



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

A collage of fashion items including various styles of shoes (loafers, sneakers, boots) and clothing (jackets, dresses) arranged in a geometric, overlapping pattern. The background is white with grey and gold geometric shapes.

INTERIM REPORT
2016



CONTENTS

Corporate Information	2
Financial Highlights	3
Chairman’s Statement	4
Management Discussion and Analysis	6
Report on Review of Condensed Consolidated Financial Statements	12
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	13
Condensed Consolidated Statement of Financial Position	14
Condensed Consolidated Statement of Changes in Equity	15
Condensed Consolidated Statement of Cash Flows	16
Notes to the Condensed Consolidated Financial Statements	17
General Information	23

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

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 six months ended 30 June

		2016	2015
Revenue	HK\$'000	282,579	269,414
Gross profit	HK\$'000	160,307	173,777
Loss before taxation	HK\$'000	(22,178)	(4,718)
Loss attributable to owners of the Company	HK\$'000	(19,094)	(4,648)
Gross profit margin	%	56.7	64.5
Loss margin attributable to owners of the Company	%	(6.8)	(1.7)
Loss per share — basic	HK\$	(0.095)	(0.023)

As at

	30 June 2016	31 December 2015
Current ratio	1.7 times	1.7 times
Gearing ratio (total debt to total equity)	94.2%	96.3%
Average trade receivables turnover period	31.4 days	37.4 days
Average trade payables turnover period	8.5 days	11.1 days
Average inventory turnover period	372.8 days	375.2 days



CHAIRMAN'S
STATEMENT



Dear Shareholders,

On behalf of the board of directors (the "Board") of S. Culture International Holdings Limited ("S. Culture" or the "Company", together with its subsidiaries, the "Group"), I hereby present the Company's interim results for the six months ended 30 June 2016 (the "Period").

In the first half of 2016, negative factors that we had been experiencing in the year 2015, such as the continued slowdown in inbound tourism and the more cautious local consumer sentiment amid the uncertain economic conditions in the region and the world, still persisted and aggravated its toll on the retail industry, especially for the Hong Kong retail market. As revealed in the latest retail statistics of Hong Kong, the unfavorable effects of the above market dampening factors had prolonged the sluggishness and further deteriorated the retail performance of our target markets. Retailers in town had taken the inevitable measures in terms of widespread discounting and promotion activities to maintain market shares, which resulted in further squeeze in operating margins. Against the deteriorating retail market conditions and margin erosions in the footwear market, the Group recorded a same store sales decline of approximately 2.4% and a net loss of approximately HK\$19.1 million for the Period.

Under this difficult economic and market conditions, the Group remained cautious in rationalizing the extant mix and network of our retail outlets against the high costs of operations. We had been continuing our strategy to fine-tune our retail outlets mix by closing those low performing retail outlets, relocating retail outlets to other prime shopping locations with lower rentals and opened new short term lease promotion outlets to improve store efficiency and effectiveness. In the meantime, we were also taking advantage of the declining general rental levels of street outlets to negotiate better rental terms with landlords upon expiry of leases. In addition, the Group had strengthened and pursued appropriate management tactics to optimise our operations in the areas of sales, inventory and supply chain management to maintain healthy presence in our operating territories. The management had also committed to relentless measures in cost containment. The Group would monitor the impact of the above-mentioned operating factors on an on-going basis so as to remain competitive in the market.

Despite the above, the management had embarked on certain initiatives to push for higher market shares, for example, short term lease outlets were opened in strategic locations to service a wider base of customers and thus grab additional market shares. This had proven successful as our sales for the Period increased by approximately 4.9%. We had also commenced to place our in-season products at online channels and platforms that are welcomed by many young and ready-to-spend customers. We had also continued our market cultivation effort in the Mainland China. Our brands were gaining higher awareness in the locations we had been plowing seeds. We had been negotiating further collaborations with local retailers in the Mainland to broaden our sales channels so as to reach a larger population of customers there.

While the near future of the retail industry remains bleak at this juncture of low times, we believe in and still embrace the Group's strengths and core competences which shall drive us to explore new opportunities to achieve sustainability and deliver optimal return to our shareholders.

By Order of the Board

S. Culture International Holdings Limited

Chong Hot Hoi

Chairman

22 August 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

Retail Operations

Revenue of the Group's retail business for the Period was HK\$260.4 million, representing a 5.9% increase from the HK\$245.9 million of the even period of 2015. Despite the increase in our overall revenue, we had recorded a 2.4% decrease of comparable retail outlet sales during the Period (30 June 2015: 8.2% decrease). This was mainly due to the prolonged sluggishness of the consumer market in Hong Kong, resulting from the continued slowdown in inbound tourism and the more cautious local consumer sentiment amid the uncertain economic conditions in the region and the world.

Hong Kong

Hong Kong was still contributing a majority of sales as we had 74 retail outlets in the locality as of the Period end. In view of the slow sales and challenging operating environment as mentioned above, we had experienced a same store sales decline of approximately 2.4% in sales revenue for our Hong Kong retail operations. To enhance our efficiency and remain competitive in the market, we suspended our salary increment plan in 2016 and continued to assess and fine-tune our retail network in Hong Kong. We closely monitored the performance and productivity of each individual retail outlet on a regular basis, strategically relocated certain retail outlets to other prime shopping locations with lower rentals and opened new short-term lease promotion outlets. During the Period, we had operated 14 short-term lease promotion outlets in Hong Kong. The purpose of these short-term retail outlets were mainly to inject flexibility into our sales platform to better reach our target customers and to alleviate the inventory pressure under this challenging retail environment. Under this difficult time, we continued to pursue a more precise yet flexible sales tactics and stringent measures to contain our operating expenses at a stable and reasonable level with respect to the sales made and respond swiftly to this ever-changing retail environment.

Taiwan

The Group reduced the number of its retail outlets in Taiwan to 48 during the Period from 51 as at 30 June 2015. Excluding the effect of translating Taiwan dollars into Hong Kong dollars, revenue generated from Taiwan had experienced an increase of approximately 1.6% for the Period. We continued with our strategy in Taiwan by identifying and increasing our retail outlets in selected department stores and outlet parks in 2016 and closed a few under-performing retail outlets to reduce our operating cost in the first half of 2016. The management continued with its flexible operating tactics and applied appropriate financial and cost control measures to further enhance operational efficiency and cost management for our operations in Taiwan.

Macau

The Group had maintained a comparable scale from its retail networks in Macau to reap the highest return amid the current level of economic conditions experienced in Macau. As at 30 June 2016, there were two retail outlets in Macau.

Mainland China

Mainland China's economy continued to slow down, which was mainly attributable to the volatility of global economy and domestic economic constraints. Together with the adaptation of online shopping habits, these posed a challenging business environment to the retailers in Mainland China. However, we remained positive about the overall economic growth of Mainland China in the foreseeable future and applied cautious steps towards our expansion in the Mainland market. We kept on opening our concession counters under

the brands of "Josef Seibel", "The Flexx" and "Petite Jolie" and collaborating with our local and experienced business partners to explore opportunities to gradually boost our retail networks in the Mainland. As at 30 June 2016, the Group had six (31 December 2015: four) retail outlets and fourteen (31 December 2015: ten) points of sales of our products under the brands of "Clarks", "Josef Seibel", "Petite Jolie" and "The Flexx" in the cities of Shanghai, Qinhuangdao, Haikou, Qingdao, Songyuan, Zhengzhou, Harbin, Luoyang, Dandong, Tangshan, Panjin, Nanning, Taiyuan and Beijing.

Wholesale Operations

The Group's wholesale operations have been the other main segment of our overall operations. It complements our retail operations as our wholesale customers are able to reach a diverse segments of customers in selling our footwear products. The management expected this segment to continue to contribute to the Group as we would continue to put in a reasonable level of operating resources to maintain the current scale of operations.

Prospects

Looking forward, the global economy was clouded under uncertain economic and political outlook with a slowdown and adjustment in the economy of Mainland China. At this juncture, we remained cautious in rationalizing the existing mix and network of our retail outlets against the high costs of operations. We would monitor the impact of the above-mentioned unfavorable operating factors on an on-going basis and pursue appropriate management tactics to optimise our operations in the areas of sales, inventory and supply chain management to maintain healthy presence in our operating territories. We would also continue to devote unrelenting effort on stringent cost containment measures to enhance our operation efficiency and to remain competitive in the market.

Aside from operating of physical retail outlets, we, being a physical retailer, must embrace omni-channeling and operating data analysis to meet the needs and desires of today's digitally connected consumers and capitalize on this opportunity to explore our new businesses initiatives. We understand that online shopping is an inevitable global trend. We would strengthen our capabilities in online to offline integration retailing to better reach our potential customers everywhere and provide a seamless customer experience.

At this time, we expect that the full-year net loss will be higher than in 2015, unless market conditions improve considerably in the second half of 2016. Nevertheless, we believe the current retail environment is undergoing a structural shift and hope that the retail market can be stabilised this year. In this regard, we will monitor the economic indicators regularly, revisit our existing business strategies and work meticulously to respond promptly to the changes in the retail market and seize the opportunities during market recovery.





Financial Review

Revenue

Revenue of the Group's business for the Period was HK\$282.6 million, representing a 4.9% increase from HK\$269.4 million of the even period of 2015.

With regard to the sales of the major brands under exclusive distribution agreements for the Period compared with the even period of 2015, sales of "Clarks" footwear products had increased by 10.5%, sales of "Josef Seibel" footwear products had decreased by 19.5%, sales of "The Flexx" footwear products had maintained the growth in sales of 11.5%, sales of "Petite Jolie" had decreased by 8.3% respectively. The growth in sales of "The Flexx" was an encouraging performance indicator that reaffirmed our strategy in introducing and cultivating quality brands in our target markets.

As at 30 June 2016, the Group operated 74 retail outlets in Hong Kong, two retail outlets in Macau, six retail outlets in the Mainland China and 48 retail outlets in Taiwan. As at the even date of 2015, the Group operated 73 retail outlets in Hong Kong, two retail outlets in Macau, two retail outlets in the Mainland China and 51 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK\$122.3 million for the Period, representing 43.3% of revenue (30 June 2015: HK\$95.6 million, representing 35.5% of revenue). The increase in cost of goods sold was mainly due to the increase in sales activities of the Group.



Management Discussion and Analysis

Gross Profit

Gross profit (gross profit equals to revenue minus cost of goods sold) of the Group for the Period was HK\$160.3 million, representing a decrease of 7.8% from HK\$173.8 million of the even period of 2015. Gross profit margin of the Group for the Period was 56.7% (30 June 2015: 64.5%). There was a drop of the gross profit margin due to widespread discounting and promotion activities to maintain market share.

Staff Costs

Staff costs for the Period were HK\$57.4 million, representing 20.3% of revenue (30 June 2015: HK\$55.5 million, representing 20.6% of revenue). The slight decrease in staff costs-to-revenue ratio was mainly due to the decrease in number of staff of the Group as compared to the even period of 2015 and the stall for the salary increment in 2016. However, due to the shortage of talented retail sales staff in the market, the Group was still making use of effective incentive commission scheme to motivate the sales staff for better sales productivity and efficiency.

Depreciation

Depreciation accounted for 2.0% of revenue for the Period (30 June 2015: 2.5% of revenue).

Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Period amounted to HK\$92.3 million, representing 32.7% of revenue (30 June 2015: HK\$85.4 million, representing 31.7% of revenue). The increase in the retail outlet rentals and related expenses was mainly due to the increase in the number of short term lease promotion outlets during the Period and the number of retail outlets in the latter half of 2015. Our concession fees for the Period amounted to HK\$29.8 million (30 June 2015: HK\$32.5 million). Such decrease was mainly due to the decrease in the number of concession counters and the corresponding decrease in the sales made through these concessions, based on which part of the fees were charged.

Finance Costs

Our finance costs for the Period amounted to HK\$1.6 million (30 June 2015: HK\$1.3 million). The finance costs were mainly interest expenses incurred on the mortgage facilities for our office premises in Taiwan and trade related financing facilities with banks. The effective interest rates on the Group's borrowings were ranged from 1.5% to 3.0% (30 June 2015: 1.5% to 3.0%).

Loss Before Tax

As a result of the foregoing, our loss before tax for the Period was HK\$22.2 million, representing an increase of 372.3% from loss of HK\$4.7 million of the even period of 2015.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 30 June 2016, the Group had bank deposits and cash amounting to HK\$20.7 million (31 December 2015: HK\$32.6 million), representing a decrease of 36.5% from 31 December 2015. Most bank deposits and cash were denominated in Hong Kong dollars.

As at 30 June 2016, the Group had short term bank borrowings amounting to HK\$178.0 million (31 December 2015: HK\$199.1 million), representing a decrease of 10.6% from 31 December 2015. As at 30 June 2016, the Group had long term bank borrowings, comprising mainly mortgage for our office premises in Taiwan, amounting to HK\$9.8 million (31 December 2015: HK\$10.2 million), representing a decrease of 3.9% from 31 December 2015.

Pledge of Asset

As at 30 June 2016, the land and buildings of a subsidiary of the Company were pledged as securities for a bank loan of the Group (2015: Nil).

Foreign Currency Risks

The Group's sales and purchases for the Period were mostly denominated in Hong Kong dollars, Renminbi, Macau Pataca, New Taiwan dollars, Euros and US dollars. The Renminbi is not a freely convertible currency. The currency market for Macau Pataca is relatively small and undeveloped. Therefore, our ability to convert large amounts of Macau Pataca into Hong Kong dollars over a relatively short period of time 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 impact on the Group's results.

Human Resources

As at 30 June 2016, the Group employed approximately 463 employees (31 December 2015: 481). Remuneration packages are generally structured by reference to market terms and individual qualifications and experience.

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

Dividends

The Board has resolved not to declare an interim dividend for the Period.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of S. Culture International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 22, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

22 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	282,579	269,414
Cost of goods sold		(122,272)	(95,637)
Gross profit		160,307	173,777
Other income		731	951
Other gain (losses)		371	(629)
Selling and distribution costs		(111,058)	(104,585)
Administrative expenses		(70,890)	(72,953)
Finance costs		(1,639)	(1,279)
Loss before taxation	4	(22,178)	(4,718)
Taxation	5	3,084	70
Loss for the period		(19,094)	(4,648)
Other comprehensive income for the period			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation		851	787
Total comprehensive expense for the period		(18,243)	(3,861)
Loss per share — basic (HK\$)	7	(0.095)	(0.023)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	NOTES	At 30.6.2016 HK\$'000 (unaudited)	At 31.12.2015 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	48,819	52,066
Investment properties		757	764
Deferred tax assets		10,153	6,773
Deposit paid for acquisition of property, plant and equipment		409	349
Rental deposits		16,820	19,216
		76,958	79,168
Current assets			
Inventories		246,430	251,713
Trade and other receivables	9	64,715	87,719
Derivative financial instruments		—	141
Taxation recoverable		3,378	2,896
Bank balances and cash		20,734	32,647
		335,257	375,116
Current liabilities			
Trade and other payables	10	24,776	26,992
Taxation payable		321	268
Obligation under a finance lease — due within one year		—	155
Bank borrowings — due within one year		177,976	199,103
		203,073	226,518
Net current assets		132,184	148,598
Total assets less current liabilities		209,142	227,766
Non-current liabilities			
Bank borrowings — due after one year		9,808	10,189
Net assets		199,334	217,577
Capital and reserves			
Share capital	11	2,000	2,000
Reserves		197,334	215,577
Total equity		199,334	217,577

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company						Total
	Share capital	Share premium	Special reserve	Legal reserve	Translation reserve	Accumulated profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note (a))	(Note (b))			
At 1 January 2016 (audited)	2,000	92,911	15,800	12	(3,409)	110,263	217,577
Loss for the period	—	—	—	—	—	(19,094)	(19,094)
Exchange difference arising on translation and other comprehensive income for the period	—	—	—	—	851	—	851
Total comprehensive income (expense) for the period	—	—	—	—	851	(19,094)	(18,243)
At 30 June 2016 (unaudited)	2,000	92,911	15,800	12	(2,558)	91,169	199,334
At 1 January 2015 (audited)	2,000	92,911	15,800	12	(2,604)	131,236	239,355
Loss for the period	—	—	—	—	—	(4,648)	(4,648)
Exchange difference arising on translation and other comprehensive income for the period	—	—	—	—	787	—	787
Total comprehensive income (expense) for the period	—	—	—	—	787	(4,648)	(3,861)
Dividend paid	—	—	—	—	—	(4,600)	(4,600)
At 30 June 2015 (unaudited)	2,000	92,911	15,800	12	(1,817)	121,988	230,894

Notes:

- (a) 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, subsidiaries of the Company, and the nominal amount of share capital of the Company pursuant to group reorganisation.
- (b) As stipulated by the relevant laws and regulations in the Macau Special Administrative Region, a subsidiary of the Company is required to set aside 25% of its profit for the period to a legal reserve until the legal reserve has reached 50% of its registered capital.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Net cash from (used in) operating activities	14,247	(33,641)
Net cash used in investing activities		
Interest received	42	466
Purchase of property, plant and equipment	(2,346)	(11,396)
Proceeds from disposal of property, plant and equipment	—	41
	(2,304)	(10,889)
Net cash (used in) from financing activities		
New bank borrowings raised	236,266	152,633
Repayment of bank borrowings	(258,349)	(122,280)
Interest paid	(1,639)	(1,279)
Repayment of obligation under a finance lease	(155)	(146)
Dividend paid	—	(4,600)
	(23,877)	24,328
Net decrease in cash and cash equivalents	(11,934)	(20,202)
Cash and cash equivalents at beginning of the period	32,647	70,801
Effect of foreign exchange rate changes	21	66
Cash and cash equivalents at end of the period, representing bank balances and cash	20,734	50,665

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. Basis of Preparation

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

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

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2016.

Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts and/or disclosures reported in these condensed consolidated financial statements.

3. Revenue and Segment Information

The Group's operating activities are attributable to operating segments focusing on retail sales and wholesale of footwear products. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

3. Revenue and Segment Information (Continued)

The information of operating and reportable segments is as follows:

Segment revenue and results

For the six months ended 30 June 2016

	Retail sales HK\$'000 (unaudited)	Wholesale HK\$'000 (unaudited)	Segment total HK\$'000 (unaudited)	Elimination HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
REVENUE					
External sales	260,402	22,177	282,579	—	282,579
Inter-segment sales	—	127,662	127,662	(127,662)	—
Segment revenue	260,402	149,839	410,241	(127,662)	282,579
Segment results	(20,872)	4,761	(16,111)	(2,764)	(18,875)
Unallocated income					500
Unallocated expenses					(2,164)
Finance costs					(1,639)
Loss before taxation					(22,178)

For the six months ended 30 June 2015

	Retail sales HK\$'000 (unaudited)	Wholesale HK\$'000 (unaudited)	Segment total HK\$'000 (unaudited)	Elimination HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
REVENUE					
External sales	245,858	23,556	269,414	—	269,414
Inter-segment sales	—	104,941	104,941	(104,941)	—
Segment revenue	245,858	128,497	374,355	(104,941)	269,414
Segment results	(1,749)	3,412	1,663	(2,073)	(410)
Unallocated income					833
Unallocated expenses					(3,862)
Finance costs					(1,279)
Loss before taxation					(4,718)

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the (loss) profit from each segment without allocation of central administration costs, fair value loss on derivative financial instruments, rental income, interest income and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resource allocation and performance assessment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

4. Loss Before Taxation

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Loss before taxation has been arrived at after charging (crediting):		
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	2,304	1,905
— retail stores (including in selling and distribution costs)		
— minimum lease payments	55,696	49,672
— contingent rent (note)	4,497	1,325
	60,193	50,997
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	16,959	20,440
— contingent rent (note)	12,843	12,044
	29,802	32,484
	92,299	85,386
Depreciation of property, plant and equipment	5,617	6,746
Depreciation of investment properties	7	6
Staff costs, including directors' emoluments	57,436	55,544
Rental income	(458)	(367)
Interest income	(42)	(466)
Fair value loss on derivative financial instruments	142	143
Net exchange (gain) loss	(513)	482

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

5. Taxation

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Current tax		
Hong Kong Profits Tax	212	323
Macau Complementary Tax	84	156
Deferred taxation	296 (3,380)	479 (549)
	(3,084)	(70)

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2015: 16.5%) on the estimated assessable profit for the period.

Taiwan income tax is calculated at 17% (six months ended 30 June 2015: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods in Taiwan for the period. No provision for Taiwan income tax has been made in the condensed consolidated financial statements as the branch operating in Taiwan has no assessable profits for both periods.

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (six months ended 30 June 2015: 9% to 12%) on the estimated assessable profit for the period.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% (six months ended 30 June 2015: 25%). No provision for PRC Enterprise Income Tax has been made in the condensed consolidated financial statements as the subsidiary operating in the PRC had no assessable profits for both periods.

6. Dividends

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Dividends recognised as distribution during the period:		
2015 Final dividend — nil (2014: HK2.3 cents per share)	—	4,600

During the six months ended 30 June 2016, the Company did not declare/propose any dividend for distribution.

7. Loss Per Share

The calculation of the basic loss per share for the six months ended 30 June 2016 is based on the loss for the period attributable to owners of the Company and the weighted average number of 200,000,000 (six months ended 30 June 2015: 200,000,000) ordinary shares in issue during the period.

No diluted loss per share is presented as there are no potential ordinary shares during both periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

8. Property, Plant and Equipment

During the six months ended 30 June 2016, the Group spent HK\$2,346,000 (six months ended 30 June 2015: HK\$11,396,000) on purchase of property, plant and equipment.

9. Trade and Other Receivables

Retail sales are made at retail shops and concession counters in department stores. The department stores collect payments from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores range from 30 to 60 days. Sales made at retail shops are settled by cash or credit cards. For wholesale, the Group allows a credit period range from 30 to 60 days to its trade customers. The following is an 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:

	At 30.6.2016 HK\$'000 (unaudited)	At 31.12.2015 HK\$'000 (audited)
Within 30 days	24,904	54,634
31 to 60 days	2,426	3,002
61 to 90 days	2,684	2,761
Over 90 days	3,677	2,747
	33,691	63,144

10. Trade and Other Payables

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

	At 30.6.2016 HK\$'000 (unaudited)	At 31.12.2015 HK\$'000 (audited)
Within 30 days	2,334	6,795
31 to 60 days	1,433	—
61 to 90 days	507	15
Over 90 days	267	53
	4,541	6,863

The average credit period of trade payables is 30 days.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

11. Share Capital

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

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	500,000,000	5,000
Issued and fully paid:		
At 1 January 2015, 30 June 2015, 1 January 2016 and 30 June 2016	200,000,000	2,000

There were no changes in the Company's authorised, issued and fully paid share capital during both periods.

12. Related Party Transactions

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

Name of related parties	Nature of transactions	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Becking Investment Limited ("Becking Investment") (note)	Rental expense	262	216
Mr. Chong Hok Shan	Rental expense	257	257

Note: Becking Investment is wholly-owned by Mr. Chong Hok Shan, Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, the shareholders of the Company.

Compensation of key management personnel

The remuneration of key management of the Group, representing the directors of the Company, during the period was as follows:

	Six months ended 30 June	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Fees, salaries and allowances	4,207	4,207
Retirement benefit scheme contributions	144	195
	4,351	4,402

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

GENERAL INFORMATION

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

As at 30 June 2016, the interests of the directors of the Company in the shares of the Company, which were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long position in the issued shares of the Company

Name of director	Nature of interests	Note	Number of the Company's shares interested	Percentage ⁺ of the Company's issued share capital
Mr. Chu Siu Ming	Interest held by controlled corporation	1	24,261,153	12.13%
	Interest held by spouse	2	1,670,000	0.84%
			25,931,153	12.97%
Mr. Chu Chun Ho, Dominic	Beneficial owner		1,713,091	0.86%
Mr. Chu Chun Wah, Haeta	Beneficial owner		1,631,289	0.82%
Mr. Chong Hot Hoi	Beneficial owner		28,566,163	14.28%
Mr. Chong Hok Hei, Charles	Beneficial owner		28,566,164	14.28%

Notes:

(1) These 24,261,153 shares were held by Come Good Investment (BVI) Limited, a controlled corporation of Mr. Chu Siu Ming. Accordingly, Mr. Chu was deemed to be interested in these shares of the Company pursuant to the SFO.

(2) These 1,670,000 shares were held by Ms. Wong May Heung, the wife of Mr. Chu Siu Ming. Accordingly, Mr. Chu was deemed to be interested in these shares of the Company 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 30 June 2016.

Save as disclosed above, as at 30 June 2016, 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, 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.

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

As at 30 June 2016, 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	Note	Number of the Company's shares interested	Percentage* of the Company's issued share capital
Mr. Chong Hok Shan	Beneficial owner		28,566,162	14.29%
	Interest held by spouse	1	187,764	0.09%
			28,753,926	14.38%
Come Good Investment (BVI) Limited	Beneficial owner	2	24,261,153	12.13%

Notes:

- (1) These 187,764 shares were held by Ms. Wu Se, the wife of Mr. Chong Hok Shan. Accordingly, Mr. Chong was deemed to be interested in these shares of the Company pursuant to the SFO.
- (2) The above interest of Come Good Investment (BVI) Limited was also disclosed as the interest of Mr. Chu Siu Ming, an executive director of the Company, in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares".

* The percentage represents the number of the Company's shares interested divided by the number of the Company's issued shares as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

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.

The Board may, at its absolute discretion, grant an option to eligible participant(s) to subscribe for the shares of the Company at an exercise price and subject to the other terms of the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 20,000,000 shares, being 10% of the total number of shares in issue at the time dealings in the Company's shares first commence on the Stock Exchange and at the date of this 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 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 may determine at its absolute discretion. The directors confirm that the Share Option Scheme is in compliance with Chapter 17 of the Listing Rules. Up to the date of this report, no option had been granted by the Company under the Share Option Scheme.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

Corporate Governance

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules during the Period.

Compliance with the Model Code for Securities Transactions by Directors

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

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

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

Audit Committee

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

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

Sufficiency of Public Float

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

Update on Directors' Information

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of directors of the Company are set out as follow:

- Mr. Chu Chun Ho, Dominic was appointed as the Chairman of New Territories East Region, Scout Association of Hong Kong in July 2016.
- Mr. Yau Tat Wang, Dennis completed his term as an advisor of the Sino-European Industrial Services Zone in Foshan New City in June 2016.
- Mr. Yau Tat Wang, Dennis was appointed as an independent board advisor of DPM Sleep Solution Limited in July 2016.

Publication of Interim Results Announcement and Interim Report

The interim results announcement of the Company has been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.s-culture.com). This 2016 interim report, containing all the information required by the Listing Rules, has also been published on the above websites.

Appreciation

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