — | 50 |
| Zenico (Asia) Co., Ltd. ("Zenico Asia") (note d) | Rental expense | — | 57 |
| | Management fee income | — | 63 |

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2013

13. Related Party Transactions (Continued)

Notes:

- (a) Becking Investment is wholly-owned by Mr. Chong Hok Shan, a substantial shareholder of KTS International, and Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, the directors of the Company.
- (b) Mr. Chu Siu Ming is a director of the Company and a substantial shareholder of KTS International and Ms. Wong May Heung is a close family member of Mr. Chu Siu Ming.
- (c) Lekin is a company owned by KTS International and certain shareholders of KTS International.
- (d) Zenico Asia is owned by close family members of Mr. Chu Siu Ming.

Mr. Chu Siu Ming has provided personal guarantees of HK\$137,795,000 (31 December 2012: HK\$136,906,000) to a bank in respect of the Group's bank facilities as at 30 June 2013.

Mr. Chong Hok Shan has also provided personal guarantee of HK\$58,995,000 (31 December 2012: HK\$58,106,000) to a bank in respect of the Group's banking facilities as at 30 June 2013.

Compensation of key management personnel

The remuneration of key management of the Group during the period was as follows:

| | Six months ended 30 June | |
|-----------------------------------------|---------------------------------|-------------|
| | 2013 | 2012 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Salaries and allowances | 3,469 | 3,220 |
| Retirement benefit scheme contributions | 145 | 110 |
| | 3,614 | 3,330 |

14. Events Subsequent to Reporting Period

Pursuant to the written resolution passed by the shareholders of the Company on 11 June 2013, the sum of HK\$1,499,900 standing to credit of the share premium account of the Company was approved to be capitalised and applied in paying full at par of 149,990,000 ordinary shares of HK\$0.01 each for allotment and issue on 11 July 2013.

On 11 July 2013, 50,000,000 ordinary shares of HK\$0.01 each of the Company were issued at HK\$2.13 per share by way of public offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

GENERAL INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

The Company's shares were listed on the Stock Exchange on 11 July 2013 (the Listing Date), which is after 30 June 2013 (end of this reporting period). Accordingly, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") and Section 352 of the SFO were not applicable to the Company/the Company's directors as at 30 June 2013.

As at 11 July 2013 (the Listing Date), the interests of the directors of the Company in the shares 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 interests and short positions which he 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" (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

(I) Long positions in issued shares of the Company

| Name of director | Nature of interests | Note | Number of shares interested | Percentage ⁺ of the Company's issued share capital |
|----------------------------|------------------------------------------|------|-----------------------------|---------------------------------------------------------------|
| Mr. Chu Siu Ming | Beneficial owner | | 465,000 | 0.23% |
| | Interest held by spouse | 1 | 2,670,000 | 1.34% |
| | | | 3,135,000 | 1.57% |
| Mr. Chong Hot Hoi | Interest held by controlled corporations | 2 | 43,755,000 | 21.87% |
| Mr. Chong Hok Hei, Charles | Interest held by controlled corporations | 2 | 43,755,000 | 21.87% |

Notes:

(1) These 2,670,000 shares were held by Ms. Wong May Heung, the wife of Mr. Chu Siu Ming. Accordingly, Mr. Chu was deemed to be interested in these shares of the Company pursuant to the SFO.

(2) These shares were held by Chung Nam Fashion Limited (for 40,935,000 shares) and Pomeroy Group Limited (for 2,820,000 shares) respectively. Each of Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles owned one-third of the issued share capital of each of Chung Nam Fashion Limited and Pomeroy Group Limited. Accordingly, they were deemed to be interested in these shares held by these two corporations pursuant to the SFO.

+ The percentage represents the number of the Company's shares interested divided by the number of the Company's issued shares as at the Listing Date.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares (Continued)

(II) Long position in shares of associated corporation — KTS International Holdings Inc.

| Name of director | Nature of interests | Number of associated corporation's shares interested | Percentage* of the associated corporation's issued share capital |
|----------------------------|---------------------|------------------------------------------------------|------------------------------------------------------------------|
| Mr. Chu Siu Ming | Beneficial owner | 3,675,178 | 23.25% |
| Mr. Chu Chun Ho, Dominic | Beneficial owner | 264,577 | 1.67% |
| Mr. Chu Chun Wah, Heata | Beneficial owner | 97,499 | 0.62% |
| Mr. Chong Hot Hoi | Beneficial owner | 266,158 | 1.68% |
| Mr. Chong Hok Hei, Charles | Beneficial owner | 260,272 | 1.65% |

+ The percentage represents the number of the associated corporation's shares interested divided by the number of the associated corporation's issued shares as at the Listing Date.

Save as disclosed above, as at the Listing Date, none of the directors or chief executive of the Company had registered an interest or a short position in the shares or 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 interests and short positions which he 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 referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 11 June 2013. The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants to (i) motivate them to optimize their performance and efficiency for the benefit of our Group; and (ii) attract and retain or otherwise maintain ongoing business relationship with eligible participants whose contributions are, will or expected to be beneficial to our Group.

The Board may, at its absolute discretion, grant an option to eligible participant(s) to subscribe for the shares of the Company at an exercise price and subject to the other terms of the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 20,000,000 shares, being 10% of the total number of shares in issue at the time dealings in the Shares first commence on the Stock Exchange.

General Information

(Continued)

Share Option Scheme (Continued)

The Share Option Scheme will remain in force for a period of ten years from its adoption date. Subject to certain restrictions contained in the Share Option Scheme, an option may be exercised in accordance with the terms of the Share Option Scheme and the terms of grant thereof at any time during the applicable option period, which is not more than ten years from the date of grant of option. There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme. However, at the time of granting any option, our Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations including (without limitation) those in relation to the minimum period of the options to be held and/or the performance targets to be achieved as our Board may determine in its absolute discretion. The directors confirm that the Share Option Scheme is in compliance with Chapter 17 of the Listing Rules. As at the date of this report, no option had been granted by the Company under the Share Option Scheme.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As stated above, the Company's shares were not listed on the Stock Exchange as at 30 June 2013. Accordingly, no disclosure of interests or short positions in any shares or underlying shares of the Company was required to be made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 June 2013.

As at 11 July 2013 (the Listing Date), the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in the issued shares of the Company

| Name of substantial shareholder | Nature of interests | Number of shares interested | Percentage ⁺ of the Company's issued share capital |
|---------------------------------|-------------------------------------------------|-----------------------------|---------------------------------------------------------------|
| Mr. Chong Hok Shan | Interest held by controlled corporations (Note) | 146,085,000 | 73.04% |
| KTS International Holdings Inc. | Beneficial owner | 102,330,000 | 51.17% |
| Chung Nam Fashion Limited | Beneficial owner | 40,935,000 | 20.47% |

Note: These shares were held by KTS International Holdings Inc. (for 102,330,000 shares), Chung Nam Fashion Limited (for 40,935,000 shares) and Pomeroy Group Limited (for 2,820,000 shares) respectively. Mr. Chong Hok Shan owned approximately 37.53% of the issued share capital of KTS International Holdings Inc. and one-third of the issued share capital of each of Chung Nam Fashion Limited and Pomeroy Group Limited. Accordingly, Mr. Chong was deemed to be interested in these shares held by these three corporations pursuant to the SFO.

+ The percentage represents the number of the Company's shares interested divided by the number of the Company's issued shares as at the Listing Date.

Save as disclosed above, as at the Listing Date, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

Use of Proceeds from Initial Public Offering

On 11 July 2013, the Company was successfully listed on the Main Board of the Stock Exchange. The initial public offering by way of international placing and Hong Kong public offering was welcomed by investors.

Based on the offer price of HK\$2.13 per share, the net proceeds from the global offering to be received by the Company, after deduction of the underwriting fees and commissions and estimated expenses payable by the Company in connection with the global offerings is estimated to be approximately HK\$90 million.

As stated in the Company's prospectus dated 28 June 2013, the Company intends to use the proceeds for (i) opening new retail outlets in the PRC; (ii) opening new retail outlets in Hong Kong and Taiwan; (iii) settlement of outstanding amounts due to existing shareholders (including dividend of HK\$20 million declared and remaining balance of amounts due to related parties) and amount due to immediate holding company; (iv) renovating the retail outlets in Hong Kong and Taiwan; (v) upgrading the Group's information technology systems; (vi) revamping the Group's logistics facilities in Hong Kong and Taiwan; (vii) marketing and promotion; and (viii) additional working capital and other general corporate purposes.

As at the date of this report, the Group does not anticipate any change to the above use of proceeds.

Purchase, Sale and Redemption of the Company's Listed Securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the period from the Listing Date to the date of this report.

Corporate Governance

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules for the period from the Listing Date to the date of this report.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding directors' dealings in the Company's securities. Following specific enquiry made to the directors, each of them has confirmed their compliance with the required standard set out in the Model Code throughout the period from the Listing Date to the date of this report.

General Information

(Continued)

Compliance with the Written Guidelines for Securities Transactions by the Relevant Employees of the Company

The Company has established written guidelines for the relevant employees of the Company (the “Relevant Employees”) in respect of their dealings in the securities of the Company (the “Written Guidelines”) on terms no less exacting than the required standard set out in the Model Code. For this purpose, “Relevant Employee” includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company for the period from the Listing Date to the date of this report.

Audit Committee

Our Company established an audit committee with written terms of reference, in accordance with Appendix 14 to the Listing Rules, on 11 June 2013. The primary duties of the audit committee are, amongst other things, to review and supervise the financial reporting processes and internal control system of the Company.

The audit committee has reviewed with management the principal accounting policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim financial statements for the Period.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Company’s directors as at the date of this report, the Company has maintained the prescribed minimum public float under the Listing Rules.

Publication of Interim Results Announcement and Interim Report

The interim results announcement of the Company has been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.s-culture.com). This 2013 interim report, containing all the information required by the Listing Rules, has also been published on the above websites.

Appreciation

The Board would like to thank the management of the Group and all our staff for their hard work and dedication, as well as its shareholders, business partners and associates, bankers and auditors for their support to the Group.