S.Culture
INTERNATIONAL HOLDINGS LIMITED

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

Annual Report 2013

CONTENTS

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

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. Chu Siu Ming
Mr. Wan Kam To
Mr. Yau Tat Wang, Dennis

Authorized Representatives

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

Chief Financial Officer

Mr. Ma Chun Fung, Horace

Company Secretary

Mr. Chow Wing Hang, John

Registered Office

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

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

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
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bangkok Bank Public Company Limited
Hang Seng Bank Limited

FINANCIAL HIGHLIGHTS

		For the year ended 31 December	
		2013	2012
Revenue	HK$'000	**550,134**	505,289
Gross profit	HK$'000	**350,337**	326,963
Profit before taxation	HK$'000	**20,958**	30,122
Profit attributable to owners of the Company	HK$'000	**16,502**	25,079
Gross profit margin	%	**63.7**	64.7
Profit margin attributable to owners of the Company	%	**3.0**	5.0
Earnings per share — basic	HK$	**0.09**	0.17

	As at 31 December	
	2013	2012
Current ratio	**2.3 times**	1.7 times
Gearing ratio (total debt to total equity)	**49.0%**	62.2%
Average trade receivables turnover period	**34.6 days**	35.9 days
Average trade payables turnover period	**17.7 days**	16.8 days
Average inventory turnover period	**261.3 days**	225.5 days





CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present to you the annual results of S. Culture International Holdings Limited (the "Company" or "S. Culture") and its subsidiaries (together with the Company, the "Group") for the year ended 31 December 2013. This is the first annual report of the Group since the Company's listing (the "Listing") of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 July 2013 (the "Listing Date").

We are grateful that the Company has marked a new milestone in its development history by obtaining an official listing on the Stock Exchange. However, we were very cautious during the second half of the year 2013 as the overall business environment for the traditional retail operators had not been amicable. As explained in our profit warning announcement dated 8 January 2014, the sluggishness in the retail environment of Hong Kong, our major market, had put considerable pressure on our business. Also, we encountered various non-recurring factors such as the promulgation of changes of tourism law of the Mainland China and the unfavourable weather conditions during major holidays in the second half of 2013 as compared to the same period in 2012. To counter the foregoing, we had to give more incentives to our sales people by increasing the commission level in order to keep the increasing pace of our sales. As a result, we recorded an increase of approximately 9% in revenue for the year ended 31 December 2013, which was firmly supported by our double digit growth of approximately 23% in same store sales in the last quarter of 2013. On the other hand, as part of our expansion plan, we were replacing low margin retail outlets with new specialty and themed retail outlets. While we had high expectation about the operating results of these new retail outlets, we had to accommodate the additional depreciation of these newly opened retail outlets as well as the gradual running in of revenues from them as these retail outlets were yet to achieve the required income to break even. Together with the accounting for the one-off listing expenses and the absence of one-off income including but not limited to the reversal of allowance for inventories in 2012, the Group's net profit for the year 2013 was not realizing as we had expected and recorded a decrease of approximately 34% compared to 2012 accordingly.

Outlook

We anticipate challenges ahead for the traditional retail sector as a whole in our areas of operation. While it is unlikely that there will be an instant tightening of the money supplies by major economies, we are cautious that the various signals released from time to time by these major economies shall have an adverse effect on the general consumers' spending behavior. In the meantime, we are also cautious about the ever-increasing operating costs in both rental and staffing. We will continue to monitor the relevant economic conditions and the ever changing retail landscape including cost pressure and to do our utmost to contain those costs to a reasonable level.

Despite the above, we do see positive signs in our business. As mentioned above, we continue to keep the momentum of the same stores sales growth since the beginning of 2014. Also, we are opening new specialty and themed retail outlets, which concept is to capitalise on the increasing child birth rate in the region after 2003, and shall be converted into higher demand for comfortable yet affordable niche children's shoes and insoles for better foot development with daily functional use. Furthermore, we are opening retail outlets in the People's Republic of China (the "PRC") according to plan. As of 31 December 2013, we had four retail outlets in Shanghai selling mainly "Josef Seibel" branded shoes. We are also selling other branded shoes to our wholesale customers in the PRC. We expect to see solid growth in both number of retail outlets and sales in the PRC in 2014.

With our solid history of more than 50 years in business in Hong Kong and the region, we are confident that our own corporate culture and core values shall guide us through the challenges ahead, as they have in the past. To complement the above, upon Listing, we have also put in place various corporate governance measures to ensure that the Company, the board of directors (the "Board") and the management of the Group are working towards the expected standard of corporate ethics and governance. In addition, we also honour our corporate social responsibilities by addressing the needs of our staff and contributing to the community. As you shall see in the section headed "Corporate Social Responsibilities", we see the development of people as the ultimate success of our business and the society we live in. At this juncture, we will continue our effort in the area of people development through various social events we have been participating.

In view of the Group's operating results, the Board recommended the payment of a final dividend of HK4 cents per share in respect of the year ended 31 December 2013. We will strive to further enhance the Company's performance and optimise the return for the shareholders.

Last but not least, I would like to extend, on S. Culture's behalf, my heartfelt gratitude to the shareholders of the Company, members of the Board, management and staff of the Group and business associates for their continuing support to our Company.

Chong Hot Hoi
Chairman

CEO DIALOGUE

Mr. Chu Chun Ho, Dominic ("Dominic") and Mr. Chu Chun Wah, Haeta ("Haeta"), the Company's Co-Chief Executive Officers, would be pleased to share with the shareholders of the Company our current business operations and strategies as well as the future outlook of the Company after the Listing on the Main Board of the Stock Exchange.

Q: After the successful Listing of the Company on 11 July 2013, is there any major change to the Company and its operations?

Dominic: First of all, I have to express my heartfelt gratitude towards our colleagues. Without their dedicated hard work throughout the process, our Listing process would not have been so smooth. After the Listing, I do not see any major change to the operations of the Company because we have been in business for more than 50 years. Our operations are well run with proven systems and processes. However, we have supplemented resources to help boost our capabilities for compliance with the various regulatory and corporate governance requirements. We take this positively as further enhancement of our existing systems and processes.

Q: What are the Company's core competencies and strategies?

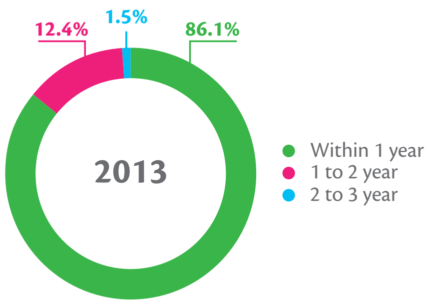
Haeta: We have high regard of our core competencies (see table below) which have given us the competitive edges in the market and added value to our business operations.

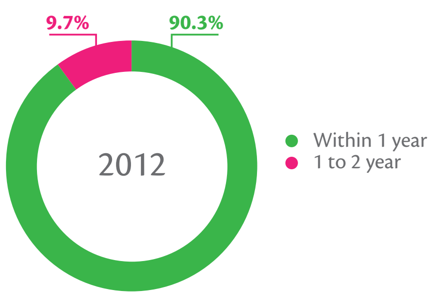
Core Competency	Description
Exclusive distributor of renowned European heritage brands	• Exclusive and long-term business relationship with renowned European heritage footwear brands • Exclusive distribution rights with European comfort and leisure footwear brands
Mass market brand positioning	• Proven track record bringing affordable products to growing middle-class population with rising disposable income in the operating territories • High brand and channel loyalty among customers as we have demonstrated our ability to capture demand and customise quality lifestyle comfort footwear products to consumers
Brand cultivation	• Ability to introduce new footwear brands into our retail platforms to attract a wider and more diverse customer base • "Horizontal expansion" of popular footwear brands through the set up of specialty stores to gain operating scale
Supply chain management	• Ability to work hand-in-hand with distribution brands to improve their supply chain management • Utilising our local knowledge and advising brands on new product development for Asian markets e.g. product localisation
Established extensive retail network	• Currently operating an extensive retail network in Hong Kong, Macau and Taiwan • Providing excellent service through various retail platforms to deliver quality shopping experiences to an array of consumers: — Specialty stores for exclusive distribution brands — Multi-brand platforms retailing over 18 European footwear brands

Q: How was our operation in 2013? What had we done right and where should we improve?

Haeta: In general, we have achieved our expected sales level. We have closed some retail outlets with low operating margins. In line with our expansion plan in Hong Kong and Taiwan, we resumed our opening of new retail outlets in the second half of 2013 as the market rental began to stabilise. Nevertheless, the unexpected slow-down in the retail sector in Hong Kong has lowered our margin with increased sales incentives given to our sales team. As a result, we had recorded a high same store sales growth in the last quarter of 2013. Gross profit of the Group for the year ended 31 December 2013 was HK$350.3 million (2012: HK$327.0 million) with gross profit margin at a healthy level of 63.7% (2012: 64.7%) despite the challenging operating environment. To support our planned expansion of retail network in 2014, we ordered more inventories towards the end of 2013, and our average inventory turnover days has increased from 226 days in 2012 to 261 days in 2013. Our inventory aging has maintained a healthy profile. More than 86% of our inventories was aged within one year while only around 1.5% of our inventories was aged between two to three years. We continued to hone our strategies in streamlining logistics which worked towards our advantage, especially in traditional peak season of retail industry in the last quarter of the year.

The following charts are aging analyses of inventories at the end of each reporting period:





Q: What is your assessment of the outlook for 2014 and beyond?

Dominic: As detailed in previous communications with shareholders of the Company, we have taken into account the current market conditions and formulated strategies to grow our business. First, we are expanding our business into the PRC. We have already established four retail outlets in Shanghai in 2013 for some of our brands. We expect to operate 31 retail outlets in the PRC by 2015. In the meantime, we have started distributing "Clarks" footwear products to duty free shops in Hainan Province in 2013. This helps us expand our network to reach different segments of customers. In addition, we have also commenced distributing "The Flexx" footwear products in Shanghai and Beijing since the consumers there are more receptive to true foreign brands as "The Flexx" originated in Italy.

Haeta: We are also strengthening our retail operations in the existing markets. We intend to expand our retail presence by opening new self-operated shops and concession counters in department stores in Hong Kong and Taiwan. We expect to increase 35 retail outlets in these operating regions by 2015. For certain brands we are carrying, we actively participate in the design and production process by helping these brands to source from suitable production facilities and with better quality. Also, we are assisting and advising in the product design to cater for local consumer preferences, and help our principals monitor logistics management and maximise the strength of our sales channels. This further helps our principals to collect sales feedback on newly launched footwear products as well as to collaborate with suppliers on Stock Keeping Unit development. In turn, this helps to improve and streamline our supply chain management, thus our cost management.

Dominic: Also, we plan to diversify our brand portfolio and product range by introducing and promoting new international brands and product lines to expand our footwear product portfolio. For example, in the summer of 2013, we had introduced a Brazilian footwear brand "Petite Jolie" which is targeted at the younger female consumer groups. Recently, we have launched a new specialty and themed retail outlets which is focusing on specialising in children's footwear and insole products. We have high expectation on the success of these new product lines and their future contribution to our business operations.

Dominic & Haeta: Last but not least, the management team are working meticulously to execute the above strategies to ensure that they are realising the value they could bring to the shareholders of the Company. Together with the core competencies and values we are embracing, we are confident that we are able to ride through the challenges that we will face in 2014.

Operation Review

Retail Operations

Revenue of the Group's retail business for the year ended 31 December 2013 (the "Year") was HK$496.3 million, representing a 12.3% increase from the HK$442.0 million for the even year of 2012. We had also managed to record a 15.1% increase in comparable retail outlet sales during comparable periods for the Year (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. While we were adjusting the mix of our retail outlets in the existing strategic locations such that the number of retail outlets had increased from 102 as of 31 December 2012 to 112 as of 31 December 2013, we experienced growth in both revenue and gross profit thereof.

Hong Kong

Hong Kong is still contributing a majority of sales as we have 59 retail outlets in the locality. We have charted a year-on-year growth rate of 14.4% in retail revenue from Hong Kong for the Year.

Taiwan

The Group increased the number of its retail outlets in Taiwan to 47 during the Year. Revenue generated from Taiwan had experienced an increase of 7.5% for the Year. 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 2014. The management anticipates to introduce and adopt more effective operating and financial controls and measures in our Taiwan operations to help boost the operating margin further in 2014.

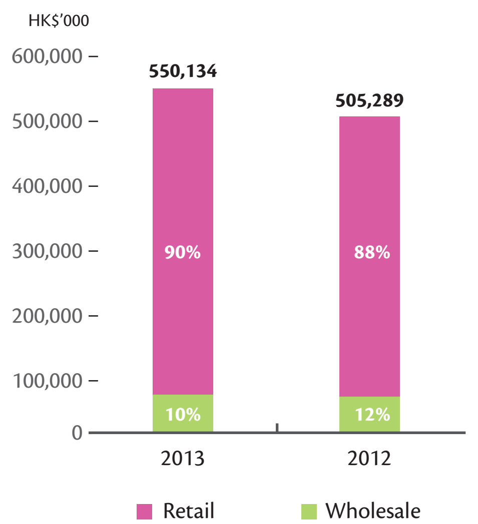
Macau

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

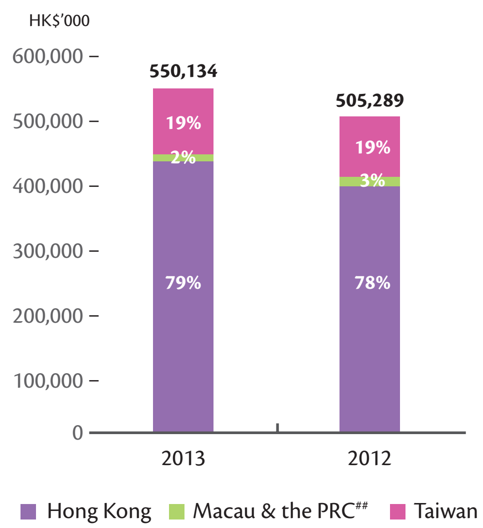
The PRC

As of 31 December 2013, the Group had four retail outlets in Shanghai selling mainly "Josef Seibel" branded shoes. The management expects to record growth in both number of retail outlets and sales in the PRC in the foreseeable future.

Revenue by Distribution Channel



Revenue by Geography



Distribution in the PRC commenced in 2013

Wholesale Operations

The Group's wholesale operations represent 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. In the last quarter of 2013, the Group commenced to distribute "The Flexx" footwear products in Shanghai and Beijing and "Clarks" footwear products to duty free shops in Hainan Province.

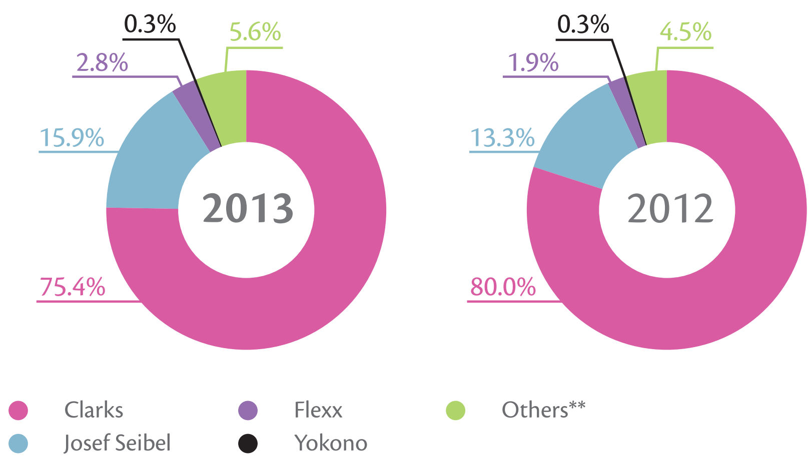
Financial Review

Revenue

Revenue of the Group's business for the Year was HK$550.1 million, representing a 8.9% increase from HK$505.3 million for the even year of 2012.

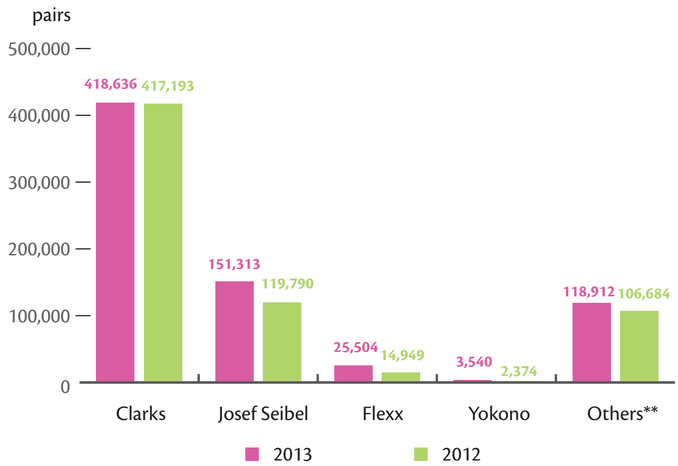
With regard to the sales of the major brands under exclusive distribution agreements for the Year compared with the even year of 2012, their respective sales had recorded positive performances. Sales of "Clarks" footwear products had increased by 2.6%. Sales of "Josef Seibel" footwear products had maintained its expected growth rate of 30.5%, 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 60.2% and 34.7% respectively.

Revenue by Major Brands (in dollars)



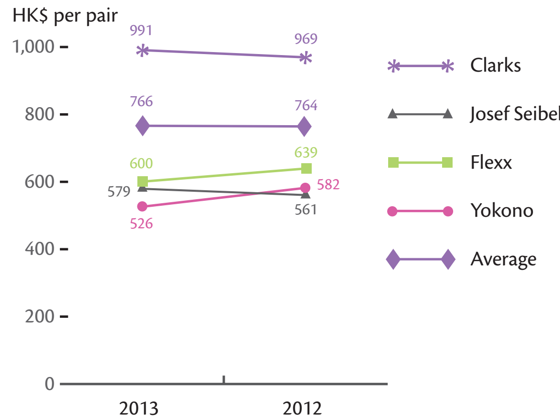
** Include footwear products of other brands and accessories

Revenue by Major Brands (in pairs)



** Include footwear products of other brands and accessories

Average Selling Price per Pair



As at 31 December 2013, the Group operated 59 retail outlets in Hong Kong, two retail outlets in Macau, four retail outlets in the PRC, and 47 retail outlets in Taiwan. As at the even date of 2012, the Group operated 54 retail outlets in Hong Kong, three retail outlets in Macau and 45 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK$199.8 million for the Year, representing 36.3% of revenue (2012: HK$178.3 million, representing 35.3% 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 Year was HK$350.3 million, representing an increase of 7.1% from HK$327.0 million of 2012. Gross profit margin of the Group for the Year was 63.7% (2012: 64.7%). There was a slight drop of the gross profit margin as we had offered deeper discounts during the second half of the Year in order to counter the negative consumption sentiments of the general consumers and tourists attributable to the various factors as detailed in the Chairman's Statement on pages 4 to 5 of this annual report.

Depreciation

Depreciation accounted for 2.2% of revenue for the Year (2012: 2.1%).

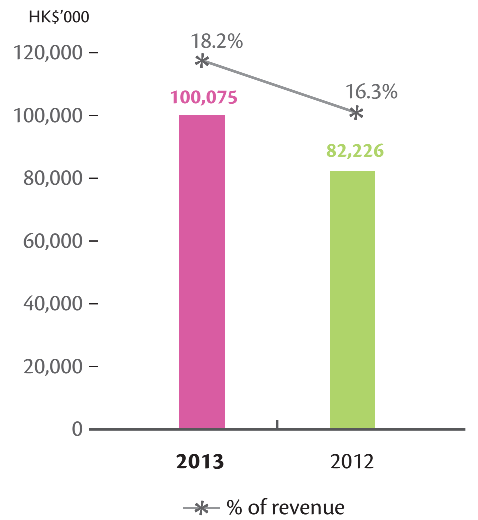
Staff Costs

Staff costs for the Year were HK$100.1 million, representing 18.2% of revenue (2012: HK$82.2 million, representing 16.3% 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 in commissions, as part of salaries, which increased with sales made during the Year. As a strategic tool, we had also raised the general compensation for our staff in 2013 as the talent market in the retail sector was still suffering from a shortage of supply.

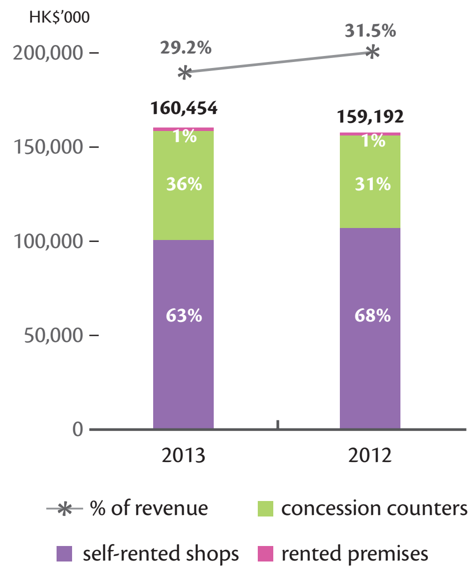
Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Year amounted to HK$160.5 million, representing 29.2% of revenue (2012: HK$159.2 million, representing 31.5% of revenue). The decrease was mainly due to the reduction in the number of our self-rented shops during the Year. Our concession fees for the Year amounted to HK$57.8 million (2012: HK$49.9 million). The increase was mainly due to the corresponding increase in the sales made through these concessions.

Staff Costs



Retail Outlet Rentals and Related Expenses



Finance Costs

Our finance costs amounted to HK$1.9 million for the Year (2012: HK$1.7 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 ranged from 1.7% to 3.2% (2012: 1.6% to 3.2%).

Listing Expenses

The Company was successfully listed on the Main Board of the Stock Exchange on 11 July 2013. The listing expenses of approximately HK$4.9 million were recorded as expenses during the Year while HK$3.1 million had been recorded as expenses in the year ended 31 December 2012.

Profit Before Tax

As a result of the foregoing, our profit before tax decreased by HK$9.1 million, or 30.2%, to HK$21.0 million for the Year, from HK$30.1 million for the year ended 31 December 2012.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. We had also obtained additional financial capital resources from funds raised during the Listing. As at 31 December 2013, the Group had bank deposits and cash amounting to HK$89.9 million (2012: HK$28.0 million), representing an increase of 221.1% from 31 December 2012. Most bank deposits and cash were denominated in Hong Kong dollars.

As at 31 December 2013, the Group had short term bank borrowings amounting to HK$104.0 million (2012: HK$77.7 million), representing an increase of 33.8% from 31 December 2012. As at 31 December 2013, the Group had long term bank borrowings, comprising mainly mortgage for our office premises at Taiwan, amounting to HK$14.1 million (2012: HK$15.4 million), representing a decrease of 8.4% from 31 December 2012.

Foreign Currency Risk

The Group's sales and purchases for the Year 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 Dollars may have an impact on the Group's results.

Human Resources

As at 31 December 2013, the Group employed approximately 422 employees (2012: 394). Remuneration packages are generally structured by reference to market terms and individual qualifications and experience.

During the Year, 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.

Share Information

The share of the Company has been listed on the Stock Exchange with effect from 11 July 2013 at HK$2.13. The average closing price during the period from the Listing Date to 31 December 2013 was HK$1.79, with the highest closing price of HK$2.45 achieved on 12 July 2013 and 16 July 2013 and the lowest closing price of HK$1.46 achieved on 28 August 2013 and 30 August 2013.

Dividends

On 11 June 2013, the Company recognised as a distribution and paid a dividend of HK$20,000,000 to its then shareholders of the Company and was settled by the net proceeds from the Listing.

Subsequent to the end of the reporting period, a final dividend of HK4 cents per share in respect of the year ended 31 December 2013, representing a total of approximately HK$8 million has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting. The proposed final dividend is expected to be paid on 15 July 2014, Tuesday to the Company's shareholders whose names appear on the Company's register of members on 24 June 2014, Tuesday.

Total Shareholder Return

Total shareholder return ("TSR") is calculated based on capital gains and dividends of the shares. The Company had a TSR of approximately negative 24.9% for the period from the Listing Date to 31 December 2013 as if the final dividend of HK4 cents per share were to be distributed within 2013.


S.CULTURE


2013
新世界單車慈善錦標賽

The mission of S. Culture is to introduce the internationally renowned brands and improve the quality of public life. In the course of its relentless pursuit for brand excellence and expansion in retail network, S. Culture, as a corporate member of the society, has also committed to undertake a number of social responsibilities during the year of 2013.

Nurturing Talents

In October 2013, S. Culture has participated in Industrial Attachment Programme ("IAP") organized by IVE. The IAP is an integrated component of the Business Administration Higher Diploma curriculum. The main purposes of IAP are (i) to enable students to experience real life workplace challenges through working in corporate organization, (ii) to facilitate students' transition from study to work by developing team work, problem solving skills, practical skills, appropriate work attitude and value, and (iii) to enhance students' employability. A total of 39 students participated in this IAP. S. Culture has provided one day company orientation programme to the students to let them understand the corporate background, the brands and platforms that S. Culture were carrying and the general operation of our departments. S. Culture has also assigned mentors for students to take part in the daily process of retail operations, marketing, visual merchandising and inventory management. The IAP programme was successful and certificates was awarded to those students upon the completion of the 90 working hours.

Encouraging Creativity

S. Culture is one of the "Star" sponsoring organizations of the 2013 Young Entrepreneur competition organized by the Youth Council. The participating teams are required to submit their creative business plans and meet with professional consultants from the Youth Council to exchange ideas. To facilitate the formulation and execution of their business plan, the professional consultants will provide valuable advice and guidance on their operation model and share their network of connections to the participating teams. After conducting various rounds of interview, the winning team will receive HK$150,000 from the Council and use as start-up capital. S. Culture is caring to the growth and development of the next generation. This competition helps nurture and kindle the innovation of the budding entrepreneurs and to ignite the future and growth of new enterprises.

Promoting Environment

In November 2013, S. Culture had participated in the New World Cycling Charity Championship 2013. The main theme of this event is to promote cycling for leisure and recreational short distance transportation, promoting a healthy and low carbon culture. With the dedication and team spirit, our team won the 1st runner up award in the corporate group cycling competition. In addition, S. Culture, as a gold sponsor, donated HK$100,000 to support this event.

Caring our Next Generation

In December 2013, S. Culture commenced organising a children podiatry seminar with Yan Chai Hospital Social Services Department. The seminar was successfully held on 11 January 2014. Parents from Yan Chai Hospital C.C. Everitt Day Creche were invited to attend the event. We also invited a registered chiropractor to give an overview on the human foot anatomy and common foot problems during childhood which was commensurated with useful information on proper footwear choices. Shoe coupons sponsored by the Group were presented to all attending parents to allow their children to experience the comfortable yet stylish features of our branded children footwear products.

Caring our Employees

S. Culture recognises that our employees are our important asset and the critical success factor of our business. We are committed to provide training and development opportunities to all our employees, with appropriate incentivizing schemes for them to progress within the business.

In 2013, S. Culture had provided training programs with wide range of curriculum, which included but not limited to retail skills, product knowledge, management skills and interpersonal skills. The total number of training hours delivered was approximately 4,400 hours. These trainings help enhance our employees productivity and effectiveness in operation with better and more in-depth understanding of our business and products as well as their self development.

In addition to the training and development opportunities, S. Culture held regular retail parties to promote the team spirits and senses of belongings to the Company. We award retail staffs with outstanding sales performance and significant improvement with certificates which serve as recognition and our appreciation of their effort and contribution towards our business.

Awards and Recognition

The retail outlet brands of the Group including S. Culture, Clarks, Josef Seibel and SCOOPS were accredited with Quality Tourism Services ("QTS") Scheme by the Hong Kong Tourism Board. In particular, S. Culture was also presented 10-year QTS Merchant Recognition in the "QTS Merchant Award 2013" in acknowledgement of its accreditation by the QTS Scheme for 10 consecutive years.

Directors

Executive Directors

Mr. Chu Siu Ming, aged 75, is one of the founders of the Group. He is appointed as an Executive Director of the Company and designated as the Vice-Chairman of the Board. Mr. Chu was also appointed as a member of the Nomination Committee of the Company on 23 December 2013. He is responsible for advising on strategic planning and the overall management of the Group. He has over 20 years of experience in the wholesale and retail of footwear and has served as a director of Kong Tai Sundry Goods Company Limited, which is one of the Company's major operating subsidiaries, since September 1974. Mr. Chu is also currently a director of each of Grand Asian Limited, Cobblers Limited, Shoe Mart Company Limited and Advertiser's Media Agency Limited (all are the subsidiaries of the Group) and all the subsidiaries of the Group incorporated in the British Virgin Islands ("BVI"), and a director and shareholder of KTS International Holdings Inc. (a substantial shareholder of the Company).

Mr. Chu is currently the permanent honorary president of Hong Kong Chiu Chow Merchants Mutual Assistance Society, Limited, the vice president of Chiu Chau Industrial and Commercial Plastic United Association Limited, and the 4th vice president (appointed in September 2013) and director of Chiu On Association (H.K.) Limited. Mr. Chu is the father of Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta (both are Executive Directors of the Company) and Ms. Chu Yuen Fan, Peggie (director of business relations of the Company).

Mr. Chu Chun Ho, Dominic, aged 42, is appointed as the Company's Executive Director and Co-Chief Executive Officer. Mr. Dominic Chu has joined the Group for 16 years and he is mainly responsible for the strategic planning and execution of business strategies of the Group. Mr. Dominic Chu is currently a director of each of Kong Tai Sundry Goods Company Limited, Grand Asian Limited, Cobblers Limited, Shoe Mart Company Limited and Advertiser's Media Agency Limited (all are the subsidiaries of the Group) and a director and shareholder of KTS International Holdings Inc. (a substantial shareholder of the Company).

Apart from managing our business, Mr. Dominic Chu is also the vice chairman of Scout Association of Hong Kong New Territories East Region, the vice chairman of the Hong Kong Youth Council, the executive director of Hong Kong Island Chaoren Association Limited, the honorary president of Sau Mau Ping District Junior Police Call and a member of the Industry Relationship Development Committee of the Business Administration Discipline Advisory Board of the Vocational Training Council. In 2009, Mr. Dominic Chu was awarded the 11th World Outstanding Chinese Award. Mr. Dominic Chu is the son of Mr. Chu Siu Ming and the brother of Mr. Chu Chun Wah, Haeta (both are Executive Directors of the Company) and Ms. Chu Yuen Fan, Peggie (director of business relations of the Company).

Mr. Chu Chun Wah, Haeta, aged 40, is appointed as the Company's Executive Director and Co-Chief Executive Officer. He graduated from Carleton University with a bachelor degree of arts in November 1998. Mr. Haeta Chu joined the Group in October 1998. Mr. Haeta Chu has had a major role in expanding the retail network and has been supervising the footwear retailing operations of the Group. In recent years, Mr. Haeta Chu has also taken part in fostering the business relationships with our major suppliers. He is currently a director of each of Kong Tai Sundry Goods Company Limited, Grand Asian Limited, Cobblers Limited, Shoe Mart Company Limited and Advertiser's Media Agency Limited and an administrator of Shoes Culture Company Limited (all are the subsidiaries of the Group). Mr. Haeta Chu is also a director and shareholder of KTS International Holdings Inc. (a substantial shareholder of the Company).

Mr. Haeta Chu is currently the vice-chairman of Scout Association of Hong Kong New Territories East Region Development Fund, a director of Hong Kong Youth Council, the executive director of Hong Kong Island Chaoren Association Limited and a school director of Yan Oi Tong Pang Hung Cheung Kindergarten. Mr. Haeta Chu is the son of Mr. Chu Siu Ming and the brother of Mr. Chu Chun Ho, Dominic (both are Executive Directors of the Company) and Ms. Chu Yuen Fan, Peggie (director of business relations of the Company).

Non-executive Directors

Mr. Chong Hot Hoi, aged 59, is appointed as the Company's Non-executive Director and designated as Chairman of the Board and a member of both the Remuneration Committee and Nomination Committee of the Company. Mr. Chong joined the Group in 2005 and is currently a director of Kong Tai Sundry Goods Company Limited, which is one of the Company's major operating subsidiaries. With over 30 years of experience in business management and investment in Hong Kong, Mr. Chong offers management advice and strategic guidance to the management team, and is responsible for the strategic planning of the Group. Mr. Chong is also a director and shareholder of each of KTS International Holdings Inc. and Chung Nam Fashion Limited (both are substantial shareholders of the Company).

Mr. Chong has joined the Chung Nam group since May 1979. He has been the managing director of Chungnam Corporation Limited and Chung Nam Watch Company Limited respectively since 2000. Mr. Chong has been the honorary president of Hong Kong Watch Manufacturers Association Limited since 1991. He has served as the chairman of Hong Kong Watch and Clock Technology Centre Management Committee, Hong Kong Productivity Council since 2009. He is also the permanent honorary president of Chiu On Association (H.K.) Limited. Mr. Chong obtained his bachelor of science degree in business administration from the University of Southern California in June 1977 and a master degree in business administration from the same university in June 1979. He was also a member of the Beta Alpha Psi honor society at the University of Southern California in 1976, the honorary fellow of The Professional Validation Council of Hong Kong Industries in 2004, a member of the Mandatory Provident Fund Schemes Advisory Committee from March 2005 to March 2011, and a recipient of the Bronze Bauhinia Star by the Government of Hong Kong Special Administrative Region in 2008. Mr. Chong is the brother of Mr. Chong Hok Shan (a substantial shareholder of the Company) and Mr. Chong Hok Hei, Charles (a substantial shareholder and a Non-executive Director of the Company).

Mr. Chong Hok Hei, Charles, aged 55, is appointed as the Company's Non-executive Director. Mr. Chong joined the Group in 2005 and is currently a director of Kong Tai Sundry Goods Company Limited, which is one of the Company's major operating subsidiaries. He offers management advice and strategic guidance to the management team, and is responsible for the strategic planning of the Group. Mr. Chong is also a director and a shareholder of each of KTS International Holdings Inc. and Chung Nam Fashion Limited (both are substantial shareholders of the Company).

Mr. Chong joined the Chung Nam group as a sales manager in 1980. He has been the deputy managing director of Chungnam Corporation Limited since 2006 and the deputy managing director of Chung Nam Watch Company Limited since 1998. He also served as a director of business development of Hong Kong Watch Manufacturers Association Limited from June 2004 to June 2006. Mr. Chong obtained his bachelor of science degree in mechanical engineering from the University of Southern California in June 1980. Mr. Chong has also served as a director of Thunder Power Co., Ltd (its Chinese name was changed from "雷風股份有限公司" to "昶洧股份有限公司" with effect from 11 July 2013; a company listed on the Taiwan Stock Exchange; stock code: 4529) since June 2011. Mr. Chong is the brother of Mr. Chong Hok Shan (a substantial shareholder of the Company) and Mr. Chong Hot Hoi (a substantial shareholder and a Non-executive Director of the Company).

Mr. Yu Fuk Lun, aged 56, has been the Company's Non-executive Director since May 2013. He is also a member of the Remuneration Committee of the Company. Mr. Yu is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practicing Accountant of CPA Australia Limited. Mr. Yu obtained a master degree in business from the Victoria University of Technology, Australia (distance learning) in November 1997. Mr. Yu is currently a director of KTS International Holdings Inc. (a substantial shareholder of the Company).

Mr. Yu has over 20 years of experience in the fields of finance, accounting and corporate management. He has been the Group Chief Financial Officer of CN Group Limited since February 2007 and the Chief Executive Officer of Oasis Pacific Rim Limited since July 2011. Mr. Yu was the Deputy General Manager at Samsung Hong Kong Limited from May 1994 to January 2001.

Independent Non-executive Directors

Mr. Wan Kam To, aged 61, has been appointed as the Company's independent Non-executive Director since May 2013. He is also the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Wan was appointed as a member of the Nomination Committee of the Company on 23 December 2013. Mr. Wan graduated from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in October 1975 with a higher diploma in accountancy. He has been a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants since June 1989 and October 1983, respectively. Mr. Wan has been a practising accountant in Hong Kong for over 30 years and has extensive experience in auditing and advisory work. He joined Coopers & Lybrand in July 1975 and was admitted to the firm's partnership in May 1992. Mr. Wan retired as a partner of PricewaterhouseCoopers in June 2008.

Mr. Wan is a member of the Council of The Open University of Hong Kong and serves as a member of the board of directors in several charitable and service organisations. Mr. Wan was an independent non-executive director of Real Gold Mining Limited (stock code: 246) between July 2011 and August 2011 and GreaterChina Professional Services Limited (stock code: 8193) between May 2011 and November 2013 (both companies are listed on the Stock Exchange). In addition, he is currently the independent director of the following listed companies:

Company name	**Stock code**	**Place of listing**
Mindray Medical International Limited	NYSE: MR	New York
China Resources Land Limited	1109	Hong Kong
Fairwood Holdings Limited	52	Hong Kong
Huaneng Renewables Corporation Limited	958	Hong Kong
RDA Microelectronics, Inc.	NASDAQ: RDA	New York
Dalian Port (PDA) Company Limited	HKEx: 2880; SSE: 601880	Hong Kong; Shanghai
KFM Kingdom Holdings Limited	3816	Hong Kong
Shanghai Pharmaceuticals Holding Co., Ltd.	HKEx: 2607; SSE: 601607	Hong Kong; Shanghai
Kerry Logistics Network Limited *(listed since 19 December 2013)*	636	Hong Kong
Harbin Bank Co., Ltd *(listed since 31 March 2014)*	6138	Hong Kong

Mr. Yau Tat Wang, Dennis, aged 66, has been appointed as an Independent Non-executive Director of the Company since May 2013. He is also the chairman of the Remuneration Committee and a member of both the Audit Committee and Nomination Committee of the Company. Mr. Yau graduated from the University of Hong Kong with a bachelor of social sciences degree in November 1970 and the Harvard Business School by completing its advanced management program in May 1994. He was decorated Knight of the Order of the Crown by the King of Belgium in 2004.

He is an advisor to the board of directors of A-Fontane Groups Limited, a leading Hong Kong manufacturer of home textiles with its own retail distribution networks in Hong Kong, the PRC and South East Asia. He worked for the Hong Kong Trade Development Council from July 1970 to September 2002 and headed its international operations after serving on overseas postings in the Council's trade offices in Germany, Italy, Japan and the United States. He joined Dah Sing Bank in 2002 as senior business advisor and was an executive director of Dah Sing Banking Group Limited (a company listed on the Main Board of the Stock Exchange; stock code: 2356) from June 2004 to March 2007. He was appointed as the director-general of the Federation of Hong Kong Industries in 2007 and retired on completion of his term in 2012. During 2009 to 2010, he served as a part-time member of the Central Policy Unit of the Hong Kong Government.

Mr. Lam Man Tin, aged 54, has been appointed as an Independent Non-executive Director of the Company since May 2013. He is also the chairman of the Nomination Committee and a member of both the Audit Committee and Remuneration Committee of the Company. Mr. Lam graduated from the University of Hull with a master degree in strategic marketing (distance learning) in July 1996.

Mr. Lam served as the managing director of Aeon Stores (Hong Kong) Co. Limited (a company listed on the Main Board of the Stock Exchange; stock code: 984) from May 2006 to May 2012. Mr. Lam joined Aeon Stores Co., Ltd. in 1992 and has over 20 years of experience in retail and service industries. He was a director of Aeon Stores Co., Ltd. and an executive director of Aeon Stores (Hong Kong) Co. Limited from May 1999 to May 2012. He was engaged as a consultant of Aeon Stores (Hong Kong) Co., Limited following his resignation from the board until September 2012. Mr. Lam is currently the CEO Strategist of Shirble Department Store Holdings (China) Limited (a company listed on the Main Board of the Stock Exchange; stock code: 312). He is also a founding member of the Hong Kong Yau Yat Chuen Lions Club.

Senior Management

Ms. Chan Mei Yin, aged 58, is appointed as our director of administration. She is also a director of Kong Tai Sundry Goods Company Limited. Ms. Chan joined Kong Tai Sundry Goods Company Limited in January 1977 and she had worked up the ranks during the past 37 years of service in the Group. She had been assisting the founder and senior management of the Group in general shipping, trade financing and treasury management. Currently, Ms. Chan is responsible for the general administration, human resources and trade finance management of the Group.

Ms. Chan was awarded the Diploma in Management Studies by Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) jointly with Hong Kong Management Association in September 1988.

Ms. Chan Wai Man, Catherine, aged 51, is appointed as our director of sales. Ms. Chan obtained a Certificate in Secretary and Administration from Sacred Heart Canossian Convent Commercial School in July 1981. She also attended various secretarial training programs and courses, which include Book Keeping under the Commercial Education Scheme of the London Chamber of Commerce and Industry and the Certificate Programme on Written Business English for Secretaries organised by the Hong Kong Management Association.

Ms. Chan joined the Group in January 2006. She has over 15 years of experience in sales and marketing and the development of sales network for footwear in Hong Kong and Taiwan. Before joining the Group, Ms. Chan was the general manager of a regional footwear company of over 200 shops, whose role was to oversee the retail operations of the company from July 1997 to November 2005.

Ms. Chu Yuen Fan, Peggie, aged 44, is appointed as our director of business relations. She is also a director of Kong Tai Sundry Goods Company Limited. Ms. Chu joined Kong Tai Sundry Goods Company Limited in January 1992. Ms. Chu graduated from Carleton University with a bachelor of arts degree in economics in June 1992. Ms. Chu assisted in the early development of the Group in the area of business development and public relations, and has over 14 years of experience in the retail business of Hong Kong and the PRC.

Ms. Chu is currently the president of Canadian University Association, a committee member of Hong Kong Chiu Chow Chamber of Commerce The Woman Community, a director of Hong Kong Island Chaoren Association Limited and the regional liaison of the China Outstanding Female Entrepreneurs Association Women in Hong Kong. Ms. Chu was awarded the 2009 Top 100 Outstanding Women Entrepreneur Award in China (2009年中國百名傑出女企業家) and the 2010 Most Innovative Women Entrepreneur in China (2010年中國創新力女企業家) by the China Outstanding Female Entrepreneurs Association Women. In 2010, Ms. Chu further received the 2010 Most Creative Chinese Entrepreneurial Leaders Award (2010亞太最具創造力之華商領袖•女企業家) jointly presented by Asia-Pacific Chinese Entrepreneur Leaders Association, Asia-Pacific Culture & Fortune News and Asia-Pacific Culture & Fortune Forum. Ms. Chu is the daughter of Mr. Chu Siu Ming and the sister of Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta (all are Executive Directors of the Company).

Mr. Ma Chun Fung, Horace (formerly known as Ma Ka Keung), aged 43, is appointed as our chief financial officer. Mr. Ma joined the Group in November 2011. Mr. Ma graduated with a bachelor of business administration degree from the Chinese University of Hong Kong in December 1993. Mr. Ma obtained a bachelor of laws degree from the University of London (external degree) in August 2001 and a master of science degree from the Chinese University of Hong Kong in December 2005.

Mr. Ma has over 20 years of experience in risk and internal control. He is a certified public accountant registered with the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a certified internal auditor registered with the Institute of Internal Auditors and a holder of the Certification in Control Self-Assessment from the Institute of Internal Auditors.

Mr. Ma has active participation in the affairs and activities of the accountancy profession. He was a council member of the Hong Kong Institute of Certified Public Accountants from December 2009 to December 2011 and a committee member of the Association of Chartered Certified Accountants Hong Kong Branch from 2006 to 2010.

Mr. Ma also has ample experience in managing affairs and governance of listed companies in Hong Kong. From September 2010 to October 2011, he was an executive director of FAVA International Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange; stock code: 8108). Mr. Ma was also an independent non-executive director of Dejin Resources Group Company Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1163) from June 2010 to June 2013 and Universe International Holdings Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1046) from November 2008 to December 2013. Since July 2007, he has served as an independent non-executive director of Ming Fai International Holdings Limited (a company listed on the Main Board of the Stock Exchange; stock code: 3828). He has also served as an independent non-executive director of China Tianrui Group Cement Company Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1252) since December 2011 and China Saite Group Company Limited (a company listed on the Main Board of the Stock Exchange; stock code: 153) since October 2013.

Mr. Chow Wing Hang, John, aged 34, is appointed as our financial controller and company secretary. Mr. Chow has over nine years of experience in auditing and accounting. Prior to joining the Group in November 2011, he was an audit manager in PricewaterhouseCoopers Hong Kong from October 2007 to September 2011.

Mr. Chow obtained a bachelor degree in business administration from the City University of Hong Kong in July 2002. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Corporate Governance Practices

The Company believes that good corporate governance practices are very important for maintaining and promoting investor confidence and sustainable growth of the Group. The Board is committed to maintaining a solid, transparent and sensible framework of corporate governance and related measures that the directors of the Company (the "Directors") consider applicable to and practical for the Group. The Board will continue to monitor and review the effectiveness.

The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the Listing Date (which is 11 July 2013).

The Board considers that during the period from the Listing Date to 31 December 2013 (the "Report Period"), the Company has complied with the code provisions set out in the CG Code. Key corporate governance principles and practices of the Company are summarized below.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as contained in 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 Report Period.

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 during the Report Period.

Board Composition

The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. During the year and up to the date of this report, the Board composition is as follows:

The Board
(including corporate governance functions)
(Total no. of directors: 9)

Executive Directors	Non-executive Directors	Independent Non-executive Directors
Mr. Chu Siu Ming *(Vice-Chairman)*	Mr. Chong Hot Hoi *(Chairman)*	Mr. Wan Kam To (Note 2)
Mr. Chu Chun Ho, Dominic *(Co-Chief Executive Officer)*	Mr. Chong Hok Hei, Charles	Mr. Yau Tat Wang, Dennis
Mr. Chu Chun Wah, Haeta *(Co-Chief Executive Officer)*	Mr. Yu Fuk Lun	Mr. Lam Man Tin
Total number: 3	Total number: 3	Total number: 3 (Note 1)
% to total Directors: 33.3%	% to total Directors: 33.3%	% to total Directors: 33.3% (Note 3)

Notes:

1. Minimum number of Independent Non-executive Directors: 3 (pursuant to Listing Rule 3.10(1))

2. Independent Non-executive Director having accounting expertise (pursuant to Listing Rule 3.10(2))

3. Independent Non-executive Directors represent 1/3 of the Board (pursuant to Listing Rule 3.10A)

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) and one-third of the Directors are Independent Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The brief biographical details of the Directors as well as the relationships among Board members, if any, are set out on pages 17 to 20 of this annual report.

Responsibilities of and Delegation by the Board

The Company is governed by the Board which is responsible for directing and supervising its affairs and overseeing the business, strategic direction and performance of the Group. Execution of the Board's decisions and daily operations are delegated to the Executive Directors and the management. The functions reserved to the Board and those delegated to Executive Directors and management, for the running of the Company's business, have been formalised in writing. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

The management of the Company updates the Directors on their duties and responsibilities as well as the conduct, business activities and development of the Group. It supplies the Directors and Board Committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The management provides sufficient information and explanation to the Board to enable it to make an informed assessment of financial and other information put before it for approval. The management also supplies additional information upon request and enquiry by the Directors. Timely updates on changes in laws and compliance issues relevant to the Group and appropriate information on the Group's business and activities are provided to our Directors. The Board and each Director has separate and independent access to the senior management and Company Secretary, whenever necessary, for any information relevant to the Group they may require in discharging their duties.

Roles of Non-executive Chairman and Co-Chief Executive Officers and Division of Responsibilities

The roles of the Chairman and the Chief Executive Officer are segregated and not performed by the same individual. Mr. Chong Hot Hoi holds the position of Non-executive Chairman while Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta hold the position of Co-Chief Executive Officers. The roles and division of responsibilities between the Chairman and the Co-Chief Executive Officers have been clearly established and set out in writing.

The Non-executive Chairman provides leadership for and management of the Board. He is responsible for ensuring all Directors are properly briefed on issues to be discussed at Board meetings and receive, in a timely manner, adequate, accurate, clear, complete and reliable information. He also takes the primary responsibility to ensure that the Board works effectively, performs its responsibilities and discusses all key and appropriate issues in a timely manner. He fulfills this by encouraging Directors to make full and active contribution to the Board's affairs and ensure the Board acts in the best interests of the Company. He also encourages Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensure Board decisions fairly reflect Board consensus. The Chairman is also in frequent contact with the Vice-Chairman and the Co-Chief Executive Officers through regular face-to-face meetings and phone conversations. He is responsible for facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors. During the Reporting Period, the Chairman has met with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

The Co-Chief Executive Officers lead the day-to-day management of the Group's business in accordance with the strategy, policies and programs approved by the Board. They are responsible for transformation of the objectives set by the Board into statements of vision, mission, goals and the corresponding strategies, plans and budgets as well as their effective implementation. The Co-Chief Executive Officers are responsible for providing reports and advice to the Board on the performance of the Group's business. They are well supported by the management, who provides relevant information and recommendations to facilitate informed decision making.

Non-executive Directors

The Non-executive Directors (including Independent Non-executive Directors) have the appropriate balance of skills, and knowledge in the field of financial management, business development or strategies related to the Group's business. They scrutinise the performance of management in achieving agreed corporate goals and objectives and monitor the Group's performance reporting. They can also assist to provide independent judgment on the matters of strategies, policies and standards of conduct. Their role can serve to assure clarity and accuracy on the reporting of financial information so that controls and systems of risk management are effectively in place, enabling the Board to maintain high standards of compliance with financial and other reporting requirements and to safeguard the interests of Shareholders and the Company.

Independent Non-executive Directors and other Non-executive Directors have given a positive contribution to the development of the Group's strategies and policies through independent, constructive and informed comments. They serve as the members of the Audit Committee, Remuneration Committee and Nomination Committee and share their views through regular attendance and active participation.

All Independent Non-executive Directors of the Company have met all of the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received from each of them an annual written confirmation of independence and considers each of them to be independent.

Appointment and Re-election of Directors

Each of the Executive Directors has entered into a service agreement with the Company, and each of the Non-executive Directors and Independent Non-executive Directors has signed a letter of appointment with the Company. Their term of appointment has commenced from 1 May 2013 and will continue for a period of three years, subject to retirement by rotation and re-election in accordance with the Company's Articles of Association (the "Articles").

According to the Articles, the Board has the power at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Besides, at every annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years .

At the forthcoming annual general meeting of the Company to be held on 13 June 2014 (the "2014 AGM"), all Directors will retire pursuant to the Articles provisions stated in the foregoing paragraph. All the retiring directors, being eligible, will offer themselves for re-election at the 2014 AGM.

Directors' Attendance Records

The Board schedules regular Board meetings in advance to give Directors the opportunity to participate actively, either in person or through electronic means of communication. Directors are consulted for their views regarding inclusion of specific matters in the agenda for regular Board meetings and the draft agenda is circulated to Directors for their comments. Special Board meetings are convened as and when needed. All Directors are properly briefed on issues arising at Board meetings. These Board meetings, together with the Audit, Nomination and Remuneration Committee meetings, provide effective means for the Board and Board Committees to perform their work and discharge their duties.

During the Report Period, three Board meetings, three Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting were held. Details of individual Directors' attendance at these Board meetings and Board Committee meetings are set out in the following table:

Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting
Executive Directors				
Mr. Chu Siu Ming (Note)	3/3	N/A	N/A	N/A
Mr. Chu Chun Ho, Dominic	3/3	N/A	N/A	N/A
Mr. Chu Chun Wah, Haeta	3/3	N/A	N/A	N/A
Non-executive Directors				
Mr. Chong Hot Hoi	3/3	N/A	1/1	1/1
Mr. Chong Hok Hei, Charles	3/3	N/A	N/A	N/A
Mr. Yu Fuk Lun	3/3	N/A	1/1	N/A
Independent Non-executive Directors				
Mr. Wan Kam To (Note)	3/3	3/3	1/1	N/A
Mr. Yau Tat Wang, Dennis	3/3	3/3	1/1	1/1
Mr. Lam Man Tin	3/3	3/3	1/1	1/1

Note: Mr. Chu Siu Ming and Mr. Wan Kam To were appointed as members of the Nomination Committee of the Company on 23 December 2013. Subsequent to their appointment, no Nomination Committee meeting was held during the Report Period.

N/A: Not applicable

Board Committees

The Board has proper delegation of its powers and has established four Board Committees, namely Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee, with specific written terms of reference that deal clearly with their authority and duties, to oversee particular aspects of the Group's affairs. The Board may establish other Board Committee(s) when necessary in accordance with the Articles. The terms of reference of all Board Committees have required them to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so.

Sufficient resources, including the advice of the external auditors and other independent professional advisers, are provided to the Board Committees to enable them to discharge their duties.

Executive Committee

The Board has established a standing Board Committee, namely the Executive Committee, on 13 December 2013. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for business decisions. It monitors the execution of the Group's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

The composition of the Executive Committee is as follows:

Executive Committee	
Committee Members	**Committee Secretary**
Executive Directors Mr. Chu Siu Ming *(Committee Chairman)* Mr. Chu Chun Ho, Dominic Mr. Chu Chun Wah, Haeta	Mr. Chow Wing Hang, John (Company Secretary who keeps the minutes of Executive Committee meetings)
Total number of members: 3	

The Executive Committee is accountable to the Board and to oversee the implementation of the Company's strategic objectives and the business operations of the Group.

The key roles and responsibilities of our Executive Committee include:

(i) to discuss and make decisions on matters relating to the management and operations of the Company;

(ii) to review and discuss certain day-to-day supervisory and operational functions and any other matters;

(iii) to enter into and execute tenancy agreements in respect of properties which the Company intends to lease whether as office, warehouse or retail outlets in Hong Kong or overseas;

(iv) to open accounts for the Company with bank and execute any related documentation; and

(v) to do and execute (except under the common seal of the Company) all such acts, matters, deeds, documents and things as it considers to be necessary, convenient or desirable for or in connection with the normal and ordinary course of business and the daily management and operations of the Company.

Audit Committee

The Audit Committee was established on 11 June 2013 in compliance with Rules 3.21 and 3.22 of the Listing Rules and Code Provision C.3.3 of the CG Code. The Audit Committee is accountable to the Board and is primarily responsible for reviewing and monitoring the integrity of financial reporting by the Company, for reviewing the Group's internal control and risk management and for overseeing the relationship with the external auditor. The Audit Committee has access to, and maintains an independent communication with the external auditors and the management to ensure effective information exchange on all relevant financial and accounting matters.

The full terms of reference of the Audit Committee are available on the Stock Exchange's website and the Company's website.

The composition of the Audit Committee is as follows:

Audit Committee	
Committee Members	**Committee Secretary**
Independent Non-executive Directors Mr. Wan Kam To (*Committee Chairman*) Mr. Yau Tat Wang, Dennis Mr. Lam Man Tin	Mr. Chow Wing Hang John (Company Secretary who keeps the minutes of Audit Committee meetings)
Total number of members: 3 % of Independent Non-executive Directors: 100% Minimum number of meetings per year: 2 In attendance: Representatives from auditor, the Chief Financial Officer, and the Company Secretary, as applicable	

The key roles and responsibilities of our Audit Committee include:

(i) make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(ii) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(iii) develop and implement policy on engaging an external auditor to supply non-audit services;

(iv) monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial reporting judgments contained in them;

(v) review the systems of the Company on financial controls, internal control (including without limitation the procedures for compliance with the requirements of Listing Rules and the Hong Kong Companies Ordinance) and risk management;

(vi) discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system;

(vii) review the Group's financial and accounting policies and practices;

(viii) review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response and ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(ix) review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters; and

(x) act as the key representative body for overseeing the Company's relations with the external auditor.

During the Report Period, the Audit Committee has held 3 meetings (the attendance records of each Committee member are set out in the above section headed "Directors' Attendance Records") and performed the following major works:

— reviewed the interim financial statements of the Group and related results announcement of the Company for the six months ended 30 June 2013, with recommendations to the Board for approval;

— received reports on the findings of Deloitte Touche Tohmatsu, the Company's external auditor, during their interim review and reviewed the recommendations made to management by Deloitte Touche Tohmatsu and the relevant management responses;

— reviewed the independence of Deloitte Touche Tohmatsu and engagement of Deloitte Touche Tohmatsu for annual audit for the year ended 31 December 2013;

— reviewed and approved the annual audit plan of Deloitte Touche Tohmatsu, including the nature and scope of the audit, the fee payable to them, their reporting obligations and their work plan;

— reviewed internal control assessment plan from professional consultants;

— reviewed and monitored internal control performance and effectiveness;

— reviewed and reported on the Group's connected transactions (including continuing connected transactions) carried out during the year ended 31 December 2013;

— reviewed the template for monthly update (including financial information and business operations) of the Group, with recommendations to the Board for approval;

— reviewed the arrangements for the Company's employees to use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, with recommendations to the Board for approval;

— reviewed the Company's corporate governance compliance matters; and

— reviewed the terms of reference of the Audit Committee.

Remuneration Committee

The Remuneration Committee was established on 11 June 2013 in compliance with Rules 3.25 and 3.26 of the Listing Rules and Code Provision B.1.2 of the CG Code. The Remuneration Committee is primarily responsible for recommending to the Board the remuneration of Directors and certain senior managers.

The full terms of reference of the Remuneration Committee are available on the Stock Exchange's website and the Company's website.

The composition of the Remuneration Committee is as follows:

Remuneration Committee	
Committee Members	**Committee Secretary**
Non-executive Directors Mr. Chong Hot Hoi Mr. Yu Fuk Lun *Independent Non-executive Directors* Mr. Yau Tat Wang, Dennis (*Committee Chairman*) Mr. Lam Man Tin Mr. Wan Kam To	Mr. Chow Wing Hang, John (Company Secretary who keeps the minutes of the Remuneration Committee meetings)
Total number of members: 5 % of Independent Non-executive Directors: 60% Minimum number of meetings per year: 1 In attendance: The Chief Financial Officer, the Company Secretary and other members of the management, as applicable	

The key roles and responsibilities of our Remuneration Committee include:

(i) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(iii) make recommendations to the Board on the remuneration of Non-executive Directors;

(iv) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(v) review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(vi) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(vii) ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the Report Period, the Remuneration Committee has held 1 meeting (the attendance records of each Committee member are set out in the above section headed "Directors' Attendance Records") and performed the following major works:

— established a formal and transparent procedure for developing policy on remuneration of all of the Directors and senior management;

— determined specific remuneration packages of all Executive Directors and senior management;

— reviewed the service agreements/letters of appointment for all Directors;

— reviewed the report of executive remuneration and rewards by a professional consultant; and

— reviewed the terms of reference of the Remuneration Committee.

For the year ended 31 December 2013, the remuneration of the senior management is listed as below by band:

Band of remuneration (HK$)	No. of persons
HK$1,000,000 and below	1
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	1

Further details of the remuneration of Directors and 5 highest paid employees have been set out in Notes 13(a) and 13(b) to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established on 11 June 2013 in compliance with Code Provisions A.5.1 and A.5.2 of the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

The full terms of reference of the Nomination Committee are available on the Stock Exchange's website and the Company's website.

The composition of the Nomination Committee is as follows:

Nomination Committee

Committee Members	Committee Secretary
Executive Director Mr. Chu Siu Ming (appointed on 23 December 2013) *Non-executive Director* Mr. Chong Hot Hoi *Independent Non-executive Director* Mr. Lam Man Tin *(Committee Chairman)* Mr. Wan Kam To (appointed on 23 December 2013) Mr. Yau Tat Wang, Dennis	Mr. Chow Wing Hang, John (Company Secretary who keeps the minutes of the Nomination Committee meetings)
Total number of members: 5 % of Independent Non-executive Directors: 60% Minimum number of meetings per year: 1 In attendance: the Chief Financial Officer, the Company Secretary and other members of the management, as applicable	

The key roles and responsibilities of our Nomination Committee include:

(i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) formulate a policy of selection and nomination of Directors and the procedures for the sourcing of suitably qualified Director for consideration of the Board and implement such plan and procedures approved;

(iii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iv) ensure sufficient biographical details of nominated candidates are provided to the Board and Shareholders to enable them to make a decision regarding selection of the Board members;

(v) assess the independence of Independent Non-executive Directors;

(vi) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive; and

(vii) conform to and abide by any requirement, direction and regulation that may be prescribed by the Board or contained in the constitutional documents of the Company or imposed by the Listing Rules or applicable laws.

The Company also recognises and embraces the benefit of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board diversity. To comply with Code Provision A.5.6 of the CG Code, a Board diversity policy was adopted by the Company on 13 August 2013, pursuant to which the Nomination Committee is responsible for reviewing and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience). The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

During the Report Period, the Nomination Committee has held 1 meeting (the attendance records of each Committee member are set out in the above section headed "Directors' Attendance Records") and performed the following major works:

— reviewed and adopted the Board diversity policy;

— reviewed the structure, size, diversity and composition of the Board and Board Committee and the split between numbers of Executive Directors, Non-executive Directors and Independent Non-executive Directors;

— considered the appointment of Mr. Chu Siu Ming and Mr. Wan Kam To as the members of the Nomination Committee, with recommendations to the Board for approval; and

— reviewed the terms of reference of the Nomination Committee.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties set out in Code Provision D.3.1 of the CG code. The principal role and function of the Board in relation to corporate governance is to develop and review the Company's policies and practices on corporate governance, to review and monitor the training and continuous professional development of Directors and senior management, to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements, to develop, review and monitor the code of conduct applicable to employees and Directors, and to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Report Period, the principal work performed by the Board in relation to corporate governance functions is summarised below:

— reviewed and approved the template for monthly update (including financial information and business operations) of the Group;

— reviewed and approved the arrangements for the Company's employees to use, in confidence, and to raise concerns about possible improprieties in financial reporting, internal control or other matters;

— established and reviewed the Corporate Governance Policy, Shareholders' Communication Policy and Codes of Conduct applicable to relevant employees and Directors of the Company;

— reviewed and monitored the training and continuous professional development of the Directors and senior management;

— reviewed and monitored the legal and regulatory compliance policy of the Company;

— reviewed and approved the terms of reference of Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee of the Company; and

— reviewed the Company's compliance with the CG Code.

Directors' Training and Continuous Professional Development

Pursuant to the Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, in order to ensure compliance and enhance their awareness of good corporate governance practices. The Company is also arranging suitable professional development seminars and courses for the Directors.

In addition to a lunch seminar about the future of Renminbi organised by the Company in December 2013 and various journals, articles and commentaries about the latest development of the industry circulated from time to time amongst Directors, the Directors informed the Company that they had received sufficient and relevant training and continuous professional development during the Report Period.

Records of training by the Directors are maintained by the Company Secretary. Training records of Directors for 2013 are as follows:

Directors	**Attending seminars, conferences and/or forums**	**Reading materials provided by external parties or by the Company**
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	√	√

Directors' Responsibilities on the Financial Statements

The Board is accountable to the Shareholders and is committed to presenting comprehensive and timely information to the Shareholders for assessment of the Company's performance, financial position and prospects. A separate statement containing a discussion and analysis of the Group's performance is included on pages 8 to 13 in this annual report.

The Directors acknowledge their responsibility for the presentation of financial statements which give a true and fair view of the state of affairs of the Company and the Group and the results and cash flow for each financial period. In preparing the financial statements, the Directors have to ensure that appropriate accounting policies are adopted. The financial statements are prepared on a going concern basis. The Board is provided with explanations and information by the senior management of the Company, so that the Directors have an informed assessment of the financial and other information of the Group putting forward to the Board for discussion and approval.

The Board's endeavour to present a balanced, clear and understandable assessment extends to annual and interim reports and other financial disclosures required under the Listing Rules and other applicable rules.

Auditor and Auditor's Remuneration

The external Auditor of the Company is Deloitte Touche Tohmatsu. A statement by the auditor about its reporting responsibilities is included in the Independent Auditor's Report on the Group's consolidated financial statements on page 45.

In arriving at its opinion, the Auditor conducted an audit without any restrictions and had access to individual Directors (including Audit Committee members) and management of the Company.

The remuneration paid and payable to Deloitte Touche Tohmatsu in respect of annual audit and non-audit services of the Group for the year ended 31 December 2013 is set out below:

Types of services provided by the external auditor	2013 HK$000
Audit service	1,000
Non-audit services:	
— Interim review	300
— Services provided in connection with initial public offering of the Company	2,000
Total:	3,300

Internal Controls

The Board, with the assistance of the Audit Committee, is responsible for maintaining a sound and effective system of internal controls and for reviewing its effectiveness. The Board at least annually conducts a review of the effectiveness of internal controls. The system is designed to (i) safeguard the interests of Shareholders; (ii) safeguard assets of the Group against misappropriation; (iii) ensure proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensure compliance with relevant legislation and regulations. Such system of internal controls is aimed at limiting the risks of the Company to an acceptable level but cannot, of itself, eliminate all risks.

The key procedures established by the Board to provide effective internal controls include (i) a defined management structure with clear lines of responsibility and limits of authority; (ii) an appropriate organisational structure which adequately provides the necessary information flow for management decisions; (iii) proper budgetary and management accounting control to ensure efficient allocation of resources and to provide timely financial and operational performance indicators for managing business activities; (iv) effective financial reporting control to ensure the recording of complete, accurate and timely accounting and management information, and to review work conducted by the Audit Committee.

During the Report Period, the Board, through the Audit Committee, reviewed the effectiveness of the system of internal controls that includes financial, operational, compliance and risk management controls. The Company engaged external consultants to review the effectiveness of these internal controls. The findings of these reviews were reported to the Audit Committee.

Company Secretary

Mr. Chow Wing Hang, John, the Company Secretary appointed by the Board, is a full-time employee of the Company; and in the opinion of the Board, possesses the necessary qualifications and experience, and is capable of performing the functions of a company secretary. During the year ended 31 December 2013, Mr. Chow has taken not less than 15 hours of professional training. The Company will continue to provide funds for Mr. Chow to take not less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

The Board is responsible for the approval of the selection, appointment or dismissal of the Company Secretary. Our Company Secretary is the Secretary of the Board and our various Board Committees including Executive Committee, Audit Committee, Nomination Committee and Remuneration Committee. The Company Secretary has knowledge of the Company's affairs. He reports to the Co-Chief Executive Officers of the Company, and is responsible for advising the Board on governance matters and facilitating induction and professional development for Directors. In addition, the Company Secretary helps ensure good information flow within the Board and that the Board policy and procedures are followed.

Communications with Shareholders and Investors

The Company believes that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of its corporate information, which enables Shareholders and investors to make the best investment decision.

The Company maintains a website at www.s-culture.com as a communication platform with Shareholders and investors, where information and updates on the Group's business developments and operations and other information are available for public access. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, so as to promote the development of the Company through mutual and efficient communications.

Enquiries and suggestions from Shareholders or investors to the Board are welcomed by mail to the Company's principal place of business in Hong Kong at Flat F–J, 11/F, Block 2, Kwai Tak Industrial Centre, 15–33 Kwai Tak Street, Kwai Chung, Hong Kong or via email to ir@s-culture.com for the attention of the Investor Relations Department. Inquiries are dealt with in an informative and timely manner.

Besides, Shareholders' meetings provide an opportunity for communication between the Board and the Shareholders. It is the Company's general practice that the Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, their duly appointed delegates, who are members of the relevant Committees, will be available to answer questions at the annual general meeting of the Company. In addition, the Company will invite representatives of the auditor to attend its annual general meeting to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

Shareholders' Rights

To safeguard Shareholders' interests and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. The Company's Shareholders may convene an extraordinary general meeting or put forward proposals at Shareholders' meetings as follows:

(1) Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company may request the Board to convene an extraordinary general meeting pursuant to Article 64 of the Articles by sending a written requisition to the Board or the Company Secretary at the Company's principal place of business in Hong Kong. The purpose of requiring such general meeting must be stated in the written requisition.

(2) If a Shareholder wishes to propose a person other than a retiring Director for election as a Director of the Company at a general meeting, pursuant to Article 113 of the Articles, the Shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the Shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong, or the office of the Company's branch share registrar. The period for lodgement of such notices shall commence on the day after the dispatch of the notice of such general meeting and end 7 days prior to the date of such general meeting.

For the avoidance of doubt, Shareholder(s) must provide their full name(s), contact details and identification, in the originally signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of Shareholder(s) may be disclosed as required by law. Shareholders may refer to the Articles for further details of the rights of shareholders.

All resolutions put forward at Shareholders' meetings of the Company shall be voted by poll pursuant to the Listing Rules. The poll voting results shall be posted on the websites of the Stock Exchange and the Company after each Shareholders' meeting.

Constitutional Documents

Pursuant to a special resolution of the Shareholders passed on 11 June 2013, the amended and restated memorandum and articles of association of the Company were adopted with effect from the Listing Date. Save as disclosed above, during the year ended 31 December 2013, there was no significant change in the memorandum and articles of association of the Company.

The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

The Directors of S. Culture International Holdings Limited are pleased to present their report together with the audited consolidated financial statements for the year ended 31 December 2013 (the "Consolidated Financial Statements").

Principal Activities

The principal activity of the Company is investment holding, whilst its major operating subsidiaries are engaged in trading of footwear products.

An analysis of the revenues and the results of the Group by operating segment during the financial year is set out in note 8 to the Consolidated Financial Statements.

Principal Subsidiaries

A list of principal subsidiaries, together with their places of incorporation/establishment and particulars of their issued and fully paid share capital/registered capital and principal activities, is set out in note 34 to the Consolidated Financial Statements.

Financial Results

The profit of the Group for the year ended 31 December 2013, and the Consolidated Statement of Financial Position of the Group as at that date are set out in the Consolidated Financial Statements on pages 46 to 47 of this annual report.

Dividends

On 11 June 2013, the Company recognised as a distribution and paid a dividend of HK$20,000,000, representing HK$2,000 per share, to its then shareholders of the Company. The dividend was settled by the net proceeds from the Listing.

Subsequent to the end of the reporting period, a final dividend of HK4 cents per share in respect of the year ended 31 December 2013, representing a total of approximately HK$8 million has been proposed by the Directors and is subject to approval by the shareholders in the 2014 AGM to be held on 13 June 2014. The proposed final dividend is expected to be paid on 15 July 2014, Tuesday to the Company's shareholders whose names appear on the Company register of members on 24 June 2014, Tuesday.

Closure of Register of Members

The register of members of the Company will be closed from 11 June 2014, Wednesday to 13 June 2014, Friday (both days inclusive) for the purpose of determining the right to attend and vote at the 2014 AGM. In order to be entitled to attend and vote at the 2014 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Branch Share Registrar") at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (which address will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014), for registration not later than 4:30 p.m. on 10 June 2014, Tuesday.

In addition, the register of members of the Company will also be closed from 20 June 2014, Friday to 24 June 2014, Tuesday (both days inclusive) for the purpose of determining the entitlement to the proposed final dividend in respect of the year ended 31 December 2013 (subject to the approval of the shareholders at the 2014 AGM). In order to be qualified for the proposed final dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Branch Share Registrar for registration not later than 4:30 p.m. on 19 June 2014, Thursday.

Four Year Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last four financial years ended 31 December 2013 is set out on page 88 of this annual report.

Major Suppliers and Customers

For the year ended 31 December 2013, the aggregate sales attributable to the Group's five largest customers were under 5%.

The aggregate purchases attributable to the Group's five largest suppliers during the year were under 88% while the purchases attributable to the Group's largest supplier during the year were approximately 77%.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had an interest in the Group's major suppliers or customers.

Reserves and Distributable Reserves

Movements in the reserves of the Company during the year and reserves available for distribution to Shareholders are set out on page 87 of this annual report. Movements in the reserves of the Group are reflected in the Consolidated Statement of Changes in Equity.

The Company's reserves available for distribution to Shareholders as at 31 December 2013 amounted to approximately HK$95.5 million (2012: Nil).

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

Donations

Donations made by the Group during the year amounted to HK$438,000.

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2013 are set out in note 26 to the Consolidated Financial Statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the Consolidated Financial Statements.

Investment Properties

Details of movements in the investment properties of the Group during the year are set out in note 18 to the Consolidated Financial Statements.

Share Capital

Details of movements in share capital of the Company during the year are set out in note 27 to the Consolidated Financial Statements.

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 the 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 the Group.

Eligible participants of the Share Option Scheme include (i) any employee, executive, or director of any member of the Group or of any company in which the Company holds, directly or indirectly, an equity interest (the "Invested Entity") (including any full-time or part-time employee, executive, executive director, non-executive director, independent non-executive director and company secretary); (ii) any supplier of goods or services to any member of the Group or any Invested Entity; (iii) any customer of the Group or any Invested Entity; and (iv) any consultant, adviser, manager, officer or entity that provides research, development or other technological support to the Group or any Invested Entity.

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 offer of a grant of share options may be accepted within 28 days from the date of offer, with no consideration payable by the grantee.

The maximum number of shares issuable under share options granted to each eligible participant in accordance with the Share Option Scheme within any 12-month period is limited to 1% of the issued share capital of the Company in issue at any time. Any further grant is subject to the shareholders' approval in general meeting with the associates of such participant abstaining from voting.

Each grant of options to a Director, chief executive or substantial shareholder of the Company, or any of their respective associates, must be approved by Independent Non-executive Directors (excluding Independent Non-executive Director who is the grantee of the options). Where any grant of options to a substantial shareholder or an Independent Non-executive Director, or any of their respective associates, would result in the Company's shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in excess of 0.1% of the issued shares of the Company in aggregate and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to shareholders' approval in advance in general meeting.

The exercise price of share options is determined by the Board, but shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the par value of the Company's shares.

Further details of the Share Option Scheme are set out in note 30 to the Consolidated Financial Statements. No option has been granted by the Company under the Share Option Scheme since its adoption.

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. Chu Siu Ming *(Vice-Chairman)* (appointed with effect from 17 December 2012)
Mr. Chu Chun Ho, Dominic *(Co-Chief Executive Officer)* (appointed with effect from 1 May 2013)
Mr. Chu Chun Wah, Haeta *(Co-Chief Executive Officer)* (appointed with effect from 1 May 2013)

Non-executive Directors (all appointed with effect from 1 May 2013)

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

Independent Non-executive Directors (all appointed with effect from 1 May 2013)

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

Pursuant to Article 108 of the Company's Articles of Association, Mr. Chu Siu Ming shall retire by rotation at the 2014 AGM.

On 1 May 2013, the Board approved the appointment of Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta, Mr. Chong Hot Hoi, Mr. Chong Hok Hei, Charles, Mr. Yu Fuk Lun, Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin as Directors. Pursuant to Article 112 of the Company's Articles of Association, they shall hold office until the 2014 AGM.

All of the above retiring Directors, being eligible, will offer themselves for re-election at the 2014 AGM.

Biographies of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out on pages 17 to 21 of this annual report.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the 2014 AGM has a service contract with the Company that is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' Remuneration

The Remuneration Committee considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. Details of Directors' remuneration are set out in note 13(a) to the Consolidated Financial Statements.

Directors' Interests in Contracts

No contract of significance (i) to which the Company, its holding company or any of their subsidiaries was a party, and in which a Director was materially interested, whether directly or indirectly, subsisted at any time during the year or at the end of the year, nor (ii) between the Company, or one of its subsidiaries, and a controlling Shareholder or any of its subsidiaries.

Continuing Connected Transactions

During the year, the Group had the following continuing connected transaction, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 19 December 2013, Grand Asian Limited, an indirectly wholly-owned subsidiary of the Company, entered into a tenancy agreement with Fortune Star Realty Company Limited, being a connected person of the Company within the meanings of the Listing Rules since it is wholly owned by the sister-in-law and nephews of Mr. Chu Siu Ming (an Executive Director and Vice-Chairman of the Company). Pursuant to the tenancy agreement, Grand Asian Limited agreed to lease from Fortune Star Realty Company Limited the premises located at Shop G31, G/F., Peninsula Centre, 67 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong with a gross floor area of approximately 306 square feet ("Peninsula Centre Premises") at a monthly rental of HK$95,000 (exclusive of management fees and utility charges). The terms of the tenancy agreement is valid for 3 years from 1 October 2013 to 30 September 2016 (both days inclusive). The Peninsula Centre Premises has been used by Grand Asian Limited as retail shop.

The annual caps for the rent payable by Grand Asian Limited to Fortune Star Realty Company Limited for lease of the Peninsula Centre Premises for the three years ended/ending 31 December 2013, 2014 and 2015 was HK$1,140,000 and for the period from 1 January 2016 to 30 September 2016 was HK$855,000. During the year ended 31 December 2013, the aggregate rent paid by Grand Asian Limited to Fortune Star Realty Company Limited was HK$915,000, which was within the above maximum amount of HK$1,140,000.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged Deloitte Touche Tohmatsu (the "Auditor"), the auditor of the Company, to review the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transaction disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the Auditors' letter has been provided by the Company to the Stock Exchange. The conclusion contained in such letter is set out below.

— nothing has come to their attention that causes them to believe that the disclosed continuing connected transaction has not been approved by the Board;

— nothing has come to their attention that causes them to believe that the transaction was not entered into, in all material respects, in accordance with the relevant agreement governing such transaction; and

— with respect to the aggregate amount of the continuing connected transaction set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transaction has exceeded the maximum aggregate annual value disclosed in previous announcement dated 19 September 2013 made by the Company in respect of the disclosed continuing connected transaction.

The Independent Non-executive Directors have reviewed the transaction and the aforesaid Auditor's letter and confirmed that the continuing connected transaction has been entered into:

— in the ordinary and usual course of business of the Group;

— either on normal commercial terms or, on terms no less favourable to the Company than the terms available from independent third parties; and

— in accordance with the relevant agreement governing such transaction on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Directors' Interests in Competing Business

During the year, no Director was interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business which is required to be disclosed pursuant to the Listing Rules.

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

As at 31 December 2013, the interests of the Directors in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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, to be notified to the Company and the Stock Exchange, were as follows:

(I) Long position 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 31 December 2013.

(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 31 December 2013.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executives 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 maintained by the Company to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2013, 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 31 December 2013.

Save as disclosed above, as at 31 December 2013, no person, other than the Directors 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.

Related Party Transactions

Details of the significant related party transactions undertaken in the usual course of business are set out in note 33 to the Consolidated Financial Statements.

Use of Proceeds from the 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. The total net proceeds from the Listing after deduction of the underwriting fees and commissions and estimated expenses payable by the Company in connection with the global offerings is amounted to approximately HK$90 million. During the period between the Listing Date and 31 December 2013, the net proceeds from the Listing were utilised in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. As at 31 December 2013, the Group used net proceeds of approximately HK$37.7 million, of which approximately HK$10.4 million was used for opening new retail outlet in Hong Kong, Taiwan and the PRC, approximately HK$23.0 million was used to settle outstanding amounts due to existing shareholders and amount due to immediate holding company, approximately HK$2.0 million was used for renovating the retail outlets in Hong Kong and Taiwan and approximately HK$2.3 million was used for additional working capital and other general corporate purposes. The unutilised net proceeds are placed on short-term deposits with licensed banks in Hong Kong.

Non-Competition Undertakings

Each of the Controlling Shareholders, i.e. Mr. Chong Hok Shan, Mr. Chong Hot Hoi, Mr. Chong Hok Hei, Charles, Mr. Chu Siu Ming and KTS International Holding Inc. and their respective associates, has confirmed to the Company of his/its compliance with the non-competition undertakings provided to the Company pursuant to a deed of non-competition undertakings dated 27 June 2013.

At a meeting of the Audit Committee held on 13 March 2014, all the Independent Non-executive Directors reviewed the confirmations from the Controlling Shareholders in respect of the Non-Competition Undertakings which were submitted to the Company on 4 March 2014 and confirmed compliance with the Non-Competition Undertakings provided by the Controlling Shareholders.

Management Contracts

No contract for the management and administration of the whole or any substantial part of the business of the Company was entered into or in existence during the year.

Purchase, Sale or Redemption of the Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 31 December 2013.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient prescribed public float under the Listing Rules.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 22 to 35 of this annual report.

Audit Committee and Review of Consolidated Financial Statements

The Audit Committee was established with written terms of reference in compliance with the Listing Rules. It is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of that auditors; monitoring the integrity of financial statements, annual report, interim report and quarterly reports (if prepared for publication), and reviewing material financial reporting judgments therein; and reviewing the systems of financing control, internal control and risk management.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2013. The consolidated financial statements for the year ended 31 December 2013 have been audited by the Company's external auditor, Deloitte Touche Tohmatsu.

Auditor

Deloitte Touche Tohmatsu, the auditor of the Company, will retire and, being eligible, offer themselves for re-appointment at the 2014 AGM. A resolution will be submitted to the 2014 AGM to seek Shareholders' approval on the re-appointment of Deloitte Touche Tohmatsu as the Company's auditor until the conclusion of the next annual general meeting.

On behalf of the Board
S. Culture International Holdings Limited
Chong Hot Hoi
Chairman and Non-executive Director

Hong Kong, 18 March 2014

Deloitte.
德勤

TO THE SHAREHOLDERS OF S. CULTURE INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of S. Culture International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 86, which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

18 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	8	**550,134**	505,289
Cost of goods sold		**(199,797)**	(178,326)
Gross profit		**350,337**	326,963
Other income	9	**467**	626
Other gains	10	**298**	414
Selling and distribution costs		**(201,235)**	(188,144)
Administrative expenses		**(122,048)**	(104,880)
Finance costs	11	**(1,926)**	(1,747)
Listing expenses		**(4,935)**	(3,110)
Profit before taxation	12	**20,958**	30,122
Taxation	14	**(4,456)**	(5,043)
Profit for the year		**16,502**	25,079
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation		**27**	465
Total comprehensive income for the year		**16,529**	25,544
Profit for the year attributable to owners of the Company		**16,502**	25,079
Total comprehensive income attributable to owners of the Company		**16,529**	25,544
Earnings per share — basic (HK$)	16	**0.09**	0.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	17	**49,516**	51,403
Investment properties	18	**789**	—
Deferred tax assets	19	**5,416**	4,074
Rental deposits		**10,706**	16,625
		66,427	72,102
Current assets			
Inventories	20	**160,221**	125,852
Trade and other receivables	21	**77,103**	67,013
Amount due from a related party	22	**—**	1,630
Taxation recoverable		**1,616**	—
Bank balances and cash	23	**89,889**	28,028
		328,829	222,523
Current liabilities			
Trade and other payables	24	**34,293**	34,924
Amount due to immediate holding company	25	**—**	4,580
Amounts due to related parties	22	**—**	11,000
Taxation payable		**1,805**	1,392
Bank borrowings — due within one year	26	**103,966**	77,697
		140,064	129,593
Net current assets		**188,765**	92,930
Total assets less current liabilities		**255,192**	165,032
Non-current liabilities			
Bank borrowings — due after one year	26	**14,080**	15,360
Net assets		**241,112**	149,672
Capital and reserves			
Share capital	27	**2,000**	16
Reserves		**239,112**	149,656
Total equity		**241,112**	149,672

The consolidated financial statements on pages 46 to 86 were approved and authorised for issue by the board of directors on 18 March 2014 and are signed on its behalf by:

Chong Hot Hoi
DIRECTOR

Chu Siu Ming
DIRECTOR

	Attributable to owner of the Company					
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note)	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2012	6,000	9,800	—	(304)	108,632	124,128
Profit for the year	—	—	—	—	25,079	25,079
Exchange differences arising on translation and other comprehensive income for the year	—	—	—	465	—	465
Total comprehensive income for the year	—	—	—	465	25,079	25,544
Issue of shares on group reorganisation	16	—	(16)	—	—	—
Elimination on group reorganisation	(6,000)	(9,800)	15,800	—	—	—
At 31 December 2012	16	—	15,784	161	133,711	149,672
Profit for the year	—	—	—	—	16,502	16,502
Exchange differences arising on translation and other comprehensive income for the year	—	—	—	27	—	27
Total comprehensive income for the year	—	—	—	27	16,502	16,529
Dividend paid	—	—	—	—	(20,000)	(20,000)
Effect of share swap pursuant to group reorganisation (Note 27c)	(16)	—	16	—	—	—
Capitalisation issues (Note 27d)	1,500	(1,500)	—	—	—	—
Issue of shares upon public offering (Note 27e)	500	106,000	—	—	—	106,500
Expenses incurred in connection with issue of shares	—	(11,589)	—	—	—	(11,589)
At 31 December 2013	2,000	92,911	15,800	188	130,213	241,112

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 the group reorganisation as explained in Note 2.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013	2012
	HK$'000	HK$'000
Operating activities		
Profit before taxation	**20,958**	30,122
Adjustments for:		
Interest income	**(181)**	(15)
Interest expenses	**1,926**	1,747
Reversal of allowance for inventories	**(2,393)**	(4,635)
Depreciation of property, plant and equipment	**12,242**	10,760
Depreciation of investment properties	**2**	—
Loss on disposal of property, plant and equipment	**11**	1
Operating cash flows before movements in working capital	**32,565**	37,980
Decrease (increase) in rental deposits	**2,242**	(4,192)
Increase in inventories	**(31,976)**	(26,700)
Increase in trade and other receivables	**(6,414)**	(2,538)
Increase (decrease) in trade and other payables	**1,461**	(12,477)
Cash used in operations	**(2,122)**	(7,927)
Hong Kong Profits Tax paid	**(6,861)**	(7,363)
Tax paid in other jurisdictions	**(164)**	(567)
Net cash used in operating activities	**(9,147)**	(15,857)
Investing activities		
Repayments from a related party	**1,630**	3,945
Interest received	**181**	15
Proceeds from disposal of property, plant and equipment	**4**	—
Purchase of property, plant and equipment	**(11,143)**	(12,196)
Repayments from immediate holding company	**—**	3,620
Advance to a related party	**—**	(1,103)
Net cash used in investing activities	**(9,328)**	(5,719)
Financing activities		
New bank loans raised	**253,741**	74,372
Proceeds from issue of shares	**106,500**	—
Repayments of bank borrowings	**(228,703)**	(48,927)
Dividends paid	**(22,072)**	(2,500)
Expenses incurred in connection with issue of shares	**(11,589)**	—
Repayments to related parties	**(11,000)**	(8,837)
(Repayments to) advance from immediate holding company	**(4,580)**	4,580
Interest paid	**(1,926)**	(1,747)
Net cash from financing activities	**80,371**	16,941
Net increase (decrease) in cash and cash equivalents	**61,896**	(4,635)
Cash and cash equivalents at beginning of the year	**28,028**	32,448
Effect of foreign exchange rate changes	**(35)**	215
Cash and cash equivalents at end of the year, representing bank balances and cash	**89,889**	28,028

1. General

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 17 December 2012. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 11 July 2013. Its parent is KTS International Holdings Inc. ("KTS International"), a private company incorporated in the British Virgin Islands ("BVI") with limited liability and the ultimate controlling party is Mr. Chong Hok Shan.

The Company acts as an investment holding company while its subsidiaries are principally engaged in the trading of footwear products. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

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

2. Basis of Preparation

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 ("KTSG") and Grandasian Retail (BVI) Holdings Limited ("Grandasian Retail"), 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, 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 consolidated statement of profit or loss and other comprehensive income and cash flows for the year ended 31 December 2013 and 31 December 2012 have been prepared to present the results and cash flows, 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 or establishment where this is a shorter period. Subsidiaries disposed of by the Group as disclosed in note 28 were derecognised on the date when the Group lost control. The 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 as if the group structure upon the completion of the group reorganisation had been in existence at that date.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

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

Except as described below, the application of other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be subsequently reclassified to profit or loss and (b) items that may be subsequently reclassified 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 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. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

HKFRS 13 "Fair value measurement"

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply 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, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of 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. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Also, HKFRS 13 includes extensive disclosure requirements.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 13 "Fair value measurement" (Continued)

Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 14	Regulatory deferral accounts[5]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle[2]
HK(IFRIC) — INT 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.

2 Effective for annual periods beginning on or after 1 July 2014.

3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition, further amended in 2013 to include the new requirements for hedging accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 9 "Financial instruments" (Continued)

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The director of the Company anticipates that the application of HKFRS 9 will not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's financial instruments reported at the end of the reporting period.

The director of the Company anticipates that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. Significant Accounting Policies (Continued)

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Except for subsidiaries resulting from the group reorganisation as disclosed in note 2, consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method or reducing balance method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement and disclosure purposes.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the investment property is derecognised.

4. Significant Accounting Policies (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits, amount due from a related party and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the general credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amount due to immediate holding company, amounts due to related parties and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Significant Accounting Policies (Continued)

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statement of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to government-managed retirement benefit schemes, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

4. Significant Accounting Policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

5. Key Sources of Estimation Uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment loss recognised on trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. Key Sources of Estimation Uncertainty (Continued)

Estimated impairment loss recognised on trade receivables (Continued)

At 31 December 2013, the carrying amount of trade receivables is HK$54,773,000 (2012: HK$49,441,000) (net of allowance for doubtful debts of HK$118,000 (2012: HK$119,000)).

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and marketability of the inventories. Where the subsequent selling prices decline or costs necessary to make the sales increase, additional allowance may arise.

At 31 December 2013, the carrying amount of inventories is HK$160,221,000 (2012: HK$125,852,000) (net of accumulated allowance for inventories of nil (2012: HK$2,393,000)).

6. Capital Risk Management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

7. Financial Instruments

Categories of financial instruments

	2013 **HK$'000**	2012 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**148,109**	82,358
Rental deposits	**25,483**	27,725
Financial liabilities		
Amortised cost	**134,275**	121,549

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, deposits, amount due from a related party, bank balances and cash, trade and other payables, amount due to immediate holding company, amounts due to related parties and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Currency risk

The carrying amount of the foreign currency denominated monetary assets and liabilities of the group entities are mainly bank balances and cash and trade and other payable as disclosed in notes 23 and 24, respectively. Under the pegged exchange rate system, the financial impact on exchange difference between United States dollars ("USD") and HK$ will be immaterial. The director of the Company considered that the Group's exposure on other foreign currency risk is insignificant, accordingly no sensitivity analysis has been presented. The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank balances, amounts due to related parties and bank borrowings (see notes 23, 22 and 26 for details of these balances). The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of prime lending rate, benchmark interest rate of Central Bank of Taiwan and Hong Kong Interbank Offered Rate. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowings (2012: bank borrowings and amounts due to related parties). The analysis is prepared assuming that the amount of liabilities outstanding at the end of each reporting period were outstanding for the whole year. 50 basis point increase or decrease represent the management's assessment of the reasonably possible change in interest rates of bank borrowings (2012: bank borrowings and amounts due to related parties). No sensitivity analysis is presented for bank balances as the director of the Company considered the Group's exposure to cash flow interest rate risk is not material.

If interest rates on bank borrowings (2012: bank borrowings and amounts due to related parties) had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the year is as follows:

	2013	2012
	HK$'000	HK$'000
(Decrease) increase in profit for the year		
— as a result of increase in interest rate	**(492)**	(434)
— as a result of decrease in interest rate	**492**	434

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure do not reflect the exposures during the year.

7. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of the Company considers that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties.

The credit risk for bank deposits is considered minimal as such amounts are placed in banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity date for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

Liquidity and interest risk tables

	Weighted average interest rate %	On demand or less than 1 year HK$'000	1–2 years HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
At 31 December 2013							
Trade and other payables	N/A	16,229	—	—	—	16,229	16,229
Bank borrowings							
— variable rate	2.30	106,173	1,607	4,137	10,373	122,290	118,046
		122,402	1,607	4,137	10,373	138,519	134,275

7. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average interest rate %	On demand or less than 1 year HK$'000	1–2 years HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
At 31 December 2012							
Trade and other payables	N/A	12,912	—	—	—	12,912	12,912
Amount due to immediate holding company	N/A	4,580	—	—	—	4,580	4,580
Amounts due to related parties	5.00	11,000	—	—	—	11,000	11,000
Bank borrowings — variable rate	2.26	79,770	1,560	4,096	11,693	97,119	93,057
		108,262	1,560	4,096	11,693	125,611	121,549

Bank loan with a repayment on demand clause was included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2013, the principal amount of this bank loan amounted to HK$1,500,000 (2012: HK$1,500,000). Taking into account the Group's financial position, the directors of the Company did not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors of the Company believes that such bank loan will be repaid in accordance with the scheduled repayment date set out in the loan agreement and the principal and interest cash outflows according to the scheduled repayment date are set out as follows:

	Weighted average interest rate %	**On demand or less than 1 year** HK$'000	**1–2 years** HK$'000	**Total undiscounted cash flows** HK$'000	**Carrying amounts** HK$'000
At 31 December 2013					
Bank borrowing — variable rate	**2.47**	**1,537**	**—**	**1,537**	**1,500**
At 31 December 2012					
Bank borrowing — variable rate	2.47	37	1,537	1,574	1,500

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

8. 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 conforming to HKFRSs, that are regularly reviewed by the chief operating decision makers, 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 year ended 31 December 2013

	Retail sales HK$'000	Wholesale HK$'000	Segment total HK$'000	Elimination HK$'000	Total HK$'000
REVENUE					
External sales	496,274	53,860	550,134	—	550,134
Inter-segment sales	—	218,499	218,499	(218,499)	—
Segment revenue	496,274	272,359	768,633	(218,499)	550,134
Segment results	16,446	12,299	28,745	(1,581)	27,164
Unallocated income					2,574
Unallocated expenses					(6,854)
Finance costs					(1,926)
Profit before taxation					20,958

8. Revenue and Segment Information (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2012

	Retail sales HK$'000	Wholesale HK$'000	Segment total HK$'000	Elimination HK$'000	Total HK$'000
REVENUE					
External sales	441,968	63,321	505,289	—	505,289
Inter-segment sales	—	195,025	195,025	(195,025)	—
Segment revenue	441,968	258,346	700,314	(195,025)	505,289
Segment results	8,425	22,218	30,643	(1,217)	29,426
Unallocated income					7,092
Unallocated expenses					(4,649)
Finance costs					(1,747)
Profit before taxation					30,122

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 described in note 4. Segment results represent 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.

Other segment information

For the year ended 31 December 2013

	Retail sales HK$'000	Wholesale HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in measure of segment results:				
Depreciation	**10,003**	**2,239**	**2**	**12,244**
Loss on disposal of property, plant and equipment	**11**	**—**	**—**	**11**
Amounts regularly provided to the chief operating decision makers but not included in the measure of segment results:				
Listing expenses	**—**	**—**	**4,935**	**4,935**
Reversal of allowance for inventories (Note)	**—**	**—**	**(2,393)**	**(2,393)**

8. Revenue and Segment Information (Continued)

Other segment information (Continued)

For the year ended 31 December 2012

	Retail sales HK$'000	Wholesale HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in measure of segment results:				
Depreciation	7,765	2,995	—	10,760
Loss on disposal of property, plant and equipment	1	—	—	1
Amounts regularly provided to the chief operating decision makers but not included in the measure of segment results:				
Listing expenses	—	—	3,110	3,110
Reversal of allowance for inventories (Note)	—	—	(4,635)	(4,635)

Note: Reversal of allowance for inventories were unallocated as the executive directors of the Company considered that these amounts are attributable to the Group as a whole.

Revenue by major brands

The following is an analysis of the Group's revenue by brands:

	2013 HK$'000	2012 HK$'000
Clarks	**414,792**	404,434
Josef Seibel	**87,670**	67,164
Flexx	**15,315**	9,558
Yokono and Yokono K	**1,862**	1,382
Petite Jolie	**1,719**	—
Others	**28,776**	22,751
	550,134	505,289

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the the respective group entities' operations:

	2013 HK$'000	2012 HK$'000
Hong Kong	**435,010**	393,516
Taiwan	**101,961**	96,989
Macau	**12,628**	14,784
Mainland China	**535**	—
	550,134	505,289

8. Revenue and Segment Information (Continued)

Geographical information (Continued)

Information about the Group's non-current assets (excluding deferred tax assets) is presented based on the location of the assets:

	2013 **HK$'000**	2012 HK$'000
Hong Kong	**30,941**	38,701
Taiwan	**27,814**	29,133
Macau	**1,628**	194
Mainland China	**628**	—
	61,011	68,028

Information about major customers

No individual customer accounted for over 10% of the Group's total revenue during both years.

9. Other Income

	2013 **HK$'000**	2012 HK$'000
Interest income	**181**	15
Commission income	**95**	176
Rental income	**84**	—
Management fee income	**—**	226
Others	**107**	209
	467	626

10. Other Gains

	2013 **HK$'000**	2012 HK$'000
Net exchange gain	**309**	415
Loss on disposal of property, plant and equipment	**(11)**	(1)
	298	414

11. Finance Costs

	2013 **HK$'000**	2012 HK$'000
Interest on:		
Amounts due to related parties	**164**	550
Bank borrowings wholly repayable:		
— within five years	**1,335**	892
— after five years	**427**	305
	1,926	1,747

12. Profit Before Taxation

	2013 HK$'000	2012 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' remuneration (note 13)	**8,139**	7,214
Other staff costs	**88,053**	71,742
Retirement benefit schemes contributions for other staff	**3,883**	3,270
Total staff costs	**100,075**	82,226
Auditor's remuneration	**1,598**	333
Cost of inventories recognised as expenses (Note a)	**199,797**	178,326
Depreciation of property, plant and equipment	**12,242**	10,760
Depreciation of investment properties	**2**	—
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**1,866**	1,013
— retail stores (included in selling and distribution costs)		
— minimum lease payments	**99,767**	107,886
— contingent rent (Note b)	**1,021**	372
	100,788	108,258
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	**45,624**	44,559
— contingent rent (Note b)	**12,176**	5,362
	57,800	49,921
	160,454	159,192

Notes:

(a) Included in cost of inventories recognised as expenses were certain obsolete inventories were sold to customers at original cost or above which resulted in a reversal of allowance amounting to HK$2,393,000 (2012: HK$4,635,000) during the year ended 31 December 2013.

(b) The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.

13. Directors', Chief Executives' and Employees' Emoluments

(a) Directors' and chief executives' emoluments

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefit schemes contributions HK$'000	Total HK$'000
For the year ended 31 December 2013				
Executive directors:				
Mr. Chu Siu Ming	**80**	**3,088**	**105**	**3,273**
Mr. Chu Chun Ho, Dominic	**80**	**2,084**	**96**	**2,260**
Mr. Chu Chun Wah, Haeta	**80**	**2,119**	**65**	**2,264**
Non-executive directors:				
Mr. Chong Hot Hoi	**1**	**—**	**—**	**1**
Mr. Chong Hok Hei, Charles	**1**	**—**	**—**	**1**
Mr. Yu Fuk Lun	**80**	**—**	**—**	**80**
Independent non-executive directors:				
Mr. Wan Kam To	**100**	**—**	**—**	**100**
Mr. Yau Tat Wang, Dennis	**80**	**—**	**—**	**80**
Mr. Lam Man Tin	**80**	**—**	**—**	**80**
	582	**7,291**	**266**	**8,139**

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefit schemes contributions HK$'000	Total HK$'000
For the year ended 31 December 2012				
Executive directors:				
Mr. Chu Siu Ming	—	3,334	93	3,427
Mr. Chu Chun Ho, Dominic	—	1,766	82	1,848
Mr. Chu Chun Wah, Haeta	—	1,887	52	1,939
Non-executive directors:				
Mr. Chong Hot Hoi	—	—	—	—
Mr. Chong Hok Hei, Charles	—	—	—	—
Mr. Yu Fuk Lun	—	—	—	—
	—	6,987	227	7,214

Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta are also the chief executives of the Company and their emoluments disclosed above include those for services rendered by them as the chief executives.

The independent non-executive directors were appointed by the Company on 1 May 2013.

13. Directors', Chief Executives' and Employees' Emoluments (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, 3 (2012: 3) were directors and the chief executives of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining 2 (2012: 2) individuals were as follows:

	2013	2012
	HK$'000	HK$'000
Employees		
— salaries and allowance	**2,995**	1,815
— retirement benefits scheme contributions	**30**	84
	3,025	1,899

Their emoluments were within the following bands:

	Number of employees	
	2013	2012
Up to HK$1,000,000	**—**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**1**	—
	2	2

14. Taxation

	2013	2012
	HK$'000	HK$'000
Current tax		
Hong Kong Profits Tax	**5,559**	4,811
Taiwan Income Tax	**—**	204
Macau Complementary Tax	**169**	160
	5,728	5,175
Underprovision in prior years	**93**	—
Deferred taxation (note 19)	**(1,365)**	(132)
	4,456	5,043

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

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) on the estimated assessable profit for the year.

Taiwan income tax is calculated at 17% (2012: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods in Taiwan for the year. No provision for Taiwan income tax has been made in the consolidated financial statements as the branch operating in Taiwan has no assessable profits for the year ended 31 December 2013.

14. Taxation (Continued)

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (2012: 9% to 12%) on the estimated assessable profit for the year.

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%.

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013	2012
	HK$'000	HK$'000
Profit before taxation	**20,958**	30,122
Tax at Hong Kong Profits Tax rate of 16.5% (2012: 16.5%)	**3,458**	4,970
Tax effect of expenses not deductible for tax purposes	**1,140**	560
Tax effect of income not taxable for tax purposes	**(319)**	(342)
Tax effect of utilisation of tax loses previously not recognised	**(107)**	—
Tax effect of tax losses not recognised	**115**	213
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(79)**	4
Underprovision in prior years	**93**	—
Others	**155**	(362)
Taxation charge	**4,456**	5,043

15. Dividends

On 11 June 2013, the Company recognised as a distribution and paid a dividend of HK$20,000,000 to its then shareholders of the Company and was settled by the net proceeds for the Listing.

During the year ended 31 December 2012, the Company did not declare/propose any dividend for distribution.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2013 of HK4 cents (2012: nil) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

16. Earnings Per Share

The calculation of the basic earnings per share for the year is based on the consolidated profit attributable to owners of the Company and the weighted average number of 173,835,616 (2012: 150,000,000) ordinary shares in issue during the year which is calculated on the assumption that the group reorganisation has been effective on 1 January 2012, and has been adjusted to reflect the allotment of 9,999 shares of HK$0.01 each to CN Fashion on 25 January 2013 and 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 year.

17. Property, Plant and Equipment

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2012	40,588	27,187	5,443	2,801	76,019
Exchange adjustments	—	281	46	9	336
Additions	—	10,436	1,760	—	12,196
Disposals	—	(2,370)	(216)	—	(2,586)
At 31 December 2012	40,588	35,534	7,033	2,810	85,965
Exchange adjustments	—	(9)	1	—	(8)
Additions	—	10,073	1,070	—	11,143
Transfer to investment properties	(1,186)	—	—	—	(1,186)
Disposals	—	(4,941)	(371)	—	(5,312)
At 31 December 2013	39,402	40,657	7,733	2,810	90,602
DEPRECIATION					
At 1 January 2012	6,793	15,053	3,403	1,052	26,301
Exchange adjustments	—	77	7	2	86
Provided for the year	660	8,209	1,385	506	10,760
Eliminated on disposals	—	(2,370)	(215)	—	(2,585)
At 31 December 2012	7,453	20,969	4,580	1,560	34,562
Exchange adjustments	—	(22)	(4)	—	(26)
Provided for the year	658	9,860	1,357	367	12,242
Transfer to investment properties	(395)	—	—	—	(395)
Eliminated on disposals	—	(4,941)	(356)	—	(5,297)
At 31 December 2013	7,716	25,866	5,577	1,927	41,086
CARRYING VALUES					
At 31 December 2013	31,686	14,791	2,156	883	49,516
At 31 December 2012	33,135	14,565	2,453	1,250	51,403

17. Property, Plant and Equipment (Continued)

The Group's leasehold land and buildings are situated:

	2013 HK$'000	2012 HK$'000
In Hong Kong:		
Long lease	—	801
Medium-term lease	**11,250**	11,600
In Taiwan:		
Freehold	**20,436**	20,734
	31,686	33,135

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method or reducing balance method at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the term of the lease on straight-line method
Buildings	Over the shorter of the term of lease or 2% on straight-line method
Leasehold improvements	Over the shorter of the term of the lease or 25%–$33^1/_3$% on straight-line method
Furniture, fixtures and equipment	$33^1/_3$%–50% on straight-line method
Motor vehicles	30% on reducing balance method

18. Investment Properties

	HK$'000
COST	
At 1 January 2012 and 31 December 2012	—
Transfer from property, plant and equipment	1,186
At 31 December 2013	1,186
DEPRECIATION	
At 1 January 2012 and 31 December 2012	—
Transfer from property, plant and equipment	395
Provided for the year	2
At 31 December 2013	397
CARRYING VALUES	
At 31 December 2013	789

The fair value of the Group's investment properties situated in Hong Kong under long lease at 31 December 2013 was HK$23,020,000. The fair value has been arrived at based on a valuation carried out on that date by CBRE Limited, independent valuers not connected with the Group.

The fair value was determined based on direct comparison method assuming sales of each of the property interests in their existing states and making references to comparable market observable transactions of similar properties in similar locations and conditions as available in the relevant market. Those comparable properties are analysed and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

18. Investment Properties (Continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 3 HK$'000	Fair value as at 31.12.2013 HK$'000
Commercial property units located in Hong Kong	**23,020**	**23,020**

The Group's investment properties are depreciated over the shorter of the term of lease or 2% on straight-line method.

The Group's investment properties are held under long lease and are situated in Hong Kong.

19. Deferred Taxation

The followings are the major deferred tax assets recognised and movements thereon during the year:

	Property, plant and equipment HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 January 2012	3,922	20	3,942
Credit to profit or loss (note 14)	110	22	132
At 31 December 2012	4,032	42	4,074
Credit to profit or loss (note 14)	846	519	1,365
Disposal of a subsidiary	—	(20)	(20)
Exchange adjustments	—	(3)	(3)
At 31 December 2013	4,878	538	5,416

At the end of reporting period, the Group has unutilised tax losses of HK$4,391,000 (2012: HK$1,408,000) subject to the approval from relevant tax authorities available for offset against future profits. A deferred tax asset has been recognised in respect of HK$3,053,000 (2012: HK$117,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of HK$1,338,000 (2012: HK$1,291,000) due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$697,000 (2012: nil) that will expire in 2018. Other tax losses may be carried forward indefinitely.

At the end of reporting period, the aggregate amount of temporary difference associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised was HK$2,251,000 (2012: HK$4,765,000). No liability has been recognised in respect of those differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

20. Inventories

	2013 **HK$'000**	2012 HK$'000
Finished goods	**160,221**	125,852

21. Trade and Other Receivables

	2013 HK$'000	2012 HK$'000
Trade receivables	**38,340**	36,293
Bills receivables	**16,551**	13,267
Less: Allowance for doubtful debts	**(118)**	(119)
	54,773	49,441
Rental deposits	**14,777**	11,100
Other deposits	**1,463**	1,723
Prepayments	**3,705**	2,691
Other receivables	**2,385**	2,058
	22,330	17,572
	77,103	67,013

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 aging 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:

	2013 HK$'000	2012 HK$'000
Within 30 days	**46,747**	40,599
31 to 60 days	**2,962**	2,945
61 to 90 days	**2,323**	3,893
Over 90 days	**2,741**	2,004
	54,773	49,441

For sales by wholesale, before accepting any new customer, the Group will check the historical default records of these customers through external source.

The management of the Group closely monitors the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$5,064,000 (2012: HK$5,897,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

21. Trade and Other Receivables (Continued)

The following is an aging analysis of trade receivables based on the invoice date which are past due but not impaired at the end of each reporting period:

	2013	2012
	HK$'000	HK$'000
61 to 90 days	**2,323**	3,893
Over 90 days	**2,741**	2,004
	5,064	5,897

Receivables that were neither past due nor impaired relate to a number of customers for whom there were no history of default.

Based on the historical experience of the Group, trade receivables that are past due but not impaired are generally recoverable.

Movement in the allowance for doubtful debts

	2013	2012
	HK$'000	HK$'000
Balance at beginning of the year	**(119)**	(113)
Exchange adjustments	**1**	(6)
Balance at end of the year	**(118)**	(119)

Included in the allowance for doubtful debts are individually impaired trade receivables relating to wholesale customers with an aggregate balance of HK$118,000 (2012: HK$119,000). Full provision has been made for individual trade receivables aged over one year with no subsequent settlements as historical evidence shows that such amounts are not recoverable.

There are no trade and other receivables denominated in currencies other than functional currencies of the respective group entities which they relate.

21. Trade and Other Receivables (Continued)

Movement in the allowance for doubtful debts (Continued)

The followings are the bills receivables of the Group discounted to banks which did not qualify for derecognition at the end of each reporting period:

	Bills receivables discounted to banks with full recourse	
	2013	2012
	HK$'000	HK$'000
Carrying amount of bills receivables	**16,551**	13,267
Carrying amount of associated liabilities	**16,551**	13,267
Net position	**—**	—

Under the above arrangements, the Group transferred the contractual rights to receive cash flows from the bills receivables to the respective banks by discounting the bills receivables for cash on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables. These receivables are carried at amortised cost in the consolidated financial statements and associated liabilities have been recognised and included in liabilities as bank loans related to bills discounted with recourse.

22. Amounts Due from (to) Related Parties

The amount due from a related party represented amount due from Mr. Chu Chun Ho, Dominic, a director of the Company, which was of non-trade nature, unsecured, interest-free and repayable on demand. During the year ended 31 December 2013, the maximum amount outstanding due from a related party was HK$1,630,000 (2012: HK$1,630,000). The amount was fully settled during the year ended 31 December 2013.

The amounts due to related parties represented loans from Mr. Chu Siu Ming, a director of the Company and a substantial shareholder of KTS International, and Ms. Wong May Heung, a close family member of Mr. Chu Siu Ming. The amounts were interest bearing at Hong Kong prime lending rate and repayable on demand. The effective interest rate was 5% (2012: 5%) per annum. The amounts were fully settled during the year ended 31 December 2013.

23. Bank Balances and Cash

Bank balances carry interest at prevailing market rates of 0.01% to 0.70% (2012: 0.01% to 0.75%) per annum.

Included in bank balances are the following amounts denominated in currencies other than functional currencies of the respective group entities which they relate:

	2013	2012
	HK$'000	HK$'000
HK$	**966**	700
USD	**—**	50
MOP	**—**	87

24. Trade and Other Payables

	2013 HK$'000	2012 HK$'000
Trade payables	**12,529**	6,892
Accrued expenses and deposits received from customers	**18,064**	19,940
Dividends payable (Note)	**—**	2,072
Other payables	**3,700**	6,020
	34,293	34,924

Note: The amount represented dividend payable to CN Fashion which was unsecured, interest-free and repayable on demand. The amount was fully settled during the year ended 31 December 2013.

The average credit period of trade payables is 30 days.

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

	2013 HK$'000	2012 HK$'000
Within 30 days	**3,718**	4,758
31 to 60 days	**6,614**	1,184
61 to 90 days	**2,176**	912
Over 90 days	**21**	38
	12,529	6,892

Included in trade and other payables is the following amount denominated in a currency other than functional currency of the respective group entity which it relates:

	2013 HK$'000	2012 HK$'000
USD	**8,423**	771

25. Amount Due to Immediate Holding Company

The amount was of non-trade nature, unsecured, interest-free and repayable on demand. The amount was fully settled by part of the net proceeds received from the Listing during the year ended 31 December 2013.

26. Bank Borrowings

	2013 HK$'000	2012 HK$'000
Bank loans	**20,860**	20,140
Loans related to bills discounted with recourse	**16,551**	13,267
Trust receipt loans	**80,635**	59,650
	118,046	93,057
Secured	**70,001**	63,155
Unsecured	**48,045**	29,902
	118,046	93,057
Carrying amount repayable*		
Within one year	**103,966**	76,197
More than one year, but not more than two years	**1,280**	2,780
More than two years, but not more than five years	**3,840**	3,840
More than five years	**8,960**	10,240
	118,046	93,057
Less: Amounts due within one year shown under current liabilities**	**(103,966)**	(77,697)
Amounts shown under non-current liabilities	**14,080**	15,360

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

** Included in HK$103,966,000 (2012: HK$77,697,000) is HK$1,500,000 (2012: HK$1,500,000) bank borrowings that are repayable within one year (2012: more than one year, but not more than two years) pursuant to scheduled repayment dates set out in the loan agreements but contain a repayment on demand clause.

The above bank borrowings bear interests at benchmark interest rate of Central Bank of Taiwan plus 0.65% to 1.25% (2012: 0.45% to 1.2%) or Hong Kong Interbank Offered Rate plus 1.5% to 2.5% (2012: 1.625% to 2.25%) per annum.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings, is as follows:

	2013 HK$'000	2012 HK$'000
Effective interest rates:		
Variable-rate borrowings	**1.7%–3.2%**	1.6%–3.2%

Details of the pledged assets to secure the bank borrowings are set out in note 32.

Details of bank borrowings guaranteed by related parties are set out in note 33.

27. 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 31 December 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	—
Capitalisation issue	(d)	149,990,000	1,500
Issue of shares upon the public offering	(e)	50,000,000	500
At 31 December 2013		200,000,000	2,000

Notes:

(a) 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.

(b) 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.

(c) 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.

(d) 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 in full at par of 149,990,000 ordinary shares of HK$0.01 each for allotment and issue on 11 July 2013.

(e) 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.

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

The share capital as at 1 January 2012 shown in the 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.

28. Disposal of Subsidiaries

On 21 January 2013, the Group disposed of the 100% equity interests in its subsidiaries, Aiuti Company Limited ("Aiuti") and Cotteen Marketing Limited ("Cotteen Marketing"), 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:	
Deferred tax assets	20
Bank balances and cash	41
Trade and 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)
	—

29. Retirement Benefits Schemes

The Group operates a Mandatory Provident Fund Scheme (the "HK MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong and Mandatory Provident Fund Scheme under the Labour Standards Law (as amended) in Taiwan (the "TW MPF Scheme") for employees employed in Taiwan. The HK MPF Scheme and the TW MPF Scheme are defined contribution retirement schemes administered by independent trustees. Under the HK MPF Scheme and TW MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% and 6%, respectively, of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (from 1 January 2012 to 31 May 2012: HK$20,000) for the HK MPF Scheme while there is no cap to monthly income under the TW MPF Scheme. Contributions to the schemes vest immediately.

The employees employed by a subsidiary in Macau Special Administrative Region of the People's Republic of China ("Macau") are members of the government-managed social benefits schemes operated by the Macau government. The subsidiary is required to pay a monthly fixed contribution to the social benefits schemes to fund the benefits. The only obligation of the Group with respect to the social benefits schemes operated by the Macau government is to make the required contributions under the schemes. The assets of the schemes are held separately from those of the Group in funds under the control of an independent trustee.

The employees employed in the subsidiaries established in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

29. Retirement Benefits Schemes (Continued)

The retirement scheme cost recognised in profit and loss represents contributions paid or payable to the schemes by the Group at rates specified in the rules of the scheme. At the end of each reporting period, the Group had no significant obligation apart from the contributions as stated above and there is no forfeited contribution arose upon employees leaving the retirement benefit schemes and which were available to reduce contributions payable.

30. Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed 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 optimise their performance and efficiency for the benefit of the 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 the Group.

The board of directors 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 of the Company first commence on the Stock Exchange and at the date of this annual report.

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, the board of directors 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 the board of directors may determine in its absolute discretion.

No options were granted or exercised during the year ended 31 December 2013 and no share options were outstanding as at 31 December 2013.

31. Operating Lease Commitments

As lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013	2012
	HK$'000	HK$'000
Within one year	**88,908**	109,405
In the second to fifth years inclusive	**43,439**	65,613
	132,347	175,018

Operating lease payments represent rentals payable by the Group for the warehouses, rental stores and department store counters. Leases are negotiated for terms ranging from one to five years.

31. Operating Lease Commitments (Continued)

As lessee (Continued)

Certain retail stores and department store counters include payment obligations with rental varied with gross revenue. The contingent rents are determined generally by applying pre-determined percentages to realised sales less the basic rentals of the respective leases.

Included in above, the Group had future minimum lease payments under non-cancellable operating leases with related parties which are Becking Investment Limited ("Becking Investment") and Mr. Chong Hok Shan.

	2013	2012
	HK$'000	HK$'000
Within one year	**731**	540
In the second to fifth years inclusive	**252**	300
	983	840

As lessor

Investment properties were leased for a term of five years. At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2013	2012
	HK$'000	HK$'000
Within one year	**651**	—
In the second to fifth years inclusive	**3,928**	—
	4,579	—

32. Pledge of Assets

Leasehold land and buildings amounting to HK$20,436,000 (2012: HK$32,664,000) were pledged to secure the bank borrowings and banking facilities granted to the Group and refundable deposits (included in trade and other receivables), amounting to HK$498,000 (2012: HK$689,000), were pledged to secure the foreign exchange contracts entered into with a bank, respectively.

Bills receivables amounting to HK$16,551,000 (2012: HK$13,267,000) were pledged to secure the loans related to bills discounted with recourse.

33. Related Party Transactions

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

Name of related companies	Nature of transactions	2013 HK$'000	2012 HK$'000
Becking Investment (Note a)	Rental expense	**360**	309
Mr. Chong Hok Shan	Rental expense	**360**	268
Mr. Chu Siu Ming and Ms. Wong May Heung (Note b)	Interest expense	**164**	550
Lekin Limited ("Lekin") (Note c)	Recharge of expense	**—**	261
	Management fee income	**—**	100
Zenico (Asia) Co., Ltd ("Zenico Asia") (Note d)	Rental expense	**—**	120
	Management fee income	**—**	126

Notes:

(a) Becking Investment is wholly-owned by Mr. Chong Hok Shan, a controlling shareholder of the Company, and Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, the directors of the Company.

(b) 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 had provided personal guarantees of HK$136,906,000 to a bank in respect of the Group's banking facilities at 31 December 2012. Such guarantees were released during the year ended 31 December 2013.

Mr. Chong Hok Shan had also provided personal guarantees of HK$58,106,000 to a bank in respect of the Group's banking facilities at 31 December 2012. Such guarantees were released during the year ended 31 December 2013.

Compensation of key management personnel

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

	2013 HK$'000	2012 HK$'000
Salaries and allowances	**7,873**	6,987
Retirement benefit schemes contributions	**266**	227
	8,139	7,214

Key management personnel are deemed to be the members of the Board of Directors of the Group which has responsibility for planning, directing and controlling the activities of the Group.

34. Particulars of Subsidiaries

Details of the Company's subsidiaries as at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/registered capital	Equity interest attributable to the Group 2013	2012	Principal activities
Advertisers' Media Agency Limited	Hong Kong	HK$10,000	**100%**	100%	Marketing and advertising of footwear products
Aiuti	Hong Kong	HK$10,000	—	100%	Inactive
Cobblers Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of footwear products
Cotteen Marketing	Hong Kong	HK$10,000	—	100%	Inactive
Grand Asian	Hong Kong	HK$1,000,000	**100%**	100%	Trading of footwear products
Grandasian Retail	BVI	US$1	**100%**	100%	Investment holding
Kong Tai Sundry Goods	Hong Kong	HK$5,000,000	**100%**	100%	Trading of footwear products
KTSG	BVI	US$1	**100%**	100%	Investment holding
KTS Properties Holdings Limited	BVI	US$1	**100%**	100%	Inactive
Shoe Mart Company Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of footwear products
Shoes Culture Company Limited	Macau	MOP25,000	**100%**	100%	Trading of footwear products
S. Culture BVI*	BVI	US$2,000	**100%**	100%	Investment holding
西寶(上海)商貿有限公司#	PRC	RMB1,000,000	**100%**	—	Trading of footwear products

* Directly held by the Company

Incorporated on 5 September 2013

None of the subsidiaries had any debt securities outstanding at 31 December 2012 and 2013 or at any time during the years.

Financial information of the Company at the end of the reporting period is set out below:

	2013 HK$'000	2012 HK$'000
Investments in subsidiaries	**16**	—
Amounts due from subsidiaries (Note)	**34,001**	—
Bank balances and cash	**63,601**	—
Amounts due to subsidiaries (Note)	**(88)**	—
Net assets	**97,530**	—
Share capital	**2,000**	—
Reserves	**95,530**	—
Total equity	**97,530**	—

Note: The amounts are unsecured, interest-free and repayable on demand.

Movement in share capital and reserves of the Company is set out below:

	Share capital HK$'000	**Share premium** HK$'000 (Note)	**Accumulated profits** HK$'000 (Note)	**Total** HK$'000
Profit and total comprehensive income for the period and at 31 December 2012	—	—	—	—
Profit and total comprehensive income for the year	—	—	22,619	22,619
Dividend paid	—	—	(20,000)	(20,000)
Capitalisation issue	1,500	(1,500)	—	—
Issue of shares upon the public offering	500	106,000	—	106,500
Expenses incurred in connection with the issue of shares	—	(11,589)	—	(11,589)
At 31 December 2013	2,000	92,911	2,619	97,530

Note: As at 31 December 2013, the Company has reserve of HK$95,530,000 (2012: Nil) available for distribution in accordance with the Companies Law of the Cayman Islands.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is as follows:

Results

	For the year ended 31 December			
	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**550,134**	505,289	472,443	365,846
Profit before tax	**20,958**	30,122	37,591	22,224
Income tax expense	**(4,456)**	(5,043)	(6,089)	(4,139)
Profit after tax	**16,502**	25,079	31,502	18,085

Assets and Liabilities

	As at 31 December			
	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**395,256**	294,625	265,625	240,966
Total liabilities	**(154,144)**	(144,953)	(141,497)	(140,007)
Total equity	**241,112**	149,672	124,128	100,959