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 2016

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

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

Estera Trust (Cayman) Limited
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
Hong Kong

Principal Bankers

Bangkok Bank Public Company Limited
Hang Seng Bank Limited

FINANCIAL HIGHLIGHTS

		For the year ended 31 December	
		2016	2015
Revenue	HK$'000	**562,474**	561,028
Gross profit	HK$'000	**320,527**	347,494
Loss before taxation	HK$'000	**(37,312)**	(16,360)
Loss attributable to owners of the Company	HK$'000	**(34,607)**	(16,373)
Gross profit margin	%	**57.0**	61.9
Loss margin attributable to owners of the Company	%	**(6.2)**	(2.9)
Loss per share — basic	HK$	**(0.17)**	(0.08)

	As at 31 December	
	2016	2015
Current ratio	**1.6 times**	1.7 times
Gearing ratio (total debt to total equity)	**111.4%**	96.3%
Average trade receivables turnover period	**39.1 days**	37.4 days
Average trade payables turnover period	**7.5 days**	11.1 days
Average inventory turnover period	**361.2 days**	375.2 days

CHAIRMAN'S STATEMENT

Dear Shareholders,

I 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 2016.

Retail sector of Hong Kong was still suffering from the worst secular decline since 2002, as the negative factors such as a general decline in high-spending tourists from the Mainland China and weak consumer sentiments were still deprecating the sector in 2016. Allow me to quote from the recent "2016 Economic Background and 2017 Prospects" released in February 2017 by Economic Analysis Division, Economic Analysis and Business Facilitation Unit of Financial Secretary's Office of the Government of the Hong Kong Special Administrative Region (the "Report"), "…Inbound tourism remained in a consolidation mode during most of 2016. Overall visitor arrivals reverted to a marginal year-on-year increase in the fourth quarter, though for 2016 as a whole they still fell by 4.5% to 56.7 million, representing the second consecutive year of annual decline". The Report further states that "…Among the major services sectors, net output of wholesale and retail trades was the worst performer, falling distinctly in the first three quarters of 2016 combined amid the slowdown in inbound tourism".

Against the above background, our retail segment in Hong Kong was much affected, and thus the Group as a whole had recorded a same store sales decline of approximately 3.4% and a net loss of approximately HK$34.6 million for the year.

Outlook

There is no doubt that the world is full of uncertainties and we are closely monitoring them as they could significantly alter the global economic outlook in the near term, thus affecting Hong Kong. The most notable ones are the economic policy directions of the new US administration and their impacts on the US economic and interest rate outlook; risks related to Brexit; and the increase in protectionist and anti-trade sentiments due to elevated geopolitical tensions. At this juncture of time, Hong Kong is bracing for its own uncertainties in terms of the impending leadership change and the disappointing political deadlock with respect to its governance.

Looking ahead, the near-term outlook for retail sales will still be constrained by the weak performance of inbound tourism and slow growth of local consumption. Operating margins will continue to be under pressure as the price-setting power of the retailers is still constrained.

Under these difficult economic and market conditions, the Group continued its strategy in rationalizing the extant mix and network of our retail outlets against the high costs of operations. In the meantime, we noted the decline in general rental levels of street outlets and continued to negotiate for better rental terms with landlords upon expiry of leases. In addition, the management had also committed to relentless measures of overhead 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. Accordingly, the management had embarked on certain initiatives to push for higher market shares. We continued to take advantage of the tamer rental market by taking up short-term lease outlets in strategic locations to serve a wider base of customers and thus grab additional market shares and reduce the level of inventory. Again, we will continue to monitor the relevant economic conditions and the ever changing retail landscape to strive for the most efficient and effective operational setting and scale.

Last but not least, the board of directors of the Company (the "Board") is highly aware of the value of good corporate governance. The Board follows closely the latest and expected standards 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 newly adopted "Environmental, Social and Governance Report", both the management and employees had enjoyed very much the charitable and other community contributing events during the year. To our delight, we were also awarded recently the designation of "Caring Company". This recognition has certainly earmarked our efforts towards society in general as a socially responsible corporate player.

In view of the Group's operating results, the Board did not recommend the payment of a final dividend in respect of the year ended 31 December 2016. Despite of the above, we will strive to further enhance the Company's performance and optimise the return for our shareholders.

Finally, 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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Principal Risks and Uncertainties

The Group's principal business activity is trading of footwear products, which business and profitability in the year ended 31 December 2016 ("the Year") is affected by the volatility and uncertainty of macro-economic conditions in Hong Kong, Taiwan, Macau and Mainland China. The Group is also exposed to a variety of key business risks and financial risks.

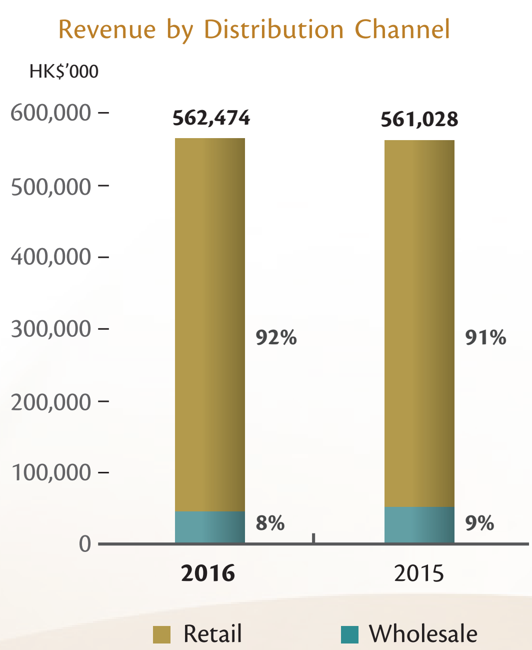
Our key business risks included our heavy dependence on a single major supplier, risk of excessive and obsolete inventory and risk relating to the commercial real estate rental market, including the unpredictable rental fluctuation and ability to secure existing retail outlets and obtaining suitable locations for our expansion of retail network.

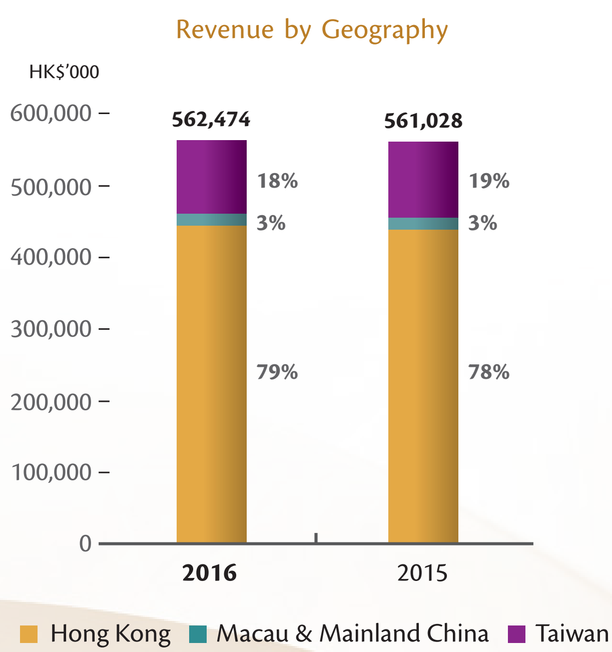
The financial risks of the Group included foreign currency risk, interest rate risk, credit risk and liquidity risk. These financial risks, and risk management objectives and policies are elaborated in the below section headed "Foreign Currency Risk" and note 33 "Financial Instruments" to the consolidated financial statements of this annual report.

Operation Review

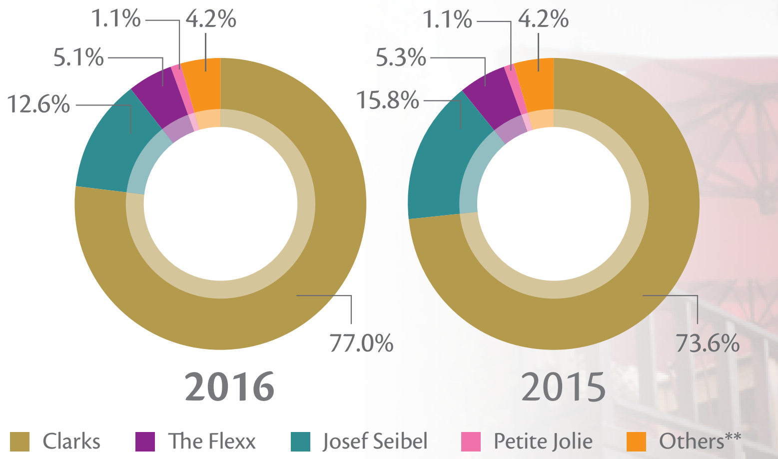
Retail Operations

Revenue of the Group's retail business for the Year was HK$518.8 million, representing a 1.1% increase from HK$513.1 million of the even year of 2015. Despite the slight increase in our overall revenue, we had recorded a same store sales decline of approximately 3.4% during the Year (2015: 6.6%). This was mainly due to the prolonged sluggishness of the retail market in Hong Kong, resulting from the continued disappointment of performance of inbound tourism and the ever more cautious local consumer sentiment amid the uncertain economic conditions in the region and the world.



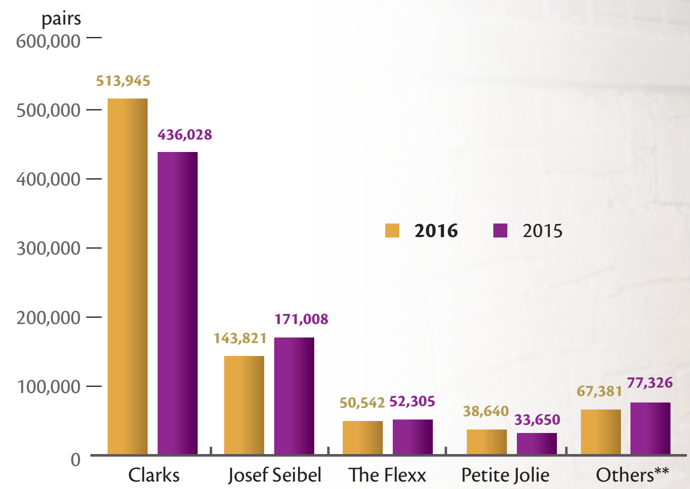


Revenue by Major Brands (in HK$)



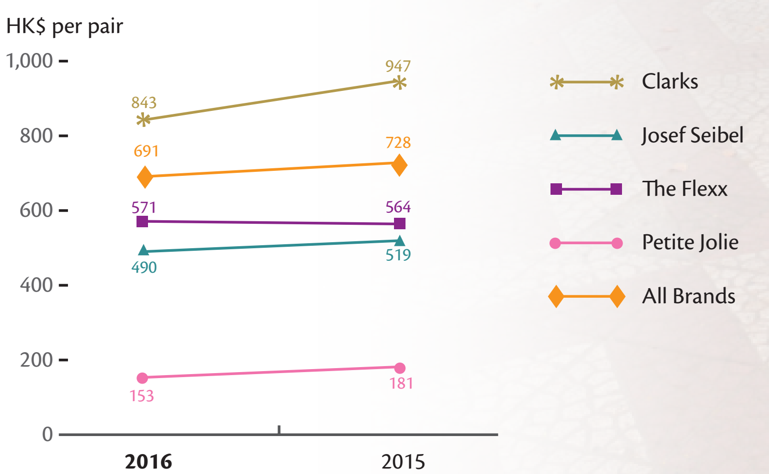
** Include footwear products of other brands and accessories

Revenue by Major Brands (in pairs)



** Include footwear products of other brands and accessories

Average Selling Price per Pair



Hong Kong

Hong Kong was still contributing a majority of sales as we had 61 (2015: 69) retail outlets under normal lease terms and 11 (2015: 10) retail outlets under short-term lease in the locality as of the Year end. In view of the weak retail climate and challenging operating environment as mentioned above, we had experienced a same store sales decline of approximately 2.8% for our Hong Kong retail operations. As revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, the total retail sales of footwear, allied products and other clothing accessories fell by 3.0% in volume for the Year as compared to the even year of 2015. During the Year, we had offered greater discounts and more promotions for more customer purchase and maintaining our market share. Unfortunately, the intensive discount-driven retail dynamic environment in the current year had dampened the effectiveness of our traditional promotion campaign. The major operating costs in Hong Kong, including but not limited to staff costs and rental expenses, had eroded our operating margins. To enhance our efficiency and remain competitive in the market, we continued to time our salary increment plan in 2016 until there is a clear signal of rebound in the retail market. We also continued to assess and fine-tune our retail network in Hong Kong such that we were terminating non-performing outlets by closely monitoring the 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. As at 31 December 2016, we had operated 11 short-term lease promotion outlets in Hong Kong. The purposes 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 the current challenging operating environment.

Taiwan

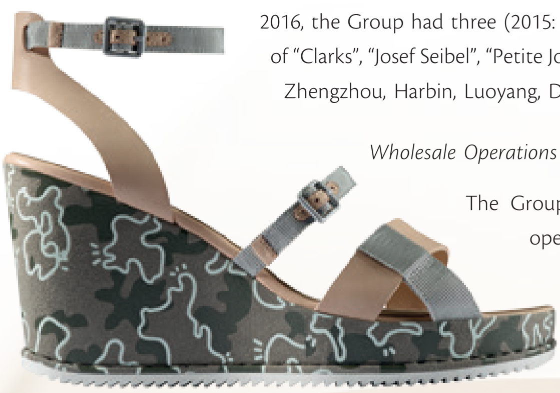
Taiwan retail market stayed stagnant and the purchasing power of general consumers remained weak. The Group reduced the number of its retail outlets in Taiwan to 48 (2015: 50) during the Year and recorded a year-on-year decline of approximately 5.9% in revenue for the Year. Our channel strategy in Taiwan was identifying and locating our retail outlets in selected department stores and outlet parks, while gradually eliminating certain ineffective and under-performing retail outlets to enhance our operating margins. At the same time, the Group had explored more short-term promotion outlets to increase our sales volume in a cost-efficient manner and maintain our presence in the Taiwan market. 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 of its retail networks in Macau to reap the highest return amid the current level of economic conditions experienced in Macau. As at 31 December 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 ever-changing customer shopping habits via internet or mobile devices, these created a challenging and competitive business environment to general retailers in Mainland China. In light of this, we applied cautious steps towards our operation in the Mainland market. We kept on collaborating with our local and experienced business partners to explore opportunities to sell our footwear products of "Josef Seibel", "The Flexx" and "Petite Jolie" in the Mainland. As at 31 December 2016, the Group had three (2015: four) retail outlets and 17 (2015: 10) 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, Changsha and Beijing.



Wholesale Operations

The Group's wholesale operations continued to be the other main segment of our overall operations. It complemented our retail operations as our wholesale customers enabled the Group to reach diverse segments of customers to sell 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 outlooks. At this juncture, we are still cautious about our operating scale and costs. We will do our utmost to contain those costs to a reasonable level and rebalance our retail outlet mix. We will continue to negotiate for better rental terms with landlords upon expiry of leases and take up short-term lease outlets in strategic locations to serve a wider base of customers and reduce our level of inventory. As part of our holistic plan, we will monitor the economic indicators and the ever-changing retail landscape, revisit our existing business strategies to enhance our operation efficiency and to remain competitive in the market.

Financial Review

Revenue

Revenue of the Group's business for the Year was HK$562.5 million, representing a 0.3% increase from HK$561.0 million for the even year of 2015.

With regard to the sales of the major brands under exclusive distribution agreements for the Year compared with the even year of 2015, sales of "Clarks" footwear products had increased by 4.9%. Sales of "Josef Seibel", "The Flexx" and "Petite Jolie" footwear products had decreased by 20.5%, 2.1% and 2.9% respectively. The growth in sales of "Clarks" is an encouraging performance indicator that reaffirms our major product brand value in our target market.

As at 31 December 2016, the Group operated 72 retail outlets in Hong Kong, two retail outlets in Macau, three retail outlets in Mainland China, and 48 retail outlets in Taiwan. As at the even date of 2015, the Group operated 79 retail outlets in Hong Kong, two retail outlets in Macau, four retail outlets in Mainland China and 50 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK$241.9 million for the Year, representing 43.0% of revenue (2015: HK$213.5 million, representing 38.1% of revenue). The increase in cost of goods sold was mainly due to the increase in sales activities of the Group.

Gross Profit

Gross profit (gross profit equals to revenue minus cost of goods sold) of the Group for the Year was HK$320.5 million, representing a decrease of 7.8% from HK$347.5 million of 2015. Gross profit margin of the Group for the Year was 57.0% (2015: 61.9%). There was a drop of the gross profit margin as we had offered promotions and discounts to maintain market shares. The increase in opening of short-term promotion outlets during the Year had also driven down our gross profit margin.

Depreciation

Depreciation accounted for 1.9% of revenue for the Year (2015: 2.3%).

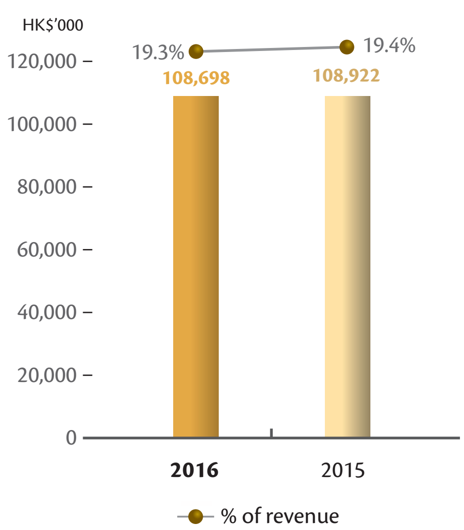
Staff Costs

Staff costs for the Year were HK$108.7 million, representing 19.3% of revenue (2015: HK$108.9 million, representing 19.4% 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 year of 2015 and the suspension of salary increment plan in 2016. Due to the shortage of talented retail sales staff in the market, the Group had made use of effective incentive commission scheme to motivate the sales staff for better sales productivity and efficiency. In addition, the commissions, as part of salaries, increased with sales targets determined and made during the Year.

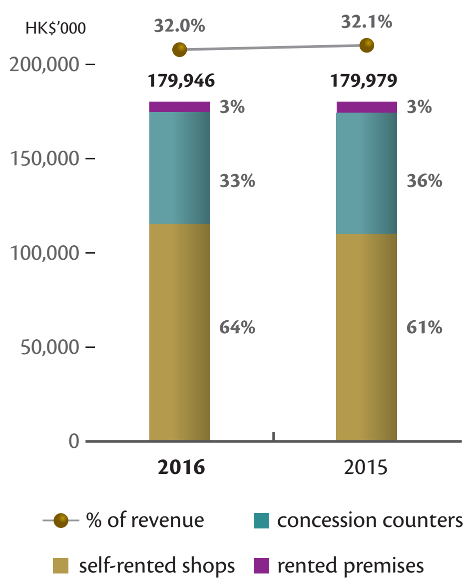
Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Year amounted to HK$179.9 million, representing 32.0% of revenue (2015: HK$180.0 million, representing 32.1% of revenue). The decrease in the retail outlet rentals and related expenses was mainly due to the rebalance of our retail outlet mix, as indicated by the decrease in the number of our retail outlets with normal lease terms and the increase in the number of short-term promotion outlets during the Year. Our concession fees for the Year amounted to HK$59.7 million (2015: HK$65.2 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.

Staff Costs



Retail Outlet Rentals and Related Expenses



Finance Costs

Our finance costs for the Year amounted to HK$3.7 million (2015: HK$3.1 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 ranged from 1.9% to 2.8% (2015: 1.5% to 2.5%).

Loss Before Tax

As a result of the foregoing, our loss before tax for the Year was HK$37.3 million, representing a 127.4% increase from the loss before tax of HK$16.4 million for the even year of 2015.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 31 December 2016, the Group had bank deposits and cash amounting to HK$26.2 million (2015: HK$32.6 million), representing a decrease of 19.6% from 31 December 2015. Most bank deposits and cash were denominated in Hong Kong dollars. As at 31 December 2016, the Group had short-term bank borrowings amounting to HK$195.9 million (2015: HK$199.1 million), representing a decrease of 1.6% from 31 December 2015. As at 31 December 2016, the Group had long-term bank borrowings, comprising mainly mortgage for our office premises in Taiwan, amounting to HK$9.2 million (2015: HK$10.2 million), representing a decrease of 9.8% from 31 December 2015.

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 2016, the Group employed approximately 440 employees (2015: 481). 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. Further details are elaborated in the section headed "B3 Development and Training" under the "Environmental, Social and Governance Report".

Share Information

The average closing price of the Company's shares during the Year was HK$2.01, with the highest closing price of HK$3.80 achieved on 23 December 2016 and the lowest closing price of HK$1.52 recorded on 21 January 2016.

Dividends

The Board has resolved not to recommend the payment of a final dividend for the Year.

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 87.6% for the Year (2015: 17.7%).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To show our strong commitment towards the community, S. Culture endeavours to undertake responsibilities and obligations as a corporate citizen of the community by contributing to environmental protection, social progress and development in our course of business. In accordance with the requirements set forth in Environmental, Social and Governance Reporting Guide (the "ESG Guide") contained in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), S. Culture hereby presents this Environmental, Social and Governance ("ESG") Report for the our fiscal year ended 31 December 2016 (the "Reporting Period").

In order to identify key ESG matters of the Group, we have engaged our management and staff across all functions to review our operations and to assess the ESG matters relevant to our business as well as our stakeholders. Disclosures relating to the identified ESG matters which are considered as material have been included in this ESG report.

Caring for our environment

The Group recognises the importance of green culture and the increasing public awareness of environmental issues. In this regard, the Group focuses on controlling the impact of its operation on the environment and natural resources. In addition to complying with environment-related laws and international standards, the Group has incorporated the green concept into internal management and daily operation activities so as to achieve the goal of sustainable development, and continuously assesses and controls the potential impact of subsidiaries and retail stores on the environment.

During the Reporting Period, the Group did not note any cases of non-compliance relating to environmental laws and regulations in Hong Kong.

A1 Emissions

The Group is committed to reducing the amount of waste generated from its operations and business activities. The Group encourages recycling in its daily operations, and has implemented proper waste handling measures.

The Group is adopting electronic work platform gradually and moving towards a paper-less workplace. We have actively engaged our staff to reduce printing and to make use of duplex printing for internal documents. Recycled papers have also been used as key printing materials. For internal notices among offices and retail outlets, electronic communication channels were adopted to replace the circulation of printed notices.

Apart from our internal measures, the Group considers leather as a major raw material for our footwear products. The majority of leather is supplied by tanneries which have achieved industry-leading environmental standards.

Furthermore, packaging plays an important role to ensure that our footwear products can reach our target customers in optimal conditions. Based on our understanding with our major supplier, almost all our shoe packaging — from the box to the cardboard shoe supports — is made from recyclable materials and our Clarks branded shoeboxes are made from 95% recycled content.

No significant air emissions and water discharges were noted in our operations during the Reporting Period.

A2 Use of Resources

The Group has continually put effort in integrating business performances with environmental and resources efficiency considerations. We have implemented a number of environment-friendly measures in our workplaces including but not limited to our retail shops, warehouses and office areas.

Use of Energy

For retail shops, the Group has implemented energy saving practices by increasing the use of LED lighting fixtures. In addition to the energy efficient lighting equipment, the Group has also rescheduled the operating hours of certain stores to reduce our utility consumption. This has benefited the environment in terms of energy consumption and operating costs reduction.

The Group has also started to install inverter air-conditioning systems and performed regular maintenance on our facilities to achieve higher energy efficiency. Staff are encouraged to switch off the light and air-conditioners after they have finished using a room and after normal office hours.

Use of Water

The Group emphasises water saving to its staff through staff education. Labels of reminders have been placed in the workplace and regular staff communications regarding water saving have been established.

We have performed regular inspections and maintenance on our water taps, containers and pipeline to prevent leakage. Our staff have been encouraged to report leaks, for which necessary repairs will be performed in a timely manner.

A3 The Environment and Natural Resources

Besides the matters related to emissions and the use of resources mentioned above, we proactively assess other environmental impact of our retail operations and continue to tackle the risks identified through our environmental performance controls and monitoring mechanism.

We understand that our office and stores may require various types of renovation work which may also cause harm to the environment. Therefore, we aim to reuse furniture in retail outlets, warehouses and offices where possible. We always instruct the contractors to use more environmental friendly materials and dispose the waste properly in the process of renovation.

To further raise awareness of environmental protection and drive behavioural changes among employees, we have established the Environmental, Social and Governance Taskforce with representatives from different functions, including Finance, Human Resources and Supervisors of our retails shops, with the endorsement from the Board. We will continue to broaden the scope of our green agenda in order to uphold our environmental commitment.

Caring for our community

B1 Employment

S. Culture recognises employees as important assets to us. We invest and entrust in their future as we believe human capital is part and parcel of the Group. S. Culture's continued success relies on the commitment, enthusiasm and energy of our employees. We are committed to developing a positive and respectable working environment that encourages collaboration and cooperation between employees and across departments. We place heavy emphasis on training and development opportunities together with social activities for our employees, with appropriate incentivizing schemes for them to progress together with the business. We also aim to promote workforce diversity, in terms of age, gender and nationality, as well as a culture of equal opportunity.

Furthermore, the Group had established staff handbook and proper documented policies in the areas of compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare related matters.

There were no material non-compliance cases noted in relation to employment laws and regulations during the Reporting Period.

B2 Health and Safety

The Group places strong emphasis on health and safety of our staff. The Group has implemented internal guidelines and reporting systems for occupational health safety related matters and trainings have been provided on a regular basis to promote their awareness in this regard. Regarding the working environment for our sales personnel, most of the concessions are located in the selected shopping malls or department stores, in which good hygiene and safety standards are maintained for our sales personnel and customers. Where appropriate, warning signs or notices are posted to draw the attention of staff to occupational safety especially when they are performing their duties in warehouses or storage areas.

There were no material non-compliance cases noted in relation to health and safety laws and regulations of Hong Kong during the Reporting Period.

Other than the risks related to their physical health, the Group considers the mental health of our staff to be important. Therefore the Group has organised a series of staff activities to strengthen team spirit and sense of belongings to the Group, as well as to promote work-life balance. Also, the Group awards retail staff with outstanding sales performance and significant improvement regularly with certificates during these activities, which serve as recognition and our appreciation for their effort and contribution towards our business.

B3 Development and Training

To uphold S. Culture's commitment to enhance service qualities and strengthen the capabilities of our employees, S. Culture places adequate and appropriate resources on training and staff development opportunities. Our comprehensive training programs cover a wide range of topics, including quality service skills, retail and sales techniques, product knowledge, language skills, management skills and interpersonal skills. The total number of training hours to be delivered is around 4,000 hours a year. These training programs can help enhance our employees' productivity, effectiveness as well as their self-development.

B4 Labour Standards

The Group strictly prohibits child and forced labour. We adopt a comprehensive screening and recruiting process, and conduct regular reviews and inspections to ensure that we comply with relevant labour standards consistently throughout our operations.

There were no material non-compliance issues noted regarding labour standards as required by related laws and regulations during the Reporting Period.

B5 Supply Chain Management

The Group has established stringent supplier selection procedures. Suppliers must be able to maintain a high standard in quality control, service and environmental protection. The Group offers equal opportunity to all potential business partners. Supplier selections and procurement decisions would be made based on assessment over certain criteria such as reputation and image of the brand, design and quality, price, delivery time, supplier's background and experience. We also expect our suppliers to share our environmental and social vision and strictly comply with relevant laws and regulations.

B6 Product Responsibility

Products and Services Responsibility

The Group is responsible for its products and services and emphasises on business ethics. The Group does not engage in unfair business activities of any kind. Its procurement and service delivering processes ensure information regarding products and services are clear and open. The Group has established its Customer Right Policy to govern customer rights, health and safety relating to our products and services.

Customer Services

Our business model focuses on catering customer needs, providing customers with the most suitable and high quality products. We implement all relevant and necessary measures to uphold our commitment, aiming at providing the best services to customers. We have developed internal guidelines and provided trainings to our retail staffs for handling customer complaints and conducting investigations on reported cases.

Data Privacy Policy

We put personal data privacy as our top priority. The Group only collects information which we consider necessary for our operations. The data collected will be used directly for the purposes as stated at the time such data is collected. The Group would never transfer or disclose any personal data to third parties unless consent has been obtained from the data owner. Meanwhile, the Group will maintain sound data security system and measures to prevent unauthorised use of personal data.

There were no material non-compliance issues noted regarding product responsibility as required by related laws and regulations during the Reporting Period.

B7 Anti-corruption

The Group has been devoting itself to openness, responsibility and honesty. All staff are required to comply with relevant personal and professional code of conducts. Other than the anti-bribery and anti-corruption policies as stated in the Code of Conduct, the Group has established whistle-blowing channels and perform regular evaluations on the effectiveness of its internal control system.

During the Reporting Period, no legal case regarding corruption was brought against the Group or its employees. In addition, the Group was not aware of any cases of non-compliance with laws and regulations on anti-money laundering.

B8 Community Investment

We have established a social service team with the aim of bringing our compassionate staff members together to participate in social and charitable activities to exhibit our caring culture to the community.

- Following the successful launch of S. Culture Hong Kong Cycling Challenge Race in 2014, S. Culture was honored to be the title sponsor again in April 2016 to promote the healthy and low carbon lifestyle to the public. We have also formed a corporate team to join the Race.
- S. Culture supported of the Community Chest BEA Golf Day 2016 and 2015/2016 Hong Kong and Kowloon Walk for Millions, through donation and participation, for the mental health patients and for the family and child welfare services.
- S. Culture sponsored HK$150,000 for the 2016 Hong Kong Professional Elite Ladies Selection organised by Junior Chamber International City Lady to recognize ladies' contributions towards the society.
- S. Culture participated in Industrial Attachment Programme organised by the Hong Kong Institute of Vocational Education (IVE) in January 2016. S. Culture has provided a one-day company visit and offer opportunities for students to experience the working life in our retail operations with the support of our employees as their mentors.
- S. Culture sponsored and served as one of judges of the Youth Creative Short-film Advertising Competition during the 51st Hong Kong Brands and Products Expo Fair. This event encourages and supports teenagers to develop their creativity and innovative thinking through movie production.

Awards and Recognition

The trade names of the Group including S. Culture, Clarks, Josef Seibel and SCOOPS were accredited with Quality Tourism Scheme by the Hong Kong Tourism Board. During the Reporting Period, S. Culture was honored to be awarded the prize of "Outstanding Import and Export Enterprise Award", in the recognition of our corporate succession excellence. S. Culture has also been awarded the Caring Company Logo 2016/17 in February 2017, in recognition of our commitment for the environment, our employees as well as the community over the past years.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Chu Siu Ming, aged 78, 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 and a member of the Nomination Committee of the Company. 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, Advertiser's Media Agency Limited, Cobblers (Hong Kong) Trading Company Limited and Shoes Culture (Hong Kong) Trading Company Limited (all are the subsidiaries of the Company) and all the subsidiaries of the Company incorporated in the British Virgin Islands, and an administrator of Shoes Culture Company Limited (a subsidiary of the Company). Mr. Chu is also the sole shareholder and director of Come Good Investment (BVI) Limited (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 honorary president 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 and Co-Chief Executive Officers of the Company) and Ms. Chu Yuen Fan, Peggie (director of business relations of the Company).

Mr. Chu Chun Ho, Dominic, aged 45, is appointed as the Company's Executive Director and Co-Chief Executive Officer. Mr. Dominic Chu has joined the Group for 19 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, Advertiser's Media Agency Limited, Cobblers (Hong Kong) Trading Company Limited and Shoes Culture (Hong Kong) Trading Company Limited and an administrator of Shoes Culture Company Limited (all are the subsidiaries of the Company).

Apart from managing our business, Mr. Dominic Chu is also the chairman of Scout Association of Hong Kong New Territories East Region, the vice chairman of the Hong Kong Youth Council, an 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 (an Executive Director and a substantial shareholder of the Company) and the brother of Mr. Chu Chun Wah, Haeta (an Executive Director and a Co-Chief Executive Officer of the Company) and Ms. Chu Yuen Fan, Peggie (director of business relations of the Company).

Mr. Chu Chun Wah, Haeta, aged 43, 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, Advertiser's Media Agency Limited, Cobblers (Hong Kong) Trading Company Limited and Shoes Culture (Hong Kong) Trading Company Limited and an administrator of Shoes Culture Company Limited (all are the subsidiaries 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, an 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 (an Executive Director and a substantial shareholder of the Company) and the brother of Mr. Chu Chun Ho, Dominic (an Executive Director and a Co-Chief Executive Officer of the Company) and Ms. Chu Yuen Fan, Peggie (director of business relations of the Company).

Non-executive Directors

Mr. Chong Hot Hoi, aged 62, 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 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, the chairman of Hong Kong-Korea Business Round Table and the executive vice chairman of Federation of HK Chiu Chow Community Organizations Limited. Mr. Chong is also the chairman and a director of Alpha Peak Leisure Inc. (a company listed on the TSX Venture Exchange; stock code: AAP) since June 2015. 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 58, 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 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. He is also a director of Alpha Peak Leisure Inc. (a company listed on the TSX Venture Exchange; stock code: AAP) since June 2015. Mr. Chong had also served as a director of Thunder Power Co., Ltd (a company listed on the Taiwan Stock Exchange; stock code: 4529) from June 2011 to June 2014. 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 59, 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 Practising 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 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. Mr. Yu was the Chief Executive Officer of OPR Fashion Limited (previously known as Oasis Pacific Rim Limited) from July 2011 to June 2015 and the Deputy General Manager at Samsung Hong Kong Limited from May 1994 to January 2001.

Independent Non-executive Directors

Mr. Wan Kam To, aged 64, 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 both the Remuneration Committee and Nomination Committee of the Company. 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 the Treasurer and 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 director of RDA Microelectronics, Inc. (a company previously listed on the NASDAQ Stock Market in New York; stock code: RDA) between November 2010 and July 2014 and Mindray Medical International Limited (a company previously listed on the New York Stock Exchange; stock code: MR) between September 2008 and December 2014. In addition, he is currently the independent director of the following listed companies:

Company name	Stock code	Place of listing
China Resources Land Limited	1109	Hong Kong
Fairwood Holdings Limited	52	Hong Kong
Huaneng Renewables Corporation Limited	958	Hong Kong
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	636	Hong Kong
Harbin Bank Co., Ltd	6138	Hong Kong
Target Insurance (Holdings) Limited	6161	Hong Kong
China World Trade Center Company Ltd. (appointed on 23 November 2016)	600007	Shanghai

Mr. Yau Tat Wang, Dennis, aged 69, 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.

Mr. Yau 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 People's Republic of China (the "PRC") and South East Asia. He is also an independent board advisor of DPM Sleep Solution Limited since July 2016. 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 57, 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) and an independent non-executive director of Veeko International Holdings Limited (a company listed on the Main Board of the Stock Exchange; stock code: 1173). He is also a founding member of the Hong Kong Yau Yat Chuen Lions Club.

Senior Management

Ms. Chan Mei Yin, aged 61, 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. Chu Yuen Fan, Peggie, aged 47, 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 15 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 (an Executive Director and a substantial shareholder of the Company) and the sister of Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta (both are Executive Directors and Co-Chief Executive Officers of the Company).

Mr. Ma Chun Fung, Horace (formerly known as Ma Ka Keung), aged 46, 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 37, 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 REPORT

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 Listing Rules since the listing date (which is 11 July 2013).

The Board considers that during the year ended 31 December 2016, 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 standards set out in the Model Code throughout the Year.

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 standards 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 year ended 31 December 2016.

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 reviews 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 the 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 a 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, allows sufficient time for discussion of issues and ensures Board decisions fairly reflect Board consensus. The Chairman is 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 year ended 31 December 2016, 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 fields 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 also 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 systems of risk management and internal control 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 in the meetings of Board Committees.

All Independent Non-executive Directors have met all the guidelines for assessing independence of a non-executive director as 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 terms of appointment have commenced from 1 May 2013 for three years and renewed on 1 May 2016 for a further terms 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/her 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 8 May 2017 (the "2017 AGM"), Mr. Chu Chun Wah, Haeta, Mr. Yu Fuk Lun and Mr. Lam Man Tin will retire by rotation pursuant to the provisions of the Articles stated in the foregoing paragraph. All the retiring Directors, being eligible, will offer themselves for re-election at the 2017 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 to be discussed 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 year ended 31 December 2016, four Board meetings, three Audit Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting and the 2016 annual general meeting were held. Details of individual Directors' attendance at these meetings are set out in the following table:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	2016 Annual General Meeting
Executive Directors					
Mr. Chu Siu Ming	4/4	N/A	N/A	1/1	1/1
Mr. Chu Chun Ho, Dominic	4/4	N/A	N/A	N/A	1/1
Mr. Chu Chun Wah, Haeta	4/4	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Chong Hot Hoi	4/4	N/A	1/1	1/1	1/1
Mr. Chong Hok Hei, Charles	3/4	N/A	N/A	N/A	0/1
Mr. Yu Fuk Lun	4/4	N/A	1/1	N/A	1/1
Independent Non-executive Directors					
Mr. Wan Kam To	4/4	3/3	1/1	1/1	1/1
Mr. Yau Tat Wang, Dennis	4/4	3/3	1/1	1/1	1/1
Mr. Lam Man Tin	4/4	3/3	1/1	1/1	1/1

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. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency of making 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) discuss and make decisions on matters relating to the management and operations of the Company;

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

(iii) 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) open accounts for the Company with banks and execute any related documentation; and

(v) 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 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 systems and for overseeing the relationship with the external auditor. The Audit Committee has access to, and maintains an independent communication with the external auditor 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 deal with 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 risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;

(vii) where an internal audit function exists, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;

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

(ix) 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;

(x) 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

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

During the year ended 31 December 2016, 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 annual financial statements of the Group and related results announcement and report of the Company for the year ended 31 December 2015, with recommendations to the Board for approval;

— noted and considered the major audit findings related to the 2015 annual audit from Deloitte Touche Tohmatsu, the Company's external auditor;

— reviewed the interim financial statements of the Group and related results announcement and report of the Company for the six months ended 30 June 2016, with recommendations to the Board for approval;

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

— considered and made recommendations to the Board on the re-appointment of Deloitte Touche Tohmatsu;

— reviewed the independence of Deloitte Touche Tohmatsu and engagement of Deloitte Touche Tohmatsu for annual audit for the year ended 31 December 2016;

— 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 audit charter and 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);

— 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; and

— reviewed the Company's corporate governance compliance matters.

Remuneration Committee

The Remuneration Committee was established 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 year ended 31 December 2016, 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:

— reviewed the policy on remuneration of all of the Directors and senior management;

— reviewed specific remuneration packages of all Executive Directors and senior management, with recommendations to the Board for approval (i.e. the model described in the Code Provision B.1.2(c)(ii) of the CG Code is adopted); and

— reviewed the remuneration packages of the Directors and senior management.

For the year ended 31 December 2016, the remuneration of the senior management is listed as below by band:

Band of remuneration	**No. of persons**
HK$500,001 to HK$1,000,000	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 10(a) and 10(b) to the consolidated financial statements.

Nomination Committee

The Nomination Committee was established 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 *Non-executive Director* Mr. Chong Hot Hoi *Independent Non-executive Directors* Mr. Lam Man Tin *(Committee Chairman)* Mr. Wan Kam To 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 benefits of having a diverse Board to enhance the quality of its performance and hence the purpose of Board diversity. To comply with Code Provision A.5.6 of the CG Code, a Board diversity policy was adopted by the Company, 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, if any, will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board.

During the year ended 31 December 2016, 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 the Board diversity policy;

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

— considered and recommended to the Board the re-election of the retiring Directors at the 2016 annual general meeting; and

— assessed the independence of the three Independent Non-executive Directors.

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 year ended 31 December 2016, the principal works performed by the Board in relation to corporate governance functions are summarised below:

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

— reviewed 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;

— reviewed the Corporate Governance Policy, Shareholders' Communication Policy and Codes of Conduct applicable to 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 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 also arranges suitable professional development seminars and courses for the Directors and circulate various journals, articles and commentaries about the latest development of the industry from time to time amongst Directors. The records of training of the Directors are maintained by the Company Secretary.

According to the records provided by the Directors, the training received by each of the Directors during the year ended 31 December 2016 is summarised as follows:

Directors	**Type of continuous professional development training** Notes
Executive Directors	
Mr. Chu Siu Ming	B
Mr. Chu Chun Ho, Dominic	A and B
Mr. Chu Chun Wah, Haeta	B
Non-executive Directors	
Mr. Chong Hot Hoi	A and B
Mr. Chong Hok Hei, Charles	B
Mr. Yu Fuk Lun	B
Independent Non-executive Directors	
Mr. Wan Kam To	A and B
Mr. Yau Tat Wang, Dennis	A and B
Mr. Lam Man Tin	B

Notes:

A: Attending seminar(s) or training course(s)

B: Reading materials provided by external parties or by the Company including but not limited to updates relating to the Company's business or directors' duties and responsibilities, the latest development of the Listing Rules and other applicable regulatory requirements.

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 6 to 11 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 flows 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 pages 45 to 48 in this annual report.

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 2016 is set out below:

Types of services provided by the external auditor	**2016 HK$'000**
Audit service	**980**
Non-audit service	
— Interim review	**260**
— Provision for ESG reporting service	**100**
— Provision for internal control advisory service	**193**
Total:	**1,533**

Risk Management and Internal Control

The main features of the Group's risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage it risks across business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the Senior Management. The Board evaluates and determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems, and has the overall responsibility for monitoring management in the design, implementation and the overall effectiveness of the risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy for providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management identifies risks that would adversely affect the achievement of the Group's business objectives, assesses and prioritizes the identified risks according to a set of standard criteria, and reports to the Board and the Audit Committee on all findings and the effectiveness of the risk management and internal control systems. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board and the Audit Committee in performing internal audit function and the ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies and ineffectiveness in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure that prompt remediation and subsequent actions are taken to improve the situations.

The Board had performed annual review on the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2016, including but not limited to the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions; the change in nature and extent of significant risks since last annual reviews; the Group's ability to cope with its business transformation and changing external environment; the scope and quality of the management's continuous review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk management and internal control review; significant failures or weaknesses identified and their related implications during the Year; and status of compliance with the Listing Rules. Based on the risk management and internal control reports submitted by the Senior Management and the professional advisor to the Audit Committee and the Board, the Board considered the Group's risk management and internal control systems for the year ended 31 December 2016 are effective and adequate.

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of Securities & Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

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 2016, 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 an informed 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, 11th Floor, Block 2, Kwai Tak Industrial Centre, 15–33 Kwai Tak Street, Kwai Chung, New Territories, 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, 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 contents of the auditor's report, the accounting policies and auditor's 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 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

During the year ended 31 December 2016, there was no change in the memorandum and articles of association of the Company. An up-to-date version of the memorandum and articles of association of the Company is available on the websites of the Stock Exchange and the Company.

REPORT OF THE DIRECTORS

The Directors of S. Culture International Holdings Limited present their report together with the audited consolidated financial statements for the year ended 31 December 2016 (the "Consolidated Financial Statements").

Principal Activities and Business Review

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

The business review required under Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance during the Year using financial key performance indicators and an indication of likely future development in the Group's business, is set out in the "Management Discussion and Analysis" on pages 6 to 11 of this annual report and a description of the environmental policies and performance is set out in the "Environmental, Social and Governance Report" on pages 12 to 16 of this annual report. These discussions form part of this "Report of the Directors".

An analysis of the revenues and the results of the Group by operating segment during the financial year is set out in note 5 to the Consolidated Financial Statements.

Principal Subsidiaries

A list of principal subsidiaries, together with their places of incorporation/establishment and particulars of their issued share capital/registered capital and principal activities, is set out in note 35 to the Consolidated Financial Statements.

Financial Results

The loss of the Group for the year ended 31 December 2016, and the Consolidated Statement of Financial Position of the Group as at that date are set out in the Consolidated Financial Statements on pages 49 to 50 of this annual report.

Dividends

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016.

Closure of Register of Members

The register of members of the Company will be closed from 2 May 2017, Tuesday to 8 May 2017, Monday (both days inclusive) for the purpose of determining the right to attend and vote at the 2017 AGM to be held on 8 May 2017, Monday. In order to be entitled to attend and vote at the 2017 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 28 April 2017, Friday.

Five Year Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2016 is set out on page 94 of this annual report.

Compliance with Relevant Laws and Regulations

During the Year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Major Suppliers and Customers

For the year ended 31 December 2016, 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 approximately 89% while the purchases attributable to the Group's largest supplier during the Year were approximately 79%.

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

Key relationship with the customers and suppliers

(a) *Customers*

The Group's wholesales customers are typically local department stores or footwear retail chain stores, whereas our retail customers are mainly members of the public or tourists in Hong Kong, Mainland China, Taiwan and Macau.

For wholesales customers, we had maintained business relationship and have been dealing with most of them for more than five years. Consistent with usual industry practice, the Group do not enter into any long-term sales agreements with them, while we will organize order meetings and request them to place purchase orders to us for every season.

For retail customers, we aimed to pursue excellence in product and service quality. Our sales team is trained to provide customers with high quality customer shopping experience and deal with any complaints that may arise from customers, including but not limited to the verification of any alleged defects in our products. The Directors regard the interest of customers as one of our top priorities.

(b) *Suppliers*

S. Culture is an established and reputable distributor and retailer with exclusive distribution rights with a number of renowned international lifestyle comfort footwear brands. The Directors consider that it is commercially beneficial to build up a close and long-term business relationship with our suppliers as our long-term collaboration would allow us to provide reliable and quality footwear products to our customers.

Reserves and Distributable Reserves

Movements in the reserves of the Company during the Year are set out in note 34 to the Consolidated Financial Statements. 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 2016 amounted to approximately HK$92.5 million (2015: HK$93.5 million).

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles or the laws of the 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$1,730,000.

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2016 are set out in note 24 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 14 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 15 to the Consolidated Financial Statements.

Share Capital

There was no movement in the Company's issued shares during the Year. Details of the Company's share capital are set out in note 25 to the Consolidated Financial Statements.

Equity-linked Agreements

Other than the share option scheme of the Company as disclosed below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year or subsisted at the end of the Year.

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 participant and the close associates of such participant (or his/her/its associates if the participant is a connected person) 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 27 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)*
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

Pursuant to Article 108 of the Articles, Mr. Chu Chun Wah, Haeta, Mr. Yu Fuk Lun and Mr. Lam Man Tin shall retire by rotation at the 2017 AGM. All of the above three retiring Directors, being eligible, will offer themselves for re-election at the 2017 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 2017 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 10(a) to the Consolidated Financial Statements.

Directors' Interests in Transactions, Arrangements or Contracts

Saved as disclosed in the section headed "Fully Exempted Continuing Connected Transaction", no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Arrangement to Acquire Shares or Debentures

Apart from the Share Option Scheme operated by the Company as disclosed in the section headed "Share Option Scheme" above, neither at the end of nor at any time during the Year there subsisted any arrangement to which the Company or any of its subsidiaries was a party and the objects of or one of the objects of such arrangement are/is to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Contract of Significance

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders or any of its subsidiaries during the Year.

Fully Exempted Continuing Connected Transaction

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

On 19 September 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 the 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 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 period from 1 January 2016 to 30 September 2016, the aggregate rent paid by Grand Asian Limited to Fortune Star Realty Company Limited was HK$855,000, which was within the above annual cap.

The tenancy agreement of Peninsula Centre Premises was renewed on 1 October 2016 for a further term of 3 years at a monthly rental of HK$70,000 (exclusive of management fees and utility charges). The rent payable under the renewed agreement by Grand Asian Limited to Fortune Star Realty Company Limited for the lease of the Peninsula Centre Premises for the period from 1 October 2016 to 31 December 2016 was HK$210,000, for the two years ending 31 December 2017 and 2018 will be HK$840,000, and for the period from 1 January 2019 to 30 September 2019 HK$630,000.

As the highest relevant percentage ratio in respect of the renewed lease between Fortune Star Realty Company Limited and Grand Asian Limited will be, on annual basis, less than 5% and the total consideration will be less than HK$3,000,000, it will constitute a *de minimis* continuing connected transaction for the Company exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

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 2016, the interests of the Directors 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, to be notified to the Company and the Stock Exchange, were as follows:

Long position in 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 31 December 2016.

Save as disclosed above, as at 31 December 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 31 December 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 31 December 2016.

Save as disclosed above, as at 31 December 2016, 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 31 to the Consolidated Financial Statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed.

Non-Competition Undertakings

Pursuant to the deed of non-competition undertakings (the "Non-Competition Undertakings") dated 27 June 2013 (the "Deed"), each of the controlling shareholders, i.e. Mr. Chong Hok Shan, Mr. Chong Hot Hoi, Mr. Chong Hok Hei, Charles and Mr. Chu Siu Ming, and their respective associates has undertaken to and covenanted with the Company that, save for the identified business, referring to the internet-based online sale of mass market women footwear and the retail sales of footwear in Malaysia, he or it would not, and would procure none of his or its associates to engage in footwear business in the PRC, Hong Kong, Macau and Taiwan and any business that is or is likely to be in competition with that of the Group. For details of the Deed, please refer to the section headed "Relationship with our Controlling Shareholders" in our prospectus dated 28 June 2013. If the controlling shareholders become aware of any business opportunities, they will notify the Company of such opportunities and will procure that such business opportunities are first offered to the Group upon terms which are fair and reasonable.

Each of the above-mentioned controlling shareholders, and their respective associates has confirmed to the Company of his/its compliance with the Non-Competition Undertakings provided to the Company.

During the year ended 31 December 2016, the controlling shareholders did not take up and did not offer or make available to the Company any opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business (as defined in the Deed) in the Restricted Territory (as defined in the Deed) and declared that they had complied with the requirements on the Non-Competition Undertakings as set out in the Deed.

At a meeting of the Audit Committee held on 13 March 2017, 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 6 February 2017 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 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 Year.

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.

Permitted Indemnity Provision

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the directors of the Company and its associated companies is currently in force and was in force throughout the Year.

Corporate Governance Practices

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

Event After the Reporting Period

On 12 January 2017, Shang Ying Financial Holding Co., Limited (the "Offeror") entered into the sale and purchase agreement (the "Sale and Purchase Agreement") with Mr. Chong Hok Hei, Charles, Mr. Chong Hok Shan, Mr. Chong Hot Hoi, Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta, Ms. Chu Yuen Fan, Peggie, Ms. Wong May Heung, Ms. Wu Se and Come Good Investment (BVI) Limited (collectively, the "Vendors"), pursuant to which the Offeror has conditionally agreed to purchase and the respective Vendors have conditionally agreed to sell a total of 116,814,979 shares of the Company (the "Sale Shares") for an aggregate cash consideration of HK$467,259,188 (equivalent to HK$4.00 per Sale Share) (the "Transaction"). The Sale Shares represented approximately 58.41% of the entire issued share capital of the Company as at 12 January 2017. For further details of the Transaction, please refer to the announcement jointly issued by the Company and the Offeror dated 19 January 2017.

As at the date of the report, the Transaction has not been completed and is subject to the fulfilment or waiver (where applicable) of the conditions precedent to the Sale and Purchase Agreement. Further announcements would be made to update the Shareholders when and where appropriate.

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 risk management and internal control systems of the Company.

The audit committee (consisting of the three Independent Non-executive Directors) has reviewed with management the principal accounting policies adopted by the Group and discussed risk management, internal controls and financial reporting matters including a review of the annual financial statements for the Year.

Auditor

Deloitte Touche Tohmatsu, the auditor of the Company, will retire and, being eligible, offer themselves for re-appointment at the 2017 AGM. A resolution will be submitted to the 2017 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, 16 March 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF S. CULTURE INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Opinion

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 49 to 93, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for inventories	
We identified the estimated allowance for inventories as a key audit matter due to the use of judgment and estimates by the management in identifying the aged or obsolete inventories and estimating the allowance for aged or obsolete inventories. As disclosed in note 4 to the consolidated financial statements, the aged or obsolete inventories were identified by management based on the conditions and marketability of the inventories. Allowance for inventories is estimated based on an assessment of the net realisable value of inventories by the management. In determining the net realisable value of the inventories, the management considers the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent sales of the inventories. As at 31 December 2016, the carrying amount of inventories is HK$227,121,000. The management of the Group determines that no allowance for inventories is recognised as at 31 December 2016.	Our procedures in relation to evaluating the appropriateness of the estimated allowance for inventories included: • Obtaining an understanding from the management how the allowance for inventories and the net realisable value of inventories are estimated. • Understanding and testing the key controls relating to the preparation of aging analysis of inventories. • Discussing with the management about and evaluating the basis of their identified aged or obsolete inventories based on the conditions and marketability of the inventories. • Discussing with the management about and assessing the reasonableness of the net realisable value of the inventories based on current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent sales of the inventories. • Tracing a selection of inventories with subsequent sales to the sales invoices. • Evaluating the historical accuracy of the net realisable values estimated by management with reference to actual sale values, and tracing the actual sales values, on a sample basis, to the sales invoices.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Leung Chui Shan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	5	562,474	561,028
Cost of goods sold		(241,947)	(213,534)
Gross profit		320,527	347,494
Other income	6	1,344	1,698
Other gains and losses	7	(971)	(1,846)
Selling and distribution costs		(218,398)	(220,848)
Administrative expenses		(136,101)	(139,798)
Finance costs	8	(3,713)	(3,060)
Loss before taxation	9	(37,312)	(16,360)
Taxation	11	2,705	(13)
Loss for the year		(34,607)	(16,373)
Other comprehensive income (expense) for the year			
Item that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation		1,098	(805)
Total comprehensive expense for the year		(33,509)	(17,178)
Loss for the year attributable to owners of the Company		(34,607)	(16,373)
Total comprehensive expense attributable to owners of the Company		(33,509)	(17,178)
Loss per share — basic (HK$)	13	(0.17)	(0.08)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	14	**46,929**	52,066
Investment properties	15	**751**	764
Deferred tax assets	16	**10,155**	6,773
Deposit and prepayment for a life insurance policy	17	**1,862**	—
Deposits paid for acquisition of property, plant and equipment		**—**	349
Rental deposits		**10,940**	19,216
		70,637	79,168
Current assets			
Inventories	18	**227,121**	251,713
Trade and other receivables	19	**87,038**	87,719
Derivative financial instruments	20	**—**	141
Taxation recoverable		**2,795**	2,896
Bank balances and cash	21	**26,233**	32,647
		343,187	375,116
Current liabilities			
Trade and other payables	22	**24,469**	26,992
Taxation payable		**211**	268
Obligation under a finance lease — due within one year	23	**—**	155
Bank borrowings — due within one year	24	**195,867**	199,103
		220,547	226,518
Net current assets		**122,640**	148,598
Total assets less current liabilities		**193,277**	227,766
Non-current liabilities			
Bank borrowings — due after one year	24	**9,209**	10,189
Net assets		**184,068**	217,577
Capital and reserves			
Share capital	25	**2,000**	2,000
Reserves		**182,068**	215,577
Total equity		**184,068**	217,577

The consolidated financial statements on pages 49 to 93 were approved and authorised for issue by the board of directors on 16 March 2017 and are signed on its behalf by:

Chong Hot Hoi	**Chu Siu Ming**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owner of the Company						
	Share capital HK$'000	**Share premium** HK$'000	**Special reserve** HK$'000 (Note a)	**Legal reserve** HK$'000 (Note b)	**Translation reserve** HK$'000	**Accumulated profits** HK$'000	**Total** HK$'000
At 1 January 2015	2,000	92,911	15,800	12	(2,604)	131,236	239,355
Loss for the year	—	—	—	—	—	(16,373)	(16,373)
Exchange differences arising on translation and other comprehensive expense for the year	—	—	—	—	(805)	—	(805)
Total comprehensive expense for the year	—	—	—	—	(805)	(16,373)	(17,178)
Dividend paid	—	—	—	—	—	(4,600)	(4,600)
At 31 December 2015	2,000	92,911	15,800	12	(3,409)	110,263	217,577
Loss for the year	—	—	—	—	—	(34,607)	(34,607)
Exchange differences arising on translation and other comprehensive income for the year	—	—	—	—	1,098	—	1,098
Total comprehensive income (expense) for the year	—	—	—	—	1,098	(34,607)	(33,509)
At 31 December 2016	2,000	92,911	15,800	12	(2,311)	75,656	184,068

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 ("Grand Asian"), subsidiaries of the Company, and the nominal amount of share capital of the Company pursuant to the group reorganisation.

(b) As stipulated by the relevant laws and regulations in the Macao Administrative Region of the People's Republic of China ("Macau"), a subsidiary of the Company is required to set aside 25% of its profit for the year to a legal reserve until the legal reserve has reached 50% of its registered capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Operating activities		
Loss before taxation	(37,312)	(16,360)
Adjustments for:		
Allowance for doubtful debts	32	—
Interest income	(73)	(577)
Interest expenses	3,713	3,060
Imputed interest income from deposit and prepayment for a life insurance policy	(26)	—
Depreciation of property, plant and equipment	10,839	13,137
Depreciation of investment properties	13	12
Premium charges on a life insurance policy	21	—
Loss on disposal of property, plant and equipment	—	117
Fair value loss (gain) on derivative financial instruments	142	(146)
Operating cash flows before movements in working capital	(22,651)	(757)
Decrease (increase) in rental deposits	1,357	(3,404)
Decrease (increase) in inventories	23,695	(66,846)
Decrease (increase) in trade and other receivables	7,864	(14,453)
Decrease in trade and other payables	(157)	(1,295)
Cash generated from (used in) operations	10,108	(86,755)
Hong Kong Profits Tax paid	(427)	(1,911)
Tax paid in other jurisdictions	(202)	(122)
Net cash from (used in) operating activities	9,479	(88,788)
Investing activities		
Interest received	73	577
Purchase of property, plant and equipment	(5,284)	(14,530)
Deposit and prepayment paid for a life insurance policy	(1,883)	—
Deposits paid for acquisition of property, plant and equipment	—	(111)
Net cash used in investing activities	(7,094)	(14,064)
Financing activities		
New bank loans raised	312,738	364,743
Repayments of bank borrowings	(317,637)	(291,892)
Interest paid	(3,713)	(3,060)
Repayment of obligation under a finance lease	(155)	(296)
Dividends paid	—	(4,600)
Net cash (used in) from financing activities	(8,767)	64,895
Net decrease in cash and cash equivalents	(6,382)	(37,957)
Cash and cash equivalents at beginning of the year	32,647	70,801
Effect of foreign exchange rate changes	(32)	(197)
Cash and cash equivalents at end of the year, representing bank balances and cash	26,233	32,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. General

The Company is a listed public company incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has applied the following amendments to 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 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 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.

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Apply HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2017.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge amounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial instruments: Recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier recognition of credit losses for the respective items and are currently assessing the potential impact.

It should be noted that the above assessments were made based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of HKFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principles of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract(s)
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract(s)
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group has performed a review of the existing contractual arrangement with its customers and the directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures but will not have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$145,936,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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 of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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 "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, 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.

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.

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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.

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

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 is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

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 building, leasehold land (classified as finance leases) and freehold land 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.

3. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

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

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

3. Significant Accounting Policies (Continued)

Leasing (Continued)

The Group as lessee (Continued)

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 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 ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 33.

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 deposit and prepayment for a life insurance policy, trade and other receivables, deposits 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, other than those at FVTPL, 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.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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 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 are classified as either financial liabilities at FVTPL or other financial liabilities.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 33.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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.

3. 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 recognised 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, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

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 Schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

3. Significant Accounting Policies (Continued)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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.

4. 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 allowance for inventories

The identification of aged or obsolete inventories requires the use of judgment and estimates on the conditions and marketability of the inventories. The Group makes allowance for inventories based on an assessment of the net realisable value of inventories after the consideration of the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent sales of the 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. At 31 December 2016, the carrying amount of inventories is HK$227,121,000 (2015: HK$251,713,000). The management of the Group determines that no allowance for inventories is recognised as at 31 December 2016 and 2015. Where the subsequent selling prices decline lower than the cost of inventories, additional allowance may arise.

Income taxes

As at 31 December 2016, a deferred tax asset of HK$2,456,000 and HK$7,699,000 (2015: HK$6,398,000 and HK$378,000) in relation to accelerated tax depreciation and unused tax losses has been recognised in the Group's consolidated statement of financial position, respectively. No deferred tax asset has been recognised on the tax losses of HK$29,465,000 (2015: HK$15,782,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. 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 2016

	Retail sales HK$'000	Wholesale HK$'000	Segment total HK$'000	Elimination HK$'000	Total HK$'000
REVENUE					
External sales	518,807	43,667	562,474	—	562,474
Inter-segment sales	—	252,934	252,934	(252,934)	—
Segment revenue	518,807	296,601	815,408	(252,934)	562,474
Segment results	(31,980)	3,089	(28,891)	(2,466)	(31,357)
Unallocated income					1,015
Unallocated expenses					(3,257)
Finance costs					(3,713)
Loss before taxation					(37,312)

5. Revenue and Segment Information (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2015

	Retail sales HK$'000	Wholesale HK$'000	Segment total HK$'000	Elimination HK$'000	Total HK$'000
REVENUE					
External sales	513,124	47,904	561,028	—	561,028
Inter-segment sales	—	246,811	246,811	(246,811)	—
Segment revenue	513,124	294,715	807,839	(246,811)	561,028
Segment results	(10,755)	3,909	(6,846)	(2,454)	(9,300)
Unallocated income					1,639
Unallocated expenses					(5,639)
Finance costs					(3,060)
Loss before taxation					(16,360)

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 3. Segment results represent the (loss) profit earned from each segment without allocation of central administration costs, fair value (loss) gain on derivative financial instruments, rental income, interest income, imputed interest income from deposit and prepayment for a life insurance policy, premium charges on a life insurance policy 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 2016

	Retail sales HK$'000	**Wholesale HK$'000**	**Unallocated HK$'000**	**Total HK$'000**
Amounts included in measure of segment results:				
Depreciation	**8,817**	**1,889**	**146**	**10,852**

5. Revenue and Segment Information (Continued)

Other segment information (Continued)

For the year ended 31 December 2015

	Retail sales HK$'000	Wholesale HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in measure of segment results:				
Depreciation	10,748	2,255	146	13,149
Loss on disposal of property, plant and equipment	117	—	—	117

Geographical information

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

	2016 HK$'000	2015 HK$'000
Hong Kong	**445,340**	436,960
Taiwan	**98,910**	105,057
Macau	**12,309**	13,184
Mainland China	**5,915**	5,827
	562,474	561,028

Information about the Group's non-current assets (excluding deferred tax assets and deposit and prepayment for a life insurance policy) is presented based on the location of the assets:

	2016 HK$'000	2015 HK$'000
Hong Kong	**33,057**	46,241
Taiwan	**25,055**	25,409
Macau	**120**	360
Mainland China	**388**	385
	58,620	72,395

Information about major customers

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

6. Other Income

	2016 HK$'000	2015 HK$'000
Rental income (outgoings of HK$89,000 (2015: HK$68,000))	**916**	916
Commission income	**83**	179
Interest income	**73**	577
Imputed interest income from deposit and prepayment for a life insurance policy	**26**	—
Others	**246**	26
	1,344	1,698

7. Other Gains and Losses

	2016 HK$'000	2015 HK$'000
Net exchange loss	**(797)**	(1,875)
Fair value (loss) gain on derivative financial instruments	**(142)**	146
Allowance for doubtful debts	**(32)**	—
Loss on disposal of property, plant and equipment	**—**	(117)
	(971)	(1,846)

8. Finance Costs

	2016 HK$'000	2015 HK$'000
Interest on bank borrowings	**3,711**	3,042
Interest on finance lease	**2**	18
	3,713	3,060

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

9. Loss Before Taxation

	2016 HK$'000	2015 HK$'000
Loss before taxation has been arrived at after charging (crediting):		
Directors' remuneration (note 10)	**9,231**	9,231
Other staff costs	**95,254**	95,400
Retirement benefit schemes contributions for other staffs	**4,213**	4,291
Total staff costs	**108,698**	108,922
Auditors' remuneration	**1,535**	1,652
Cost of inventories recognised as expenses	**241,947**	213,534
Depreciation of property, plant and equipment	**10,839**	13,137
Depreciation of investment properties	**13**	12
Premium charges on a life insurance policy	**21**	—
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**5,194**	4,864
— retail stores (including in selling and distribution costs)		
— minimum lease payments	**110,799**	105,465
— contingent rent (note)	**4,224**	4,406
	115,023	109,871
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	**31,600**	39,530
— contingent rent (note)	**28,129**	25,714
	59,729	65,244
	179,946	179,979

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.

10. 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 2016				
Executive directors:				
Mr. Chu Siu Ming	120	3,540	108	3,768
Mr. Chu Chun Ho, Dominic	120	2,266	104	2,490
Mr. Chu Chun Wah, Haeta	120	2,266	75	2,461
Non-executive directors:				
Mr. Chong Hot Hoi	1	—	—	1
Mr. Chong Hok Hei, Charles	1	—	—	1
Mr. Yu Fuk Lun	120	—	—	120
Independent non-executive directors:				
Mr. Wan Kam To	150	—	—	150
Mr. Yau Tat Wang, Dennis	120	—	—	120
Mr. Lam Man Tin	120	—	—	120
	872	8,072	287	9,231

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

(a) Directors' and chief executives' emoluments (Continued)

	Fees	Salaries and allowances	Retirement benefit schemes contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2015				
Executive directors:				
Mr. Chu Siu Ming	120	3,540	108	3,768
Mr. Chu Chun Ho, Dominic	120	2,266	104	2,490
Mr. Chu Chun Wah, Haeta	120	2,266	75	2,461
Non-executive directors:				
Mr. Chong Hot Hoi	1	—	—	1
Mr. Chong Hok Hei, Charles	1	—	—	1
Mr. Yu Fuk Lun	120	—	—	120
Independent non-executive directors:				
Mr. Wan Kam To	150	—	—	150
Mr. Yau Tat Wang, Dennis	120	—	—	120
Mr. Lam Man Tin	120	—	—	120
	872	8,072	287	9,231

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 executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The emoluments of the non-executive directors and independent non-executive directors shown above were mainly for their services as directors of the Company.

For the year ended 31 December 2016

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, 3 (2015: 3) were directors and the chief executives of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining 2 (2015: 2) individuals were as follows:

	2016 HK$'000	2015 HK$'000
Employees		
— salaries and allowance	3,042	3,042
— retirement benefits scheme contributions	36	36
	3,078	3,078

Their emoluments were within the following bands:

	Number of employees	
	2016	2015
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	1	1
	2	2

11. Taxation

	2016 HK$'000	2015 HK$'000
Current tax		
Hong Kong Profits Tax	375	329
Macau Complementary Tax	158	268
People's Republic of China ("PRC") Enterprise Income Tax	55	—
	588	597
Under(over)provision in prior years	89	(53)
Deferred taxation (note 16)	(3,382)	(531)
	(2,705)	13

The Company, which was incorporated in the Cayman Islands, together with those group entities incorporated in the British Virgin Islands ("BVI"), have no assessable profits for both years.

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

11. Taxation (Continued)

Taiwan income tax is calculated at 17% (2015: 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 both years.

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (2015: 9% to 12%) on the estimated assessable profit for the year.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2015: 25%). No provision for PRC Enterprise Income Tax was made in the consolidated financial statements for the year ended 31 December 2015 as the subsidiaries operating in the PRC had no assessable profits for prior year.

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

	2016 HK$'000	2015 HK$'000
Loss before taxation	**(37,312)**	(16,360)
Tax at Hong Kong Profits Tax rate of 16.5% (2015: 16.5%)	**(6,157)**	(2,699)
Tax effect of expenses not deductible for tax purposes	**645**	784
Tax effect of income not taxable for tax purposes	**(51)**	(72)
Tax effect of utilisation of tax loses previously not recognised	**(39)**	—
Tax effect of tax losses not recognised	**2,707**	2,639
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(353)**	(641)
Under(over)provision in prior years	**89**	(53)
Others	**454**	55
Taxation charge	**(2,705)**	13

12. Dividends

	2016 HK$'000	2015 HK$'000
Dividends recognised as distribution during the year:		
2015 Final dividend — Nil		
(2015: 2014 Final dividend — HK2.3 cents per share)	**—**	4,600

No dividend was proposed for ordinary shareholders of the Company during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period.

13. Loss Per Share

The calculation of the basic loss per share for the year ended 31 December 2016 is based on the loss the year attributable to owners of the Company and the weighted average number of 200,000,000 (2015: 200,000,000) ordinary shares in issue during the year.

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

14. 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 2015	39,402	49,274	9,320	3,418	101,414
Exchange adjustments	—	(728)	(100)	(9)	(837)
Additions	6,900	7,029	1,291	—	15,220
Disposals	—	(3,170)	(8)	—	(3,178)
At 31 December 2015	46,302	52,405	10,503	3,409	112,619
Exchange adjustments	—	241	15	4	260
Additions	—	4,675	958	—	5,633
Write off	—	(6,460)	(445)	—	(6,905)
At 31 December 2016	46,302	50,861	11,031	3,413	111,607
DEPRECIATION					
At 1 January 2015	8,364	33,647	6,681	2,371	51,063
Exchange adjustments	—	(511)	(68)	(7)	(586)
Provided for the year	1,064	10,002	1,742	329	13,137
Eliminated on disposals	—	(3,061)	—	—	(3,061)
At 31 December 2015	9,428	40,077	8,355	2,693	60,553
Exchange adjustments	—	173	15	3	191
Provided for the year	843	8,226	1,529	241	10,839
Eliminated on write off	—	(6,460)	(445)	—	(6,905)
At 31 December 2016	10,271	42,016	9,454	2,937	64,678
CARRYING VALUES					
At 31 December 2016	36,031	8,845	1,577	476	46,929
At 31 December 2015	36,874	12,328	2,148	716	52,066

14. Property, Plant and Equipment (Continued)

The Group's leasehold land and buildings are situated:

	2016 HK$'000	2015 HK$'000
In Hong Kong	**16,806**	17,302
In Taiwan	**19,225**	19,572
	36,031	36,874

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

As at 31 December 2015, the carrying value of motor vehicles included an amount of HK$293,000 in respect of an asset held under a finance lease (2016: nil).

15. Investment Properties

	HK$'000
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	1,186
DEPRECIATION	
At 1 January 2015	410
Provided for the year	12
At 31 December 2015	422
Provided for the year	13
At 31 December 2016	435
CARRYING VALUES	
At 31 December 2016	751
At 31 December 2015	764

The fair value of the Group's investment properties as at 31 December 2016 was HK$24,500,000 (2015: HK$23,580,000). The fair value as at 31 December 2016 has been arrived at based on a valuation carried out on that date by ROMA Appraisals Limited, an independent valuer not connected with the Group and a member of Hong Kong Institute of Surveyors.

15. Investment Properties (Continued)

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.

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

	Level 3	**Fair value**
	HK$'000	HK$'000
At 31 December 2016		
Commercial property units located in Hong Kong	**24,500**	**24,500**
At 31 December 2015		
Commercial property units located in Hong Kong	23,580	23,580

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

16. Deferred Taxation

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

	Accelerated tax depreciation	**Tax losses and others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2015	5,681	565	6,246
Credit (charge) to profit or loss (note 11)	717	(186)	531
Exchange adjustments	—	(4)	(4)
At 31 December 2015	6,398	375	6,773
(Charge) credit to profit or loss (note 11)	(3,942)	7,324	3,382
At 31 December 2016	2,456	7,699	10,155

At the end of the reporting period, the Group has unutilised tax losses of HK$76,127,000 (2015: HK$18,071,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$46,662,000 (2015: HK$2,289,000) of such losses. No deferred tax has been recognised in respect of the remaining losses of HK$29,465,000 (2015: HK$15,782,000). Included in unrecognised tax losses are losses of HK$10,742,000 (2015: HK$8,095,000) and HK$13,680,000 (2015: HK$7,687,000) that will expire within five years and ten years, respectively. Other losses may be carried forward indefinitely.

As at 31 December 2016, the aggregate amount of temporary difference associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised was HK$155,000 (2015: Nil). 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.

17. Deposit and Prepayment for a Life Insurance Policy

In 2016, the Group entered into a life insurance policy (the "Policy") to insure a director of the Company. Under the Policy, the beneficiary and the policy holder is the Group and the total insured sum is US$1,000,000 (equivalent to HK$7,750,000). At inception of the Policy, the Group paid an upfront payment of US$243,000 (equivalent to HK$1,883,000). The Group can withdraw the Policy at any time with surrender charges if such withdrawal occur before the 19th anniversary from date of inception and can receive cash refund based on the net nominal account value of the Policy at the date of withdrawal. The Group will also receive an interest at minimum rate of 2.00% per annum guaranteed by the insurer.

The upfront payment is financed by banking facility granted by a bank with interest charged at 1.65% over Hong Kong Interbank Offered Rate per annum.

As at 31 December 2016, the directors of the Company expect that the Policy will be terminated at the 19th anniversary from date of inception and there will be no specific surrender charges in accordance with the Policy. The directors of the Company consider that the expected life of the Policy will remain unchanged from the initial recognition and the financial impact of the option to terminate the Policy is not significant.

The effective interest rate of the deposits is 2.00% per annum, which is determined on initial recognition by discounting the estimated future cash receipts over the expected life of the Policy, which is 18 years.

18. Inventories

	2016 **HK$'000**	2015 HK$'000
Finished goods	**227,121**	251,713

19. Trade and Other Receivables

	2016 HK$'000	2015 HK$'000
Trade receivables	**35,762**	35,452
Bills receivables	**21,677**	27,796
Less: Allowance for doubtful debts	**(138)**	(104)
	57,301	63,144
Rental deposits	**19,919**	12,983
Other deposits	**1,517**	2,077
Prepayments	**3,066**	2,892
Other receivables	**5,209**	6,623
Deposit and prepayment for a life insurance policy	**26**	—
	29,737	24,575
	87,038	87,719

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:

	2016 HK$'000	2015 HK$'000
Within 30 days	**49,049**	54,634
31 to 60 days	**3,878**	3,002
61 to 90 days	**2,132**	2,761
Over 90 days	**2,242**	2,747
	57,301	63,144

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 were debtors with aggregate carrying amount of HK$4,374,000 (2015: HK$5,508,000) which were past due as at the reporting date for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances.

19. Trade and Other Receivables (Continued)

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

	2016 **HK$'000**	2015 HK$'000
61 to 90 days	**2,132**	2,761
Over 90 days	**2,242**	2,747
	4,374	5,508

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 were past due but not impaired were generally recoverable.

Movement in the allowance for doubtful debts

	2016 **HK$'000**	2015 HK$'000
Balance at beginning of the year	**104**	108
Exchange adjustments	**2**	(4)
Impairment loss recognised on receivables	**32**	—
Balance at end of the year	**138**	104

The following 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	
	2016 **HK$'000**	2015 HK$'000
Carrying amount of bills receivables	**21,677**	27,796
Carrying amount of associated liabilities	**21,677**	27,796
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 had not transferred the significant risks and rewards relating to these bills receivables, it continued to recognise the full carrying amount of the bills receivables. These receivables were carried at amortised cost in the consolidated financial statements and associated liabilities had been recognised and included in liabilities as bank loans related to bills discounted with recourse.

20. Derivative Financial Instruments

	2016	2015
Foreign currency forward contracts	—	141

The Group utilised currency derivatives to hedge significant future transactions and cash flows. The Group was a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased were principal primarily denominated in the currencies of the Group's principal markets.

The major terms of the foreign currency forward contracts which the Group was committed to were as follows:

At 31 December 2015

Notional amount	Exercise period	Forward contract rate
12 contracts to sell Taiwan dollars ("NTD") 108,340,000	From 15 January 2016 to 12 May 2016	HK$1/NTD4.21 to HK$1/NTD4.25

21. Bank Balances and Cash

Bank balances carry interest at prevailing market rates of 0% to 0.001% (2015: 0% to 0.001%) per annum.

22. Trade and Other Payables

	2016 HK$'000	2015 HK$'000
Trade payables	3,021	6,863
Accrued staff costs	8,889	8,868
Accrued expenses	8,206	8,259
Deposits received from customers	2,206	1,179
Other payables	2,147	1,823
	24,469	26,992

The average credit period of trade payables is 30 days.

22. Trade and Other Payables (Continued)

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

	2016	2015
	HK$'000	HK$'000
Within 30 days	**1,161**	6,795
31 to 60 days	**1,833**	—
61 to 90 days	**—**	15
Over 90 days	**27**	53
	3,021	6,863

23. Obligation Under a Finance Lease

The Group leased a motor vehicle under a finance lease with lease term of 2 years. Interest rate underlying the obligation under a finance lease was fixed at respective contract date of 2.5% per annum. The lease had no terms of renewal or escalation clauses. No arrangements had been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease:				
Within one year	**—**	157	**—**	155
Less: future finance charges	**—**	(2)	**—**	—
Present value of lease obligation	**—**	155	**—**	155
Less: Amount due for settlement within 12 months (shown under current liabilities)			**—**	(155)
Amount due for settlement after 12 months			**—**	—

The Group's obligation under a finance lease was secured by the lessor's charge over the leased asset.

24. Bank Borrowings

	2016 HK$'000	2015 HK$'000
Bank loans	98,943	47,256
Loans related to bills discounted with recourse	21,677	27,796
Trust receipt loans	84,456	134,240
	205,076	209,292
Secured	154,739	99,124
Unsecured	50,337	110,168
	205,076	209,292
Carrying amount repayable*		
Within one year	186,145	190,770
More than one year, but not more than two years	1,151	1,132
More than two years, but not more than five years	2,303	3,397
More than five years	5,755	5,660
	195,354	200,959
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	9,722	8,333
	205,076	209,292
Less: Amounts shown under current liabilities	(195,867)	(199,103)
Amounts shown under non-current liabilities	9,209	10,189

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

The above bank borrowings bear interests at benchmark interest rate of Central Bank of Taiwan plus 0.65% to 1.25% (2015: 0.65% to 1.25%) or Hong Kong Interbank Offered Rate plus 1.25% to 2.0% (2015: 1.25% to 2.0%) per annum.

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

	2016 HK$'000	2015 HK$'000
Effective interest rates:		
Variable-rate borrowings	1.9%–2.8%	1.5%–2.5%

Details of the pledged assets to secure the bank borrowings are set out in note 30.

25. Share Capital

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

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	500,000,000	5,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	200,000,000	2,000

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

26. 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 maximum amount of HK$1,500 per month for each employee to 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 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.

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.

27. 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.

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 both years and no share options were outstanding as at 31 December 2016 and 31 December 2015.

28. 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:

	2016 **HK$'000**	2015 HK$'000
Within one year	**90,087**	120,490
In the second to fifth years inclusive	**55,849**	65,207
Over five years	**—**	521
	145,936	186,218

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 (2015: one to seven) years.

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"), which is wholly-owned by Mr. Chong Hok Shan, Mr. Chong Hot Hoi, and Mr. Chong Hok Hei, Charles, the shareholders of the Company and Mr. Chong Hok Shan, respectively.

28. Operating Lease Commitments (Continued)

As lessee (Continued)

	2016 HK$'000	2015 HK$'000
Within one year	818	952
In the second to fifth years inclusive	428	306
	1,246	1,258

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:

	2016 HK$'000	2015 HK$'000
Within one year	1,151	887
In the second to fifth years inclusive	1,055	2,206
	2,206	3,093

29. Capital Commitments

	2016 HK$'000	2015 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	—	55

30. Pledge of Assets

Land and buildings, investment properties and deposit and prepayment for a life insurance policy amounting to HK$29,423,000, HK$751,000 and HK$1,888,000 (2015: HK$19,572,000, nil and nil) were pledged to secure the bank borrowings and banking facilities granted to the Group. As at 31 December 2015, refundable deposits (included in trade and other receivables), amounting to HK$767,000, were pledged to secure the foreign currency forward contracts entered into with a bank (2016: nil).

Bills receivables amounting to HK$21,677,000 (2015: HK$27,796,000) were pledged to secure the loans related to bills discounted with recourse.

31. 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**	2016 HK$'000	2015 HK$'000
Becking Investment	Rental expense	525	470
Mr. Chong Hok Shan	Rental expense	513	513

31. Related Party Transactions (Continued)

Compensation of key management personnel

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

	2016 HK$'000	2015 HK$'000
Salaries and allowances	**8,944**	8,944
Retirement benefit schemes contributions	**287**	287
	9,231	9,231

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

32. 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 bank borrowings disclosed in note 24, 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 new share issues as well as the issue of new debt or the redemption of existing debt.

33. Financial Instruments

Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**91,310**	103,906
Rental deposits	**30,859**	32,199
Derivative financial instruments	**—**	141
Financial liabilities		
Amortised cost	**210,244**	217,978
Obligation under a finance lease	**—**	155

Financial risk management objectives and policies

The Group's major financial instruments include deposit and prepayment for a life insurance policy, trade and other receivables, deposits, bank balances and cash, derivative financial instruments, trade and other payables 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.

33. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk

Currency risk

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities, representing deposit and prepayment for a life insurance policy, bank balances and cash, trade and other payables and bank borrowings, other than the respective group entities' functional currencies at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**511**	664	**21,615**	25,602
United States dollars ("USD")	**2,528**	23	**1,969**	1,968
Renminbi ("RMB")	**13**	23	**—**	—

The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. Other than the foreign currency forward contracts as disclosed in note 20, the Group did not enter into any foreign currency forward contracts to hedge against foreign currency risk as at 31 December 2016.

Sensitivity analysis

The Group is mainly exposed to fluctuation against a foreign currency of HK$, RMB and USD. Under the pegged exchange rate system, the financial impact on exchange differences between USD and HK$ is expected to be immaterial and therefore no sensitivity analysis has been prepared.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in foreign currency. 5% (2015: 5%) is the sensitivity rate used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. A positive number below indicates a decrease in loss for the year where the functional currency of each group entity strengthen 5% (2015: 5%) against the relevant foreign currency. For a 5% (2015: 5%) weakening of functional currency of each group entity against the relevant foreign currency, there would be an equal and opposite impact on the loss for the year, and the balances below would be negative.

	2016	2015
	HK$'000	HK$'000
HK$	**1,055**	1,247
RMB	**(1)**	(1)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

33. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is also exposed to cash flow interest rate risk in relation to bank balances (see note 21) and bank borrowings (see note 24). 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 at the end of the reporting period. 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. No sensitivity analysis is presented for bank balances as the directors of the Company considered the Group's exposure to cash flow interest rate risk is not material.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$889,000 (2015: HK$907,000).

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.

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 directors of the Company consider 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 closely monitors the pace of the Group's expansion and inventory level of each retail outlet 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 also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

33. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The Group incentivise its management of merchandising department and sales department to stringently control and closely monitor the inventory level, so that the Group improves the efficiency in its cash flow and resources management while maintaining just the right level of inventory.

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	1 to 2 years	2–5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2016							
Non-derivative financial liabilities							
Trade and other payables	N/A	5,168	—	—	—	5,168	5,168
Bank borrowings — variable rate	2.47	200,939	1,376	2,499	6,288	211,102	205,076
		206,107	1,376	2,499	6,288	216,270	210,244
At 31 December 2015							
Non-derivative financial liabilities							
Trade and other payables	N/A	8,686	—	—	—	8,686	8,686
Bank borrowings — variable rate	1.99	203,266	1,381	3,617	6,323	214,587	209,292
Obligation under a finance lease	2.5	157	—	—	—	157	155
		212,109	1,381	3,617	6,323	223,430	218,133

33. Financial Instruments (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Bank loan with a repayment on demand clause was included in the "on demand or less than 1 year" time band in the above maturity analysis. As at 31 December 2016, the principal amount of this bank loan amounted to HK$26,389,000 (2015: HK$20,633,000). 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	1–2 years	2–5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2016						
Bank borrowing — variable rate	1.88	17,112	8,483	1,393	26,988	26,389
At 31 December 2015						
Bank borrowing — variable rate	2.21	12,622	8,419	—	21,041	20,633

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 measurement of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

In estimating the fair value of the Group's derivative financial instruments, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group will assess the valuation of financial instruments with reference to the fair value quoted in the over-the-counter market with the adjustments for the lack of marketability. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Company. Any changes in the marketability of the investments will affect the fair value of the instruments. Note 33 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of the Group's derivative financial instruments.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31.12.2016	Fair value as at 31.12.2015	Fair value hierarchy	Basis of fair value measurement/valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Foreign currency forward contracts classified as derivative financial instruments	Nil	HK$141,000	Level 2	Discounted cash flow. Future cash flows are estimated based on closing exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

33. Financial Instruments (Continued)

Fair value measurement of financial instruments (Continued)

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

34. Financial Information of the Company

The financial information of the Company as at 31 December 2016 and 2015 is as follows:

	2016	2015
	HK$'000	HK$'000
Non-current assets		
Investment in subsidiaries	**94,872**	16
Current assets		
Other receivables	**145**	145
Amounts due from subsidiaries	**—**	95,144
Bank balances and cash	**172**	342
	317	95,631
Current liabilities		
Other payables	**43**	43
Amounts due to subsidiaries	**652**	88
	695	131
Net current (liabilities) assets	**(378)**	95,500
Net assets	**94,494**	95,516
Capital and reserves		
Share capital	**2,000**	2,000
Reserves (Note)	**92,494**	93,516
Total equity	**94,494**	95,516

Movement in the Company's reserves:

	Share premium	**Retained earnings**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2015	92,911	1,967	94,878
Profit and total comprehensive income for the year	—	3,238	3,238
Dividend paid	—	(4,600)	(4,600)
At 31 December 2015	92,911	605	93,516
Loss and total comprehensive expense for the year	—	(1,022)	(1,022)
At 31 December 2016	92,911	(417)	92,494

35. Particulars of Subsidiaries

Details of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group		Principal activities
			2016	2015	
Advertisers' Media Agency Limited	Hong Kong	HK$10,000	**100%**	100%	Marketing and advertising of footwear products
Cobblers Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of footwear products
Cobblers (Hong Kong) Trading Company Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
Grand Asian	Hong Kong	HK$1,000,000	**100%**	100%	Trading of footwear products
Grandasian Retail (BVI) Holdings Limited	BVI	US$1	**100%**	100%	Investment holding
Kong Tai Sundry Goods	Hong Kong	HK$5,000,000	**100%**	100%	Trading of footwear products
Kong Tai Sundry Goods (BVI) Company Limited	BVI	US$1	**100%**	100%	Investment holding
KTS Properties Holdings Limited	BVI	US$1	**100%**	100%	Property holding
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
Shoes Culture (Hong Kong) Trading Company Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
S. Culture Holdings (BVI) Limited*	BVI	US$2,001	**100%**	100%	Investment holding
西寶(上海)商貿有限公司**^	PRC	RMB5,000,000	**100%**	100%	Trading of footwear products
鞋舍(上海)商貿有限公司**@	PRC	RMB5,000,000	**100%**	100%	Trading of footwear products

* Directly held by the Company

** Registered as wholly-foreign-owned enterprises under the Law of the PRC.

^ The registered capital of the subsidiary is RMB5,000,000. As at 31 December 2016, capital injection of RMB2,000,000 was made and the remaining capital of RMB3,000,000 will be injected before October 2019 according to the memorandum of association of the subsidiary.

@ The registered capital of the subsidiary is RMB5,000,000. As at 31 December 2016, capital injection to the subsidiary has not been completed. The capital will be injected before December 2019 according to the memorandum of association of the subsidiary.

None of the subsidiaries had any debt securities outstanding at 31 December 2016 and 2015 or at any time during both years.

FIVE YEAR FINANCIAL SUMMARY

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

Results

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**562,474**	561,028	590,539	550,134	505,289
(Loss) profit before tax	**(37,312)**	(16,360)	12,121	20,958	30,122
Income tax expense	**2,705**	(13)	(3,086)	(4,456)	(5,043)
(Loss) profit after tax	**(34,607)**	(16,373)	9,035	16,502	25,079

Assets and Liabilities

	As at 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**413,824**	454,284	407,301	395,256	294,625
Total liabilities	**(229,756)**	(236,707)	(167,946)	(154,144)	(144,953)
Total equity	**184,068**	217,577	239,355	241,112	149,672