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

INTERIM REPORT 2017

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Yang Jun *(Chairman)*
Mr. Lin Zheming
Mr. Zhu Fangming

Non-executive Directors

Mr. Law Fei Shing
Mr. Lin Jun
Mr. Chu Chun Ho, Dominic

Independent Non-executive Directors

Mr. Xie Rongxing
Mr. Chen Huigang
Mr. Lum Pak Sum

Audit Committee

Mr. Lum Pak Sum *(Chairman)*
Mr. Xie Rongxing
Mr. Chen Huigang

Remuneration Committee

Mr. Chen Huigang *(Chairman)*
Mr. Xie Rongxing
Mr. Yang Jun

Nomination Committee

Mr. Yang Jun *(Chairman)*
Mr. Xie Rongxing
Mr. Chen Huigang

Authorized Representatives

Mr. Lin Zheming
Ms. So Yee Kwan

Chief Financial Officer

Mr. Lin Zheming

Company Secretary

Ms. So Yee Kwan

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

CFN Lawyers
In association with Broad & Bright
27/F, Neich Tower
128 Gloucester Road
Wanchai, 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 six months ended 30 June	
		2017	2016
Revenue	HK$'000	**243,317**	282,579
Gross profit	HK$'000	**133,318**	160,307
Loss before taxation	HK$'000	**(24,783)**	(22,178)
Loss attributable to owners of the Company	HK$'000	**(24,878)**	(19,094)
Gross profit margin	%	**54.8**	56.7
Loss margin attributable to owners of the Company	%	**(10.2)**	(6.8)
Loss per share — basic	HK$	**(0.124)**	(0.095)

	As at	
	30 June 2017	31 December 2016
Current ratio	**1.6 times**	1.6 times
Gearing ratio (total debt to total equity)	**106.7%**	111.4%
Average trade receivables turnover period	**34.0 days**	39.1 days
Average trade payables turnover period	**6.6 days**	7.5 days
Average inventory turnover period	**361.4 days**	361.2 days

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of S. Culture International Holdings Limited ("S. Culture" or the "Company", together with its subsidiaries, the "Group"), I hereby present the Group's interim results for the six months ended 30 June 2017 (the "Period").

In the first half of 2017, the continued slowdown in inbound tourism and the more cautious local consumer sentiment amid the uncertain economic conditions affected the retail markets in our operating territories, including Hong Kong, Taiwan, Macau and Mainland China, especially the Hong Kong retail market. As revealed in the latest retail statistics of Hong Kong, the unfavorable effects of the above market dampening factors had prolonged the sluggishness and further deteriorated the retail performance of our target markets. The Group experienced a drop in the gross profit margin due to the widespread discounting and the launch of promotion and bargaining activities in maintaining the market share. The Group also recorded a same store sales decline of approximately 10.8% and a net loss of approximately HK$24.9 million for the Period.

Under these difficult retail market conditions, the Group remained cautious in rationalizing the extant mix and network of our retail outlets against the high costs of operations. We have been continuing our strategy to fine-tune our retail outlet mix by closing those low performing retail outlets, relocating retail outlets to other prime shopping locations with lower rentals and opening new short-term lease promotion outlets to improve store efficiency and effectiveness. In addition, we would monitor the impact of the aforesaid unfavorable operating factors on an on-going basis and pursue appropriate management tactics to optimize our operations for maintaining a healthy presence in our operating territories. We would also continue to devote unrelenting effort on stringent cost containment measures to enhance our operation efficiency and to remain competitive in the market.

The new Board joined the Company in June 2017 and assessed the existing business operation of the Group in July 2017. We plan to diversify our business and explore investment opportunities in order to improve the performance of the Group and create a better return to the shareholders. We believe that our new Board will contribute their intelligence and effort to achieve a sustainable and optimal return to our shareholders.

By Order of the Board

S. Culture International Holdings Limited
Yang Jun
Chairman

15 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

Retail Operations

Revenue of the Group's retail business for the Period was HK$226.2 million, representing a 13.1% decrease from HK$260.4 million of the even period of 2016. We had recorded a same store sales decline of approximately 10.8% during the Period (30 June 2016: 2.4%). This was mainly due to the prolonged sluggishness of the consumer market in Hong Kong, resulting from the general decline in the number of high-spending tourists from the Mainland China and the more cautious local consumer sentiment amid the uncertain economic conditions and volatile investment markets in the region and the world.

Hong Kong

Hong Kong was still contributing a majority of sales as we had 57 retail outlets under terms and six retail outlets under short-term lease in the locality as of the Period end. During the Period, we continued our promotion and bargaining sales activities. More discounts were offered to stimulate the consumers' spending incentive and to sustain our market share. These activities had adversely eroded our profit margin. In view of the weak retail climate and challenging operating environment as mentioned above, we had experienced a same store sales decline of approximately 8.9% for our Hong Kong retail operations. To enhance our efficiency in operation and maintain our competitive cost structure in the market, we streamlined our workforce, continued to stall our salary increment plan in the first half of 2017 and continued our on-going practice of rationalising our retail network in Hong Kong. We regularly monitored the performance and productivity of each individual retail outlet, negotiated for better rental terms with landlord and strategically opened new short-term lease promotion outlets. During the Period, we had operated 15 short-term lease promotion outlets in Hong Kong to serve a wider base of customers and to grab additional market share and to alleviate the inventory pressure under this challenging retail environment.

Taiwan

The Group reduced the number of its retail outlets in Taiwan to 37 at the end of the Period from 48 as at 30 June 2016 and recorded a period-on-period decline in revenue of approximately 1.6% for the Period. We applied our cost-effective strategy in Taiwan by identifying and increasing our short-term promotion outlets in selected reputable department stores and bargaining outlets in prime locations to maintain our market presence and operation in Taiwan. At the same time, we kept on closing the under-performing and costly retail outlets to reduce our operating cost in the first half of 2017. The management pursued its flexible operating tactics to rebalance our retail outlet mix and applied appropriate cost control measures to contain our operating cost at a reasonable level with respect to the sales made 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 30 June 2017, there were two retail outlets in Macau.

Mainland China

Mainland China's economy continued to slow down, which has dampened consumer sentiment. Together with the popularity of internet and mobile shopping, these changes in customer behavior posed heavy pressure and a challenging business environment to the traditional retailers in the 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 under the brands of "Josef Seibel", "The Flexx" and "Petite Jolie" in the Mainland China. As at 30 June 2017, the Group had three (31 December 2016: three) retail outlets and 10 (31 December 2016: 17) points of sales of our products under the brands of "Clarks", "Josef Seibel", "Petite Jolie" and "The Flexx" in the cities of Shanghai, Chengdu, Haikou, Songyuan, Luoyang, Dandong, Dongying, Panjin 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

The retail market in our operating territories, including Hong Kong, Taiwan, Macau and Mainland China remained uncertain. At this juncture, we remain cautious in rationalizing the existing mix and network of our retail outlets against the high cost of operations. We would monitor the impact of the abovementioned unfavorable operating factors on an on-going basis and pursue appropriate management tactics to optimize our operations in the areas of sales, inventory and supply chain management to maintain healthy presence in our operating territories. We would also continue to devote unrelenting effort on stringent cost containment measures to enhance our operation efficiency and to remain competitive in the market.

Following the change in controlling shareholder and the composition of the Board in July 2017, the new executive directors of the Company have assessed the existing business operation of the Group and consider that, while continuing the existing trading and retailing business, there is a need to explore other business and investment opportunities in order to support the long term development of the Group and create better return to the shareholders. In this regard, the Group plans to expand its trading business into other products in the PRC market and is in the process of establishing a new subsidiary in the PRC for developing such business. In addition, leveraging on the background of the new controlling shareholder and the extensive knowledge, experience and market network of the new executive directors in the financial and investment industry, the Group also plans to tap into any business and investment opportunities in the financial industry including possible acquisitions and starting up of new businesses. The Group may also consider to raise fund for pursuing any business and investment opportunities which may arise in the near future.

Financial Review

Revenue

Revenue of the Group's business for the Period was HK$243.3 million, representing a 13.9% decrease from HK$282.6 million of the even period of 2016.

With regard to the sales of the major brands under exclusive distribution agreements for the Period compared with the even period of 2016, sales of "Clarks" footwear products had decreased by 14.4%, sales of "Josef Seibel" footwear products had decreased by 12.1%, sales of "The Flexx" footwear products had decreased by 17.2%, and sales of "Petite Jolie" had maintained the growth in sales of 78.4%, respectively.

As at 30 June 2017, the Group operated 63 retail outlets in Hong Kong, two retail outlets in Macau, three retail outlets in the Mainland China and 37 retail outlets in Taiwan. As at the even date of 2016, the Group operated 74 retail outlets in Hong Kong, two retail outlets in Macau, six retail outlets in the Mainland China and 48 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK$110.0 million for the Period, representing 45.2% of revenue (30 June 2016: HK$122.3 million, representing 43.3% of revenue). The decrease in cost of goods sold was mainly due to the decrease 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 Period was HK$133.3 million, representing a decrease of 16.8% from HK$160.3 million of the even period of 2016. Gross profit margin of the Group for the Period was 54.8% (30 June 2016: 56.7%). There was a drop in the gross profit margin due to widespread discounting and the launch of promotion and bargaining activities to maintain market share. The increase in opening of short-term promotion outlets during the Period had also driven down our gross profit margin.

Staff Costs

Staff costs for the Period were HK$49.6 million, representing 20.4% of revenue (30 June 2016: HK$57.4 million, representing 20.3% of revenue). The decrease in staff costs was mainly due to the decrease in number of staff of the Group as compared to the even period of 2016 and the stall for the salary increment in the first half of 2017.

Depreciation

Depreciation accounted for 2.0% of revenue for the Period (30 June 2016: 2.0% of revenue).

Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Period amounted to HK$78.3 million, representing 32.2% of revenue (30 June 2016: HK$92.3 million, representing 32.7% 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 lease promotion outlets during the Period. Our concession fees for the Period amounted to HK$25.9 million (30 June 2016: HK$29.8 million). Such decrease was mainly due to the decrease in the number of concession counters and the corresponding decrease in the sales made through these concessions, based on which part of the fees were charged.

Finance Costs

Our finance costs for the Period amounted to HK$1.5 million (30 June 2016: HK$1.6 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% (30 June 2016: 1.5% to 3.0%).

Loss Before Tax

As a result of the foregoing, our loss before tax for the Period was HK$24.8 million, representing an increase of 11.7% from loss of HK$22.2 million of the even period of 2016.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 30 June 2017, the Group had bank deposits and cash amounting to HK$20.4 million (31 December 2016: HK$26.2 million), representing a decrease of 22.1% from 31 December 2016. Most bank deposits and cash were denominated in Hong Kong dollars. As at 30 June 2017, the Group had short-term bank borrowings amounting to HK$163.4 million (31 December 2016: HK$195.9 million), representing a decrease of 16.6% from 31 December 2016. As at 30 June 2017, the Group had long-term bank borrowings, comprising mainly mortgage for our office premises in Taiwan, amounting to HK$9.3 million (31 December 2016: HK$9.2 million), representing an increase of 1.1% from 31 December 2016.

Pledge of Asset

As at 30 June 2017, land and buildings, investment properties of a subsidiary of the Company and deposit and prepayment for a life insurance policy (30 June 2016: land and buildings and investment properties of a subsidiary of the Company) were pledged to secure the bank borrowings and banking facilities granted to the Group.

As at 30 June 2017 and 2016, bills receivables were pledged to secure the loans related to bills discounted with recourse.

Investment Properties

The fair value of the Group's investment properties as at 30 June 2017 was HK$28.2 million. The fair value as at 30 June 2017 had 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.

Future Plans for Material Investments or Capital Assets

As disclosed in the paragraph headed "Prospects" above, the Group plans to expand its trading business into other products in the PRC market and is in the process of establishing a new subsidiary in the PRC for developing such business. The Group also plans to tap into any business and investment opportunities in the financial industry including possible acquisitions and starting up of new businesses. The Group may also consider to raise fund for pursuing any business and investment opportunities which may arise in the near future.

Treasury Policy

The Group adopts treasury policy that aims to better control its treasury operations and lower borrowing cost. As such, the Group endeavours to maintain an adequate level of cash and cash equivalents to address short-term funding needs. The Board will also consider various funding sources depending on the Group's funding needs to ensure that the financial resources have been used in the most cost-effective and efficient way to meet the Group's financial obligations. The Board reviews and evaluates the Group's treasury policy from time to time to ensure its adequacy and effectiveness.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Ventures

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Period.

Foreign Currency Risks

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

Human Resources

As at 30 June 2017, the Group employed approximately 381 employees (31 December 2016: 440). Remuneration packages are generally structured with reference to market terms and individual qualifications and experience. During the Period, various training activities, such as training of product and service knowledge, management skills as well as local consumer laws, had been conducted to improve the quality of sales services.

Dividends

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

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of S. Culture International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 23, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	NOTES	Six months ended 30.6.2017 HK$'000 (unaudited)	30.6.2016 HK$'000 (unaudited)
Revenue	3	**243,317**	282,579
Cost of goods sold		**(109,999)**	(122,272)
Gross profit		**133,318**	160,307
Other income		**669**	731
Other gains and losses		**459**	371
Selling and distribution costs		**(94,757)**	(111,058)
Administrative expenses		**(62,945)**	(70,890)
Finance costs		**(1,527)**	(1,639)
Loss before taxation	4	**(24,783)**	(22,178)
Taxation	5	**(95)**	3,084
Loss for the period		**(24,878)**	(19,094)
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation		**2,626**	851
Total comprehensive expense for the period		**(22,252)**	(18,243)
Loss per share — basic (HK$)	7	**(0.124)**	(0.095)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	NOTES	At 30.6.2017 HK$'000 (unaudited)	At 31.12.2016 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**43,758**	46,929
Investment properties		**745**	751
Deferred tax assets		**10,390**	10,155
Deposit and prepayment for a life insurance policy		**1,865**	1,862
Rental deposits		**11,001**	10,940
		67,759	70,637
Current assets			
Inventories		**208,531**	227,121
Trade and other receivables	9	**59,745**	87,038
Taxation recoverable		**258**	2,795
Bank balances and cash		**20,439**	26,233
		288,973	343,187
Current liabilities			
Trade and other payables	10	**21,774**	24,469
Taxation payable		**490**	211
Bank borrowings — due within one year		**163,397**	195,867
		185,661	220,547
Net current assets		**103,312**	122,640
Total assets less current liabilities		**171,071**	193,277
Non-current liabilities			
Bank borrowings — due after one year		**9,255**	9,209
Net assets		**161,816**	184,068
Capital and reserves			
Share capital	11	**2,000**	2,000
Reserves		**159,816**	182,068
Total equity		**161,816**	184,068

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	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 2017 (audited)	**2,000**	**92,911**	**15,800**	**12**	**(2,311)**	**75,656**	**184,068**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**(24,878)**	**(24,878)**
Exchange differences arising on translation and other comprehensive income for the period	**—**	**—**	**—**	**—**	**2,626**	**—**	**2,626**
Total comprehensive income (expense) for the period	**—**	**—**	**—**	**—**	**2,626**	**(24,878)**	**(22,252)**
At 30 June 2017 (unaudited)	**2,000**	**92,911**	**15,800**	**12**	**315**	**50,778**	**161,816**
At 1 January 2016 (audited)	**2,000**	**92,911**	**15,800**	**12**	**(3,409)**	**110,263**	**217,577**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**(19,094)**	**(19,094)**
Exchange differences arising on translation and other comprehensive income for the period	**—**	**—**	**—**	**—**	**851**	**—**	**851**
Total comprehensive income (expense) for the period	**—**	**—**	**—**	**—**	**851**	**(19,094)**	**(18,243)**
At 30 June 2016 (unaudited)	**2,000**	**92,911**	**15,800**	**12**	**(2,558)**	**91,169**	**199,334**

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 a group reorganisation.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**31,797**	14,247
Net cash used in investing activities		
Interest received	**1**	42
Purchase of property, plant and equipment	**(1,276)**	(2,346)
	(1,275)	(2,304)
Net cash used in financing activities		
New bank borrowings raised	**151,243**	236,266
Repayment of bank borrowings	**(186,381)**	(258,349)
Interest paid	**(1,527)**	(1,639)
Repayment of obligation under a finance lease	**—**	(155)
	(36,665)	(23,877)
Net decrease in cash and cash equivalents	**(6,143)**	(11,934)
Cash and cash equivalents at beginning of the period	**26,233**	32,647
Effect of foreign exchange rate changes	**349**	21
Cash and cash equivalents at end of the period, representing bank balances and cash	**20,439**	20,734

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. Basis of Preparation

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

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

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective for the current interim period.

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

Amendments to HKAS 7 "Disclosure initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The adoption will result in relevant disclosures in the Group's annual consolidated financial statements for the year ending 31 December 2017.

3. Revenue and Segment Information

The Group's operating activities are attributable to operating segments focusing on retail sales and wholesale of footwear products. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies which conform with 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 six months ended 30 June 2017

	Retail sales HK$'000 (unaudited)	Wholesale HK$'000 (unaudited)	Segment total HK$'000 (unaudited)	Elimination HK$'000 (unaudited)	Total HK$'000 (unaudited)
REVENUE					
External sales	226,226	17,091	243,317	—	243,317
Inter-segment sales	—	99,662	99,662	(99,662)	—
Segment revenue	226,226	116,753	342,979	(99,662)	243,317
Segment results	(17,855)	535	(17,320)	(2,067)	(19,387)
Unallocated income					475
Unallocated expenses					(4,344)
Finance costs					(1,527)
Loss before taxation					(24,783)

3. Revenue and Segment Information (Continued)

Segment revenue and results (Continued)

For the six months ended 30 June 2016

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

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the (loss) profit from each segment without allocation of central administration costs, fair value loss on derivative financial instruments, rental income, interest income, 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.

4. Loss Before Taxation

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss before taxation has been arrived at after charging (crediting):		
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**1,444**	2,304
— retail stores (including in selling and distribution costs)		
— minimum lease payments	**47,175**	55,696
— contingent rent (note)	**3,766**	4,497
	50,941	60,193
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	**17,818**	16,959
— contingent rent (note)	**8,121**	12,843
	25,939	29,802
	78,324	92,299
Depreciation of property, plant and equipment	**4,804**	5,617
Depreciation of investment properties	**6**	7
Premium charges on a life insurance policy	**13**	—
Staff costs, including directors' emoluments	**49,635**	57,436
Rental income	**(458)**	(458)
Interest income	**(1)**	(42)
Imputed interest income from deposit and prepayment for a life insurance policy	**(16)**	—
Fair value loss on derivative financial instruments	**—**	142
Net exchange gain	**(459)**	(513)

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.

5. Taxation

	Six months ended	
	30.6.2017	30.6.2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	**1**	212
Macau Complementary Tax	**60**	84
People's Republic of China ("PRC") Enterprise Income Tax	**337**	—
	398	296
Overprovision in prior year		
Macau Complementary Tax	**(68)**	—
Deferred taxation	**(235)**	(3,380)
	95	(3,084)

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

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2016: 16.5%) on the estimated assessable profit for the period.

Taiwan income tax is calculated at 17% (six months ended 30 June 2016: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods in Taiwan for the period. No provision for Taiwan income tax has been made in the condensed consolidated financial statements as the branch operating in Taiwan has no assessable profits for both periods.

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (six months ended 30 June 2016: 9% to 12%) on the estimated assessable profit for the period.

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 subsidiary is 25% (six months ended 30 June 2016: 25%). No provision for PRC Enterprise Income Tax has been made in the condensed consolidated financial statements for the six months ended 30 June 2016 as the subsidiary operating in the PRC had no assessable profits for the six months ended 30 June 2016.

6. Dividends

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2016: nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period.

7. Loss Per Share

The calculation of the basic loss per share for the six months ended 30 June 2017 is based on the loss for the period attributable to owners of the Company and the weighted average number of 200,000,000 (six months ended 30 June 2016: 200,000,000) ordinary shares in issue during the period.

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

8. Property, Plant and Equipment

During the six months ended 30 June 2017, the Group spent HK$1,276,000 (six months ended 30 June 2016: HK$2,346,000) on purchase of property, plant and equipment.

9. Trade and Other Receivables

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

	At 30.6.2017 HK$'000 (unaudited)	At 31.12.2016 HK$'000 (audited)
Within 30 days	**25,182**	49,049
31 to 60 days	**5,707**	3,878
61 to 90 days	**1,409**	2,132
Over 90 days	**1,094**	2,242
	33,392	57,301

10. Trade and Other Payables

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

	At 30.6.2017 HK$'000 (unaudited)	At 31.12.2016 HK$'000 (audited)
Within 30 days	**1,774**	1,161
31 to 60 days	**2,662**	1,833
61 to 90 days	**13**	—
Over 90 days	**472**	27
	4,921	3,021

The average credit period of trade payables is 30 days.

11. Share Capital

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

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	500,000,000	5,000
Issued and fully paid:		
At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	200,000,000	2,000

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

12. Related Party Transactions

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

		Six months ended	
Name of related companies	**Nature of transactions**	**30.6.2017 HK$'000 (Unaudited)**	30.6.2016 HK$'000 (Unaudited)
Becking Investment Limited ("Becking Investment") (Note)	Rental expense	**241**	262
Mr. Chong Hok Shan	Rental expense	**235**	257

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

Compensation of key management personnel

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

	Six months ended	
	30.6.2017 HK$'000 (unaudited)	30.6.2016 HK$'000 (unaudited)
Fees, salaries and allowance	**4,207**	4,207
Retirement benefit schemes contributions	**144**	144
	4,351	4,351

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

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

As at 30 June 2017, the interests of the directors of the Company in the shares or underlying shares or debentures of the Company and/or associated corporations, which were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code"), to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), were as follows:

(A) Long position in the issued shares of the Company

Name of director	Nature of interests	Note	Number of the Company's shares interested	Percentage+ of the Company's issued share capital
Mr. Yang Jun	Interest held by controlled corporations	1	155,762,121	77.88%
Mr. Law Fei Shing	Interest held by controlled corporations	2	118,104,189	59.05%
Mr. Chu Chun Ho, Dominic	Person having security interest in shares	3	30,000,000	15.00%
Mr. Chong Hot Hoi	Person having security interest in shares	3 & 4	30,000,000	15.00%

Notes:

(1) These shares were held by Shang Ying Financial Holding Co., Limited ("Shang Ying Financial" or the "Offeror"), a wholly-owned subsidiary of Shang Ying International Holdings Limited ("Shang Ying International"), which was in turn wholly owned by Mr. Yang Jun. Accordingly, Mr. Yang Jun was deemed to be interested in these shares of the Company pursuant to Part XV of the SFO.

(2) According to the loan agreement entered into between Shang Ying Financial and Excel Precise International Limited ("Excel Precise") on 12 January 2017, and the share charge dated 15 June 2017, such shares held by Shang Ying Financial were charged to Excel Precise to secure the repayment obligations of a loan of HK$330 million made by Excel Precise to Shang Ying Financial for financing the Offer (as defined below). Excel Precise was deemed to be interested in these shares of the Company pursuant to Part XV of the SFO. In addition, the issued share capital of Excel Precise was owned as to 73.5% and 25% by True Promise Investments Limited ("True Promise") and Mr. Law Fei Shing, respectively; and True Promise was wholly owned and controlled by Mr. Law Fei Shing. Accordingly, Mr. Law Fei Shing was deemed to be interested in these shares of the Company which were deemed to be interested by Excel Precise pursuant to Part XV of the SFO.

(3) Mr. Chu Chun Ho, Dominic and Mr. Chong Hot Hoi were jointly having security interest in these shares of the Company.

(4) Subsequent to the Period, Mr. Chong Hot Hoi resigned as the Company's director on 10 July 2017.

+ The percentage represents the number of the Company's shares interested divided by the number of the Company's issued shares as at 30 June 2017.

(B) Long position in the shares of associated corporations of the Company

Name of associated corporation	Name of director	Nature of interests	Number of the associated corporation's shares interested	Percentage+ of the associated corporation's issued share capital
Shang Ying Financial	Mr. Yang Jun	Interest held by controlled corporation	10,000	100%
Shang Ying International	Mr. Yang Jun	Beneficial owner	100	100%

Note: Mr. Yang Jun held the entire issued share capital of Shang Ying International, which in turn held the entire issued share capital of Shang Ying Financial. As Shang Ying Financial held more than 50% of the issued share capital of the Company, and Shang Ying International held more than 50% of the issued share capital of Shang Ying Financial, Shang Ying Financial and Shang Ying International were the associated corporations of the Company within the meaning of Part XV of the SFO.

+ The percentage represents the number of the associated corporation's shares interested divided by the number of the associated corporation's issued shares as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, 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.

Change of Controlling Shareholder

On 12 January 2017, the Offeror as a purchaser and 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 (a company wholly owned by Mr. Chu Siu Ming) as vendors (collectively, the "Vendors") entered into the sale and purchase agreement (as supplemented and revised by agreements dated 7 and 28 April 2017) (the "SPA"), pursuant to which the Vendors have conditionally agreed to sell, and the Offeror has conditionally agreed to purchase, the sale shares (the "Sale Shares"), being 116,814,797 shares of the Company (the "Shares"), representing approximately 58.41% of the entire issued share capital of the Company, at an aggregate consideration of HK$467,259,188 (equivalent to HK$4.00 per Sale Share).

Completion of the SPA (the "Completion") took place on 15 June 2017. Mr. Yang Jun, the sole ultimate beneficial shareholder of the Offeror has become the ultimate controlling shareholder of the Company upon the Completion. Subsequent to the Completion, an unconditional mandatory cash offer was made to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) at a price of HK$4.00 per Share (the "Offer"), and the Offer was closed on 10 July 2017. Upon the close of the Offer, the Offeror and parties acting in concert with it were interested in, held, controlled or directed an aggregate of 165,073,617 Shares, representing approximately 82.54% of the entire issued share capital of the Company.

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

As at 30 June 2017, the following parties had interests of 5% or more of the issued share capital of the Company as 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 shareholder	Nature of interests	Note	Number of the Company's shares interested	Percentage+ of the Company's issued share capital
Shang Ying Financial	Beneficial owner	1	155,762,121	77.88%
Excel Precise	Person having security interest in shares	2	118,104,189	59.05%
True Promise	Interest held by controlled corporation	2	118,104,189	59.05%

Notes:

(1) The above interest of Shang Ying Financial was also disclosed as the interest of Mr. Yang Jun in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares".

(2) The above interests of Excel Precise and True Promise were also disclosed as the interests of Mr. Law Fei Shing in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares".

+ The percentage represents the number of the Company's shares interested divided by the number of the Company's issued shares as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Share Option Scheme

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

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

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

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

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

Corporate Governance

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

Compliance with the Model Code for Securities Transactions by Directors

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

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

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

Audit Committee

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

The audit committee (comprising the existing independent non-executive directors of the Company, namely Mr. Lum Pak Sum, Mr. Xie Rongxing and Mr. Chen Huigang) has reviewed with management the principal accounting policies adopted by the Group and discussed the risk management, internal controls and financial reporting matters including a review of the interim financial statements for the Period under review.

Public Float

Reference is made to the Company's announcement dated 28 July 2017. Immediately following the close of the Offer on 10 July 2017, 34,926,383 shares of the Company, representing approximately 17.46% of the entire issued share capital of the Company, were held by the public (within the meaning of the Listing Rules). Accordingly, the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules was not satisfied.

The Company had made an application to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period of three months commencing from 10 July 2017 (the "Waiver"), and the Stock Exchange has granted the Waiver to the Company for a period of three months from 10 July 2017 to 9 October 2017.

The public float has not been restored as at the date of this report. Active steps are being taken to restore the minimum public float of the Company, and further announcement(s) regarding the restoration of the public float will be made by the Company as and when appropriate pursuant to the Listing Rules.

Update on Directors' Information

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

- Mr. Lin Zheming was appointed as the chief financial officer of the Company on 15 August 2017. He was appointed as a director of Shangying Global Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600146) on 30 June 2017. He has been a member of CPA Australia since July 2017.

- Mr. Xie Rongxing was appointed as an independent director of Shangying Global Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600146) on 30 June 2017, and an independent director of Shanghai Canature Environmental Products Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300272) on 19 May 2017.

- Mr. Chen Huigang was appointed as an independent director of Shangying Global Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600146) on 30 June 2017.

- Mr. Lum Pak Sum was appointed as the chief executive officer of Roma Group Limited (a company listed on the Stock Exchange, stock code: 8072) on 5 June 2017.

Publication of Interim Results Announcement and Interim Report

The interim results announcement of the Company has been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.s-culture.com). This 2017 interim report, containing all the information required by the Listing Rules, has also been published on the above websites.

Appreciation

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