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 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

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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 year ended 31 December	
		2017	2016 (Restated)
Revenue	HK$'000	**483,722**	562,474
Gross profit	HK$'000	**252,842**	320,527
Loss before taxation	HK$'000	**(42,931)**	(36,379)
Loss attributable to owners of the Company	HK$'000	**(43,442)**	(33,674)
Gross profit margin	%	**52.3**	57.0
Loss margin attributable to owners of the Company	%	**(9.0)**	(6.0)
Loss per share — basic	HK$	**(0.22)**	(0.17)

	As at 31 December	
	2017	2016 (Restated)
Current ratio	**1.6 times**	1.6 times
Gearing ratio (total debt to total equity)	**83.7%**	98.7%
Average trade receivables turnover period	**39.6 days**	39.1 days
Average trade payables turnover period	**5.4 days**	7.5 days
Average inventory turnover period	**300.7 days**	361.2 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 2017.

As revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, in 2017, the total retail sales of footwear, allied products and other clothing accessories fell by 2.2% in volume as compared to the even year of 2016. Besides, in 2017, the average spending from visitors to Hong Kong fell by 3.6% as compared to the even year of 2016, which was quoted statistics from Immigration Department of Hong Kong, Hong Kong Tourism Board Travel Pattern Survey and Departing Visitor Survey.

In light of the above, the retail segment of the Group in Hong Kong was materially affected, and therefore, the Group as a whole recorded a same store sales decline by approximately 10.6% and a net loss of approximately HK$43.4 million for the year.

Outlook

Under the difficult retail market conditions, the Group remained cautious in rationalising 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 outlets 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.

Taking into account of the continuous decrease in revenue attributable to, and the loss-making position of, its operation in Taiwan, the Group has planned to downscale its investment and operations. In light of this, the Group entered into an agreement of disposal of the properties located in Taiwan in December 2017.

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.

Finally, the new directors of the Company (the "Directors") assessed the existing business operation of the Group in July 2017 following the changes in controlling shareholder of the Company and composition of the Board. We plan to diversify our business and explore investment opportunities in order to improve the performance of the Group and create better returns to our shareholders. We believe that our new Board will contribute their intelligence and effort to achieve sustainable and optimal returns to our shareholders.

Yang Jun
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 for the year ended 31 December 2017 (the "Year") are affected by the volatility and uncertainty of macro-economic conditions in Hong Kong, Taiwan, Macau and the 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 risks relating to the commercial real estate rental market, including the unpredictable rental fluctuation and ability to secure existing retail outlets and obtain suitable locations for our expansion of retail network.

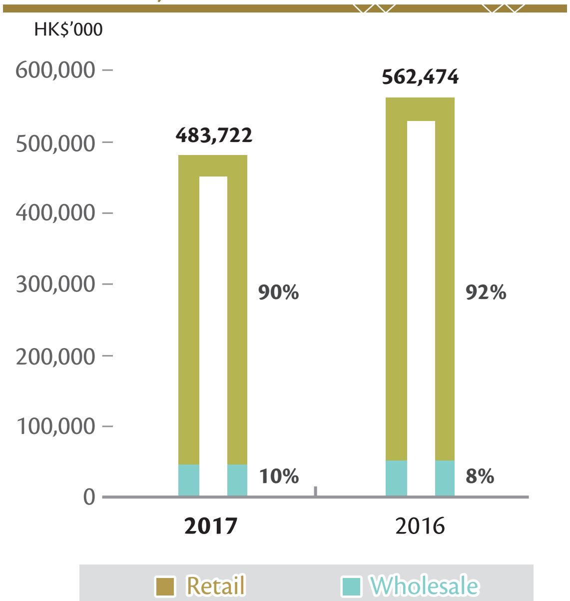
The financial risks of the Group included foreign currency risk, interest rate risk, credit risk and liquidity risk. These financial risks, and risk management objectives and policies are elaborated in the below section headed "Foreign Currency Risk" and note 32 "Financial Instruments" to the consolidated financial statements of this annual report.

Operation Review

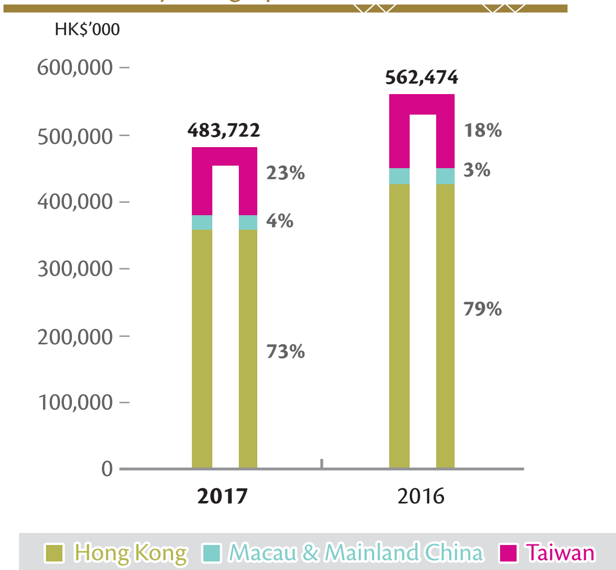
Retail Operations

Revenue of the Group's retail business for the Year was HK$437.5 million, representing a 15.7% decrease from HK$518.8 million of the even year of 2016. We had recorded a same store sales decline of approximately 10.6% during the Year (2016: 3.4%). This was mainly due to the prolonged weak retail climate in Hong Kong, resulting from the change in consumption patterns of the tourists from the Mainland China after the Mainland government launched the "one trip per week" policy, the more cautious local consumer sentiment amid the uncertain economic conditions and the positive encouragement for outbound travelling and spending abroad.

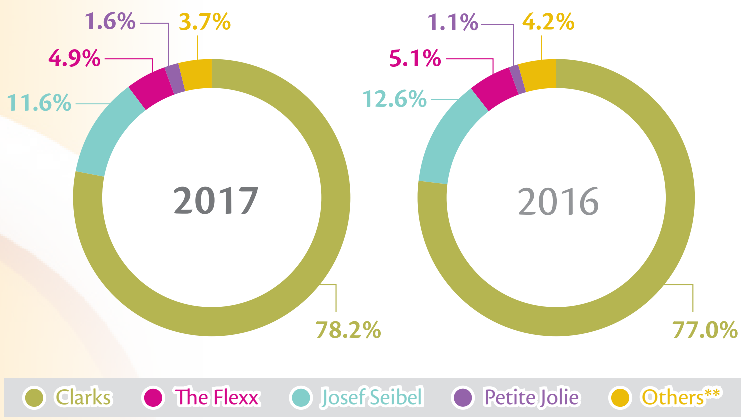
Revenue by Distribution Channel



Revenue by Geographical Location

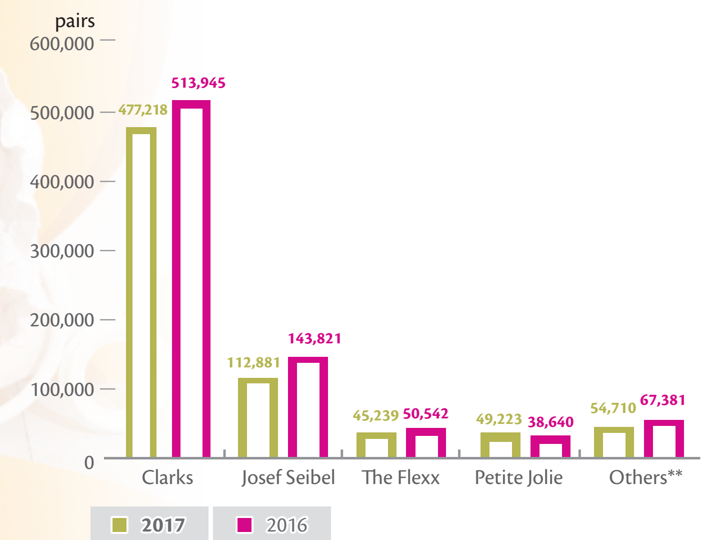


Revenue by Major Brands (in HK$)



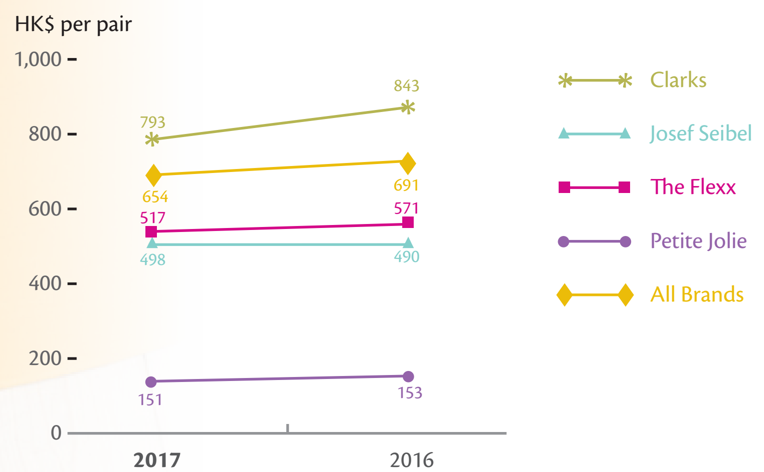
** Include footwear products of other brands and accessories

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 48 (2016: 61) retail outlets under normal lease terms and 9 (2016: 11) retail outlets under short-term lease in the locality as of the Year end. 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 2.2% in volume for the Year as compared to the even year of 2016. In view of the general decline in the retail sales and the changing consumption patterns of Mainland tourists and local citizens as mentioned above, we had experienced a same store sales decline of approximately 12.0% for our Hong Kong retail operations. During the Year, we boosted our promotion and bargaining activities and more discounts had been offered to stimulate the consumers' spending incentive. These activities inevitably eroded our profit margin. To enhance our efficiency in operations and maintain our competitive cost structure in the market, we streamlined our workforce, continued to time our salary increment plan in 2017 and to rationalise our retail network in Hong Kong. We regularly monitored the performance and productivity of each individual retail outlet, divested the non-performing retail outlets and negotiated for better rental terms with landlords and strategically opened new short-term lease promotion outlets. As at 31 December 2017, we had operated 9 short-term lease promotion outlets in Hong Kong to serve a wider base of customers and to alleviate the inventory pressure under this challenging retail environment.

Taiwan

Taiwan retail market stayed stagnant as the purchasing power of general consumers was continuously weak. The changes in Taiwan political and economic conditions have materially affected the growth and profitability of the operation in Taiwan. During the Year, we identified and opened 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. Despite the management pursued flexible operating tactics to maintain the market share in Taiwan and applied stringent cost control measures to control our operating cost at a reasonable level, our Taiwan operation still experienced loss for the Year. After due consideration and taken into account of the persistently weak performance in Taiwan, we downscaled all the retail outlets in Taiwan and maintained our Taiwan operation at a minimal scale until the due identification of other potential investment opportunities.

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 2017, there were 2 retail outlets in Macau.

Mainland China

The popularity of online and mobile shopping through certain reputable e-commerce platforms in the Mainland posed heavy pressure on and a challenging business environment for our Mainland operation. During the Year, we continued to apply cautious steps towards our operation in the Mainland market. We kept on collaborating with our local and experienced business partners to sell our footwear products of "Josef Seibel", "The Flexx" and "Petite Jolie" in the Mainland China. Unfortunately, in light of our unsatisfactory performance in the Mainland China, the management considered to downscale the Group's investment and operation in the Mainland China but would keep on marketing the Group's products under the brands of "Clarks", "Josef Seibel", "Petite Jolie" and "The Flexx" in the duty free shop in Hainan province in the Mainland China.

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 global economy remained uncertain and it is expected that the economy of the Mainland China and Hong Kong will continually be slowed down. At this juncture, we remain cautious in rationalising the existing mix and network of our retail outlets against the high costs of operations. We would monitor the impact of the above-mentioned unfavorable operating factors on an on-going basis and pursue appropriate management tactics to optimise our operations in the areas of sales, inventory and supply chain management to maintain healthy presence in our operating territories. We would also continue to devote unrelenting effort on stringent cost containment measures to enhance our operation efficiency and to remain competitive in the market.

As mentioned in the interim report of 2017, the new Board plans to expand the Group's trading business into other products in The People's Republic of China (the "PRC") market and is in the process of establishing a new subsidiary in the PRC for developing such business, tap into any business and investment opportunities in the financial industry, and raise fund for pursuing any business and investment opportunities. On 19 January 2018, the Group entered into an agreement to acquire 51% of equity interests in DSG Asset Management (Cayman) Company Limited and DSG Finance Holdings (Hong Kong) Limited, respectively. Moreover, on 1 March 2018, the Company completed placing of new shares with the net proceeds amounting to approximately HK$54.36 million for financing the above acquisition, future investment and new business development.

We will continue to diversify our business and explore investment opportunities in order to improve the performance of the Group and create better returns to our shareholders.

Financial Review

Revenue

Revenue of the Group's business for the Year was HK$483.7 million, representing a 14.0% decrease from HK$562.5 million for the even year of 2016.

With regard to the sales of the major brands under exclusive distribution agreements for the Year compared with the even year of 2016, sales of "Clarks" footwear products had decreased by 12.6%, sales of "Josef Seibel" footwear products had decreased by 20.3%, sales of "The Flexx" footwear products had decreased by 19.0% and sales of "Petite Jolie" footwear products had achieved a growth in sales of 29.0%, respectively.

As at 31 December 2017, the Group operated 57 retail outlets in Hong Kong and 2 retail outlets in Macau. As at the even date of 2016, the Group operated 72 retail outlets in Hong Kong, 2 retail outlets in Macau, 3 retail outlets in the Mainland China and 48 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK$230.9 million for the Year, representing 47.7% of revenue (2016: HK$241.9 million, representing 43.0% 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 Year was HK$252.8 million, representing a decrease of 21.1% from HK$320.5 million of the even year of 2016. Gross profit margin of the Group for the Year was 52.3% (2016: 57.0%). The drop in gross profit margin was mainly due to the widespread discounting and the increase in extent of promotions and bargaining activities to reduce our inventory level. The opening of short-term promotion outlets during the Year has also driven down our gross profit margin.

Depreciation

Depreciation accounted for 1.7% of revenue for the Year (2016: 1.9%).

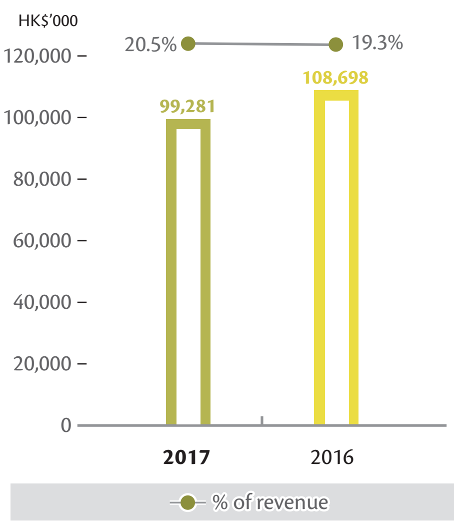
Staff Costs

Staff costs for the Year were HK$99.3 million, representing 20.5% of revenue (2016: HK$108.7 million, representing 19.3% 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 year of 2016 and the suspension of salary increment plan in 2017.

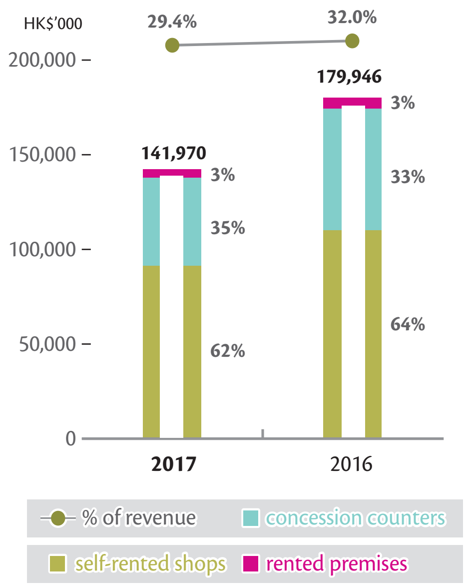
Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Year amounted to HK$142.0 million, representing 29.4% of revenue (2016: HK$179.9 million, representing 32.0% of revenue). The decrease in the retail outlet rentals and related expenses was mainly due to the decrease in the number of our retail outlets during the Year. Our concession fees for the Year amounted to HK$49.7 million (2016: HK$59.7 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$3.2 million (2016: HK$3.7 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 1.5% to 2.8% (2016: 1.9% to 2.8%).

Loss Before Tax

As a result of the foregoing, our loss before tax for the Year was HK$42.9 million, representing a 17.9% increase from the loss before tax of HK$36.4 million for the even year of 2016.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 31 December 2017, the Group had bank deposits and cash amounting to HK$24.3 million (2016: HK$26.2 million), representing a decrease of 7.3% from 31 December 2016. Most bank deposits and cash were denominated in Hong Kong dollars. As at 31 December 2017, the Group had short-term bank borrowings amounting to HK$130.2 million (2016: HK$195.9 million), representing a decrease of 33.5% from 31 December 2016. As at 31 December 2017, the Group had long-term bank borrowings, comprising mainly mortgage for our office premises in Taiwan, amounting to HK$8.8 million (2016: HK$9.2 million), representing a decrease of 4.3% from 31 December 2016.

Pledge of Asset

As at 31 December 2017 and 2016, land and buildings, investment properties of a subsidiary of the Company and deposit and prepayment for a life insurance policy were pledged to secure the bank borrowings and banking facilities granted to the Group.

As at 31 December 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 31 December 2017 was HK$29.0 million. The fair value as at 31 December 2017 was arrived at based on a valuation carried out on that date by ROMA Appraisals Limited, an independent valuer not connected with the Group and being 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 tap into any business and investment opportunities in the financial industry, including possible acquisitions (such as the proposed acquisition of the controlling interests in companies which hold various licensed corporations under the Securities and Futures Ordinance (the "SFO") as disclosed in the discloseable transaction announcement of the Company dated 19 January 2018) and starting up of new businesses.

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 Year.

Significant Investments

During the Year, the Group did not have any significant investments (2016: Nil).

Contingent Liability

The Group had no material contingent liability as at 31 December 2017 (2016: Nil).

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 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 an impact on the Group's results.

Human Resources

As at 31 December 2017, the Group employed 325 employees (2016: 440). 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.

Dividends

The Board has resolved not to recommend the payment of a final dividend for the Year (2016: Nil).

Total Shareholder Return

Total shareholder return ("TSR") is calculated based on capital gains and dividends of the shares of the Company. The Company had a TSR of approximately negative 6.02% for the Year (2016: positive 87.6%).

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 2017 (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.

We did not generate a significant amount of hazardous and non-hazardous waste from our business activities during the Reporting Period. However, 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.

Greenhouse gas emissions

The major source of our carbon emissions is from electricity consumption. During the Reporting Period, electricity-related carbon dioxide equivalent generated from our business operation was 580.49[1] tonnes. We regularly monitor our carbon footprint and have implemented a wide range of energy saving measures to reduce the corresponding emissions. Please refer to the "Use of Energy" section below for our energy consumption data and reduction initiatives.

No other significant air emissions and water discharges were noted in our operations during the Reporting Period due to our business nature.

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.

[1] Carbon emission is calculated based on the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI) and the Reporting Guidance on Environmental KPIs issued by the Stock Exchange.

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.

The total electricity consumed by the Group[2] during the Reporting Period was 1,035,299 kWh, with an intensity of 23.83 kWh per square feet.

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.

There was no water sourcing issue with our Group as we mainly consume municipal water. Total water consumption of the Group[3] during the Reporting Period was approximately 931 m^3, with an intensity of 0.02 m^3 per square feet.

Packaging materials

Furthermore, packaging plays an important role to ensure that our footwear products can reach our target customers in optimal conditions. Since the Group's principal business is trading of footwear products, our only packaging material is non-woven shopping bags for our retail customers, which was about 4.43 tonnes during the Reporting Period.

According to the information provided by our major supplier, almost all packaging for the shoes we sold — from the box to the cardboard shoe supports — were made from recyclable materials, and our Clarks branded shoeboxes were made from 95% recycled content.

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.

2 The above statistics include electricity consumption of all Hong Kong retail shops and department store counters operated by the Group, excluding those that are beyond our direct control.

3 The above statistics include water which were consumed and paid for directly by our Hong Kong retail shops and department store counters, excluding those with charges included in the management fees of properties where we operated.

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 2,000 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.

- S. Culture supported the Community Chest BEA Golf Day 2017.
- S. Culture sponsored an aggregate amount of HK$ 170,000 to the charity fund of Hong Kong Swatow Merchants Association Limited, Vocational Training Council's (VTC) anniversary tribute dinner, as well as Hong Kong Red Cross.
- S. Culture donated to Hong Kong St. John Ambulance.

Awards and Recognition

The trade names of the Group including S. Culture, Clarks and Josef Seibel were accredited with Quality Tourism Scheme by the Hong Kong Tourism Board. Moreover, S. Culture has been awarded the Caring Company Logo for 2016/17, in recognition of our commitment for the environment, our employees as well as the community over the past years.

Directors

Executive Directors

Mr. Yang Jun, aged 38, has been an executive Director since June 2017. He is also the Chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Yang graduated from Nanjing Army Command College. He is an entrepreneur with extensive experience in corporate management of enterprises engaged in a variety of industries. He is an executive director and the chairman of Xu Sen International Holding Company Limited ("Xu Sen International", 旭森國際控股(集團)有限公司), a holding company incorporated in the PRC which is mainly engaged in equity investment, project investment, real estate investment, electronic commerce and Internet financing. In particular, two of the equity investments of Xu Sen International are Shangying Global Co., Ltd. ("Shangying Global", a company listed on the Shanghai Stock Exchange, stock code: 600146) and Shanghai Etong Technology Co., Ltd. ("Etong Technology", a company listed on the New Third Board (新三板) in the PRC, stock code: 430258). He has been a director of Etong Technology since March 2013.

Prior to joining Xu Sen International, Mr. Yang was the chairman of Shanghai Hong Ze Century Investment Development Company Limited (上海泓澤世紀投資發展有限公司) from 2004 to 2009, which was mainly engaged in equity investment and project investment. From 1999 to 2004, Mr. Yang was a general manager of Shanghai Hao Mei Gardening Limited Company (上海好美園藝有限公司), which was mainly engaged in greening works and cabling works.

Mr. Lin Zheming, aged 38, has been an executive Director since June 2017, and the chief financial officer of the Company since August 2017. He obtained a bachelor's degree in management, major in accounting, from Shanghai University of Finance and Economics. Mr. Lin is a member of each of The Chinese Institute of Certified Public Accountants, CPA Australia and Chartered Professional Accountants of Canada. He possesses substantial experience in accounting and auditing of large-sized group companies and publicly listed companies. He has over 10 years of working experience in financial management, asset management, investment management and capital markets.

Mr. Lin has been the vice president of Shang Ying Holdings Group Limited ("Shang Ying Holdings"), mainly in charge of accounting and financial matters, since October 2016. Prior to joining Shang Ying Holdings, he worked at Fosun Mineral Resources Group as a senior financial director from September 2015 to October 2016. He worked at Baosteel Group Corporation (currently known as China Baowu Steel Group Corporation Limited) as a senior manager of asset management from September 2012 to August 2015. He worked in Ernst & Young from December 2005 to August 2012 with his last position as an audit manager. Mr. Lin has been a director of Shangying Global since June 2017.

Mr. Zhu Fangming, aged 49, has been an executive Director since June 2017. He obtained an executive master's degree in business administration (EMBA) from Shanghai University of Finance and Economics in June 2013 and a bachelor's degree in accounting from Beijing Business School (北京商學院) (currently part of Beijing Technology and Business University) in June 1993. He was accredited as a registered financial planner (advanced) by Overseas Education College Shanghai Jiao Tong University in May 2008. Mr. Zhu has over 10 years of experience in corporate financial management, asset management, merger and acquisition and value management.

Mr. Zhu has been the vice president of Shang Ying Holdings, mainly in charge of investment and wealth management, since May 2013. Prior to joining Shang Ying Holdings, he was the deputy general manager of Guangdong Taiantang Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 2433) from April 2011 to March 2013, managing strategy and investments. He held various positions in Shanghai Hongsheng Technology Co., Ltd. (currently known as Xi'An Hongsheng Technology Co., Ltd., a company listed on the Shanghai Stock Exchange, stock code: 600817) from June 2007 to June 2010, including director, deputy general manager, secretary to the board of directors and financial controller. He was the deputy financial controller of Shanghai Juneyao Dairy Co., Ltd (上海均瑤乳業股份有限公司) from December 1999 to December 2003.

Non-executive Directors

Mr. Law Fei Shing, aged 58, has been a non-executive Director since June 2017. He is a member of American Institute of Certified Public Accountants (AICPA), USA and an associate member of the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Law has over 28 years of experience in audit and accounting services.

Currently, Mr. Law is an executive director, deputy chief executive officer and the company secretary of Anxian Yuan China Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 922) and an executive director of China Assurance Finance Group Limited (a company listed on GEM of the Stock Exchange ("GEM"), stock code: 8090). He was an executive director from 6 August 2013 to 15 December 2014 and has been re-designated as a non-executive director of Pak Tak International Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2668) since 16 December 2014.

Mr. Law was a non-executive director of Beautiful China Holdings Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 706) from January 2014 to December 2017. He was an executive director and a non-executive director of Legend Strategy International Holdings Group Company Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1355) from November 2014 to April 2016 and from April 2016 to December 2016, respectively. He was also the company secretary of Orient Securities International Holdings Limited (a company listed on GEM, stock code: 8001) from February 2009 to May 2016.

Mr. Lin Jun, aged 39, has been a non-executive Director since June 2017. He obtained a master's degree in law from East China University of Political Science and Law in June 2004. Mr. Lin Jun is a qualified Chinese lawyer to practise law in China. Mr. Lin Jun possesses over 15 years of working experience in the legal industry.

He is currently a partner of Shanghai Baiyulan Law Firm (上海市白玉蘭律師事務所). He was recognised as an outstanding communist party member by Shanghai Bureau of Justice Affiliated Law Firm (上海市司法局直屬律師事務所) for the years 2005 to 2007 in June 2007. He was also accredited as advanced individual in Shanghai Jiading District Judicial Administrative System for 2009 (2009年度上海市嘉定區司法行政系統先進個人) by Shanghai Jiading Judiciary Bureau (上海市嘉定區司法局) in January 2010. He has been the chairman of the supervisory committee of Shangying Global since March 2014.

Mr. Chu Chun Ho, Dominic, aged 46, has been a non-executive Director since July 2017. Mr. Chu has joined the Group for 20 years. Mr. 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).

Mr. 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. Chu was awarded the 11th World Outstanding Chinese Award.

Independent Non-executive Directors

Mr. Xie Rongxing, aged 67, has been an independent non-executive Director since June 2017. He is also a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. Xie completed an independent director training for listed companies organised by the Shanghai Stock Exchange in May 2011. He has been accredited as a senior accountant by Shanghai Accounting Senior Professional and Technical Title Qualification Evaluating Committee (上海市會計專業高級職務任職資格評審委員會) in November 1997. Mr. Xie is a qualified Chinese lawyer to practise law in China. Mr. Xie was a partner of Shanghai Jiuhui Law Firm (上海市九匯律師事務所). He possesses over 20 years of working experience in accounting, law and securities.

Mr. Xie is currently serving as an independent director of various companies listed on the Shanghai Stock Exchange, including Shanghai Join Buy Co., Ltd. (stock code: 600838), CRED Holding Co., Ltd (stock code: 600890), Shanghai Jin Jiang International Hotels Development Co., Ltd. (stock code: 600754) and Shangying Global. Mr. Xie is an independent director of Shanghai Canature Environmental Products Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300272) since May 2017. He resigned as an independent director of Zhangjiagang Freetrade Science and Technology Group Co., Ltd. (formerly known as Zhangjiagang Freetrade Science and Technology Co., Ltd., a company listed on the Shanghai Stock Exchange, stock code: 600794) on 15 September 2017.

Mr. Xie was also a member of the tenth and eleventh sessions of the Shanghai Chinese People's Political Consultative Conference. He is the vice president of Shanghai Financial Institute (上海財務學會), the deputy officer of Shanghai Institute for Promotion of Financial Culture (上海金融文化促進中心) and a social supervisor of Shanghai Red Cross (上海紅十字會社會監督員).

Mr. Chen Huigang, aged 54, has been an independent non-executive Director since June 2017. He is also the chairman of the Remuneration Committee, and a member of both the Audit Committee and Nomination Committee of the Company. Mr. Chen obtained a bachelor's degree in engineering from Shanghai University of Science and Technology (currently part of Shanghai University) in July 1985. He is a member of The Chinese Institute of Certified Public Accountants. Mr. Chen possesses over 10 years of working experience in accounting, auditing and financial fields. He is the deputy chief accountant of Shanghai Zhongqinwanxin Certified Public Accountants Co. Ltd. (上海中勤萬信會計師事務所), mainly in charge of general management and providing financial auditing services. Mr. Chen was an independent director of Shangying Global from March 2014 to March 2017, and he has been an independent director of Shangying Global again since June 2017.

Mr. Lum Pak Sum, aged 57, has been an independent non-executive Director since June 2017. He is also the chairman of the Audit Committee of the Company. Mr. Lum obtained a master's degree in business administration from The University of Warwick in 1994 and a bachelor's degree in laws from University of Wolverhampton in 2002. He has been a non-practising fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants UK since 1996 and 1993, respectively. Mr. Lum possesses over 20 years of working experience in money market and capital market.

Mr. Lum's positions in other companies listed on the Stock Exchange in the present and in the last three years are set out below:

Name of company	Position	Period of service
Great China Properties Holdings Limited (stock code: 21)	Independent non-executive director	August 2007 to present
Beautiful China Holdings Company Limited (stock code: 706)	Independent non-executive director	January 2014 to present
Yuhua Energy Holdings Limited (stock code: 2728)	Independent non-executive director	December 2014 to present
i-Control Holdings Limited (stock code: 8355)	Independent non-executive director	May 2015 to present
Kwan On Holdings Limited (stock code: 1559)	Independent non-executive director	August 2016 to present
Anxian Yuan China Holdings Limited (stock code: 922)	Independent non-executive director	May 2017 to present
Pearl Oriental Oil Limited (stock code: 632)	Independent non-executive director	December 2017 to present
Asia Resources Holdings Limited (stock code: 899)	Independent non-executive director	November 2010 to January 2015
Orient Securities International Holdings Limited (stock code: 8001)	Non-executive director	April 2011 to July 2015
Roma Group Limited (stock code: 8072)	Chief executive officer	June 2017 to 1 October 2017

Company Secretary

Ms. So Yee Kwan, aged 36, was appointed as our company secretary in July 2017. Ms. So is a Manager of Corporate Services of Tricor Services Limited, a global professional services provider specializing in integrated Business, Corporate and Investor Services. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many companies listed on the Stock Exchange for the past 13 years. Ms. So is a Chartered Secretary and an Associate of both the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. So received a Bachelor's degree in International Business Management from Oxford Brookes University in the United Kingdom and a Master of Arts in Professional Accounting and Information Systems from City University of Hong Kong.

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 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 2017, 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 the 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 2017.

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 (resigned on 10 July 2017)	Mr. Chong Hot Hoi (resigned on 10 July 2017)	Mr. Wan Kam To (Note 2) (resigned on 10 July 2017)
Mr. Chu Chun Wah, Haeta (resigned on 10 July 2017)	Mr. Chong Hok Hei, Charles (resigned on 10 July 2017)	Mr. Yau Tat Wang, Dennis (resigned on 10 July 2017)
Mr. Yang Jun (Chairman; appointed on 17 June 2017)	Mr. Yu Fuk Lun (resigned on 10 July 2017)	Mr. Lam Man Tin (resigned on 10 July 2017)
Mr. Lin Zheming (appointed on 17 June 2017)	Mr. Law Fei Shing (appointed on 17 June 2017)	Mr. Xie Rongxing (Note 2) (appointed on 17 June 2017)
Mr. Zhu Fangming (appointed on 17 June 2017)	Mr. Lin Jun (appointed on 17 June 2017)	Mr. Chen Huigang (Note 2) (appointed on 17 June 2017)
	Mr. Chu Chun Ho, Dominic (re-designated from an executive Director to a non-executive Director on 10 July 2017)	Mr. Lum Pak Sum (Note 2) (appointed on 17 June 2017)
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 Directors 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 in the Board, which can effectively exercise independent judgment.

The brief biographical details of the current 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 on all major matters of the Company. 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 a separate and independent access to the management and Company Secretary, whenever necessary, for any information relevant to the Group they may require in discharging their duties.

Chairman and Chief Executive Officer

The Company supports that the roles of the Chairman and the Chief Executive Officer should be segregated and should not be performed by the same individual.

The roles and division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

The 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 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 2017, the Chairman has met with the non-executive Directors (including independent non-executive Directors) without the executive Directors present.

The Chief Executive Officer is responsible for leading the day-to-day management of the Group's business in accordance with the strategy, policies and programs approved by the Board, and 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 Chief Executive Officer is also responsible for providing reports and advice to the Board on the performance of the Group's business. The Chief Executive Officer would be well supported by the management, who provides relevant information and recommendations to facilitate informed decision making.

Mr. Chong Hot Hoi resigned and Mr. Yang Jun was appointed as the Chairman on 10 July 2017, while Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta resigned as the Co-Chief Executive Officers on 10 July 2017. The Board is still identifying suitable candidate to fill the position of the Chief Executive Officer and will keep the Company's shareholders informed of such appointment by further announcement.

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. Independent non-executive Directors also 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

All non-executive Directors, including independent non-executive Directors, are appointed for a specific term. Each of the Directors is subject to retirement 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.

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 2017, twelve Board meetings, three Audit Committee meetings, three Remuneration Committee meetings, three Nomination Committee meetings and two general meetings 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	General Meeting (Note 15)
Executive Directors					
Mr. Chu Siu Ming (Note 1)	4/6	N/A	N/A	1/2	2/2
Mr. Chu Chun Wah, Haeta (Note 2)	5/6	N/A	N/A	N/A	2/2
Mr. Yang Jun (Note 3)	7/7	N/A	2/2	1/1	N/A
Mr. Lin Zheming (Note 4)	7/7	N/A	N/A	N/A	N/A
Mr. Zhu Fangming (Note 4)	7/7	N/A	N/A	N/A	N/A
Non-executive Directors					
Mr. Chong Hot Hoi (Note 5)	5/6	N/A	1/1	2/2	1/2
Mr. Chong Hok Hei, Charles (Note 6)	5/6	N/A	N/A	N/A	1/2
Mr. Yu Fuk Lun (Note 7)	5/6	N/A	1/1	N/A	2/2
Mr. Law Fei Shing (Note 8)	7/7	N/A	N/A	N/A	N/A
Mr. Lin Jun (Note 8)	7/7	N/A	N/A	N/A	N/A
Mr. Chu Chun Ho, Dominic	12/12	N/A	N/A	N/A	2/2
Independent Non-executive Directors					
Mr. Wan Kam To (Note 9)	5/6	1/1	1/1	2/2	2/2
Mr. Yau Tat Wang, Dennis (Note 10)	5/6	1/1	1/1	2/2	2/2
Mr. Lam Man Tin (Note 11)	5/6	1/1	1/1	2/2	2/2
Mr. Xie Rongxing (Note 12)	7/7	2/2	2/2	1/1	N/A
Mr. Chen Huigang (Note 13)	7/7	2/2	2/2	1/1	N/A
Mr. Lum Pak Sum (Note 14)	7/7	2/2	N/A	N/A	N/A

N/A: Not applicable

Notes:

1. Mr. Chu Siu Ming resigned as an executive Director and a member of the Nomination Committee on 10 July 2017.

2. Mr. Chu Chun Wah, Haeta resigned as an executive Director on 10 July 2017.

3. Mr. Yang Jun was appointed as an executive Director on 17 June 2017, and the chairman of the Nomination Committee and a member of the Remuneration Committee on 10 July 2017.

4. Mr. Lin Zheming and Mr. Zhu Fangming were appointed as executive Directors on 17 June 2017.

5. Mr. Chong Hot Hoi resigned as a non-executive Director and a member of each of the Remuneration Committee and the Nomination Committee on 10 July 2017.

6. Mr. Chong Hok Hei, Charles resigned as a non-executive Director on 10 July 2017.

7. Mr. Yu Fuk Lun resigned as a non-executive Director and a member of the Remuneration Committee on 10 July 2017.

8. Mr. Law Fei Shing and Mr. Lin Jun were appointed as non-executive Directors on 17 June 2017.

9. Mr. Wan Kam To resigned as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee on 10 July 2017.

10. Mr. Yau Tat Wang, Dennis resigned as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee on 10 July 2017.

11. Mr. Lam Man Tin resigned as an independent non-executive Director, the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee on 10 July 2017.

12. Mr. Xie Rongxing was appointed as an independent non-executive Director on 17 June 2017, and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 10 July 2017.

13. Mr. Chen Huigang was appointed as an independent non-executive Director on 17 June 2017, and the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee on 10 July 2017.

14. Mr. Lum Pak Sum was appointed as an independent non-executive Director on 17 June 2017, and the chairman of the Audit Committee on 10 July 2017.

15. The general meetings included the annual general meeting held on 8 May 2017 and the extraordinary general meeting held on 16 May 2017.

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 current composition of the Executive Committee is as follows:

Executive Committee
Committee Members
Executive Directors
Mr. Yang Jun *(Committee Chairman)*
Mr. Lin Zheming
Mr. Zhu Fangming
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 the Executive Committee include:

(i) discuss and make decisions on matters relating to the management, operation and business expansion of the Company;

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

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

(iv) 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 information and 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 current composition of the Audit Committee is as follows:

Audit Committee
Committee Members
Independent Non-executive Directors
Mr. Lum Pak Sum *(Committee Chairman)*
Mr. Xie Rongxing
Mr. Chen Huigang
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 external 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 2017, the Audit Committee has held three 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 2016, with recommendations to the Board for approval;

— noted and considered the major audit findings related to the 2016 annual audit from Deloitte Touche Tohmatsu, the Company's external auditor;

— reviewed and monitored the financial reporting system, the risk management and internal control systems and the internal audit function of the Group, including their performance and effectiveness;

— reviewed the interim financial statements of the Group and related results announcement and report of the Company for the six months ended 30 June 2017, with recommendations to the Board for approval;

— received reports on the findings of Deloitte Touche Tohmatsu during their reviews 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 2017;

— 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 reported on the Group's connected transactions (including continuing connected transactions);

— reviewed the compliance of the Deed of Non-competition undertakings by the Company's then controlling shareholders;

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

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

— reviewed the change of accounting treatment of investment properties.

There is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

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 current composition of the Remuneration Committee is as follows:

Remuneration Committee
Committee Members
Executive Director
Mr. Yang Jun
Independent Non-executive Directors
Mr. Chen Huigang *(Committee Chairman)*
Mr. Xie Rongxing
Total number of members: 3 % of independent non-executive Directors: 66.7% 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 the 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 2017, the Remuneration Committee has held three 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 policy on remuneration of all of the Directors and management;

— reviewed specific remuneration packages of all executive Directors and 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);

— reviewed the remuneration packages of the Directors and management;

— reviewed the service agreements and letters of appointment, including the remuneration packages, of the Directors appointed during the Year, with recommendations to the Board for approval; and

— reviewed the salary adjustment of Mr. Yang Jun and the relevant supplemental agreement to the service agreement, with recommendation to the Board for approval.

The senior management of the Company is executive Directors. Further details of the remuneration of Directors and 5 highest paid employees have been set out in notes 11(a) and 11(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 current composition of the Nomination Committee is as follows:

Nomination Committee
Committee Members
Executive Director
Mr. Yang Jun *(Committee Chairman)*
Independent Non-executive Directors
Mr. Xie Rongxing
Mr. Chen Huigang
Total number of members: 3 % of independent non-executive Directors: 66.7% 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 Officer; 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 2017, the Nomination Committee has held three 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 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 2017 annual general meeting;

— assessed the independence of the independent non-executive Directors;

— considered and recommended to the Board the appointment of Mr. Yang Jun, Mr. Lin Zheming and Mr. Zhu Fangming as executive Directors, Mr. Law Fei Shing and Mr. Lin Jun as non-executive Directors, and Mr. Xie Rongxing, Mr. Chen Huigang and Mr. Lum Pak Sum as independent non-executive Directors; and

— considered and recommended to the Board the nomination of Mr. Yang Jun as the Chairman of the Board, and the re-designation of Mr. Chu Chun Ho, Dominic as a non-executive Director.

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 roles and functions 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 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 2017, 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 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

Each newly appointed Director shall receive induction on the first occasion of his/her appointment to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of the Director's responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

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. Directors are requested to provide their training records to the Company for records.

According to the records provided by the Directors, the training received by them during the year ended 31 December 2017 is summarised as follows:

Directors	**Type of continuous professional development training** Notes
Executive Directors	
Mr. Yang Jun	B
Mr. Lin Zheming	A and B
Mr. Zhu Fangming	A and B
Mr. Chu Siu Ming (resigned on 10 July 2017)	B
Mr. Chu Chun Wah, Haeta (resigned on 10 July 2017)	B
Non-executive Directors	
Mr. Law Fei Shing	A and B
Mr. Lin Jun	A and B
Mr. Chu Chun Ho, Dominic	B
Mr. Chong Hot Hoi (resigned on 10 July 2017)	B
Mr. Chong Hok Hei, Charles (resigned on 10 July 2017)	B
Mr. Yu Fuk Lun (resigned on 10 July 2017)	B
Independent Non-executive Directors	
Mr. Xie Rongxing	B
Mr. Chen Huigang	A and B
Mr. Lum Pak Sum	A and B
Mr. Wan Kam To (resigned on 10 July 2017)	A and B
Mr. Yau Tat Wang, Dennis (resigned on 10 July 2017)	B
Mr. Lam Man Tin (resigned on 10 July 2017)	B

Notes:

A: Attending seminar(s), conference(s), forum(s) and/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 for 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 12 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 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 49 to 54 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 2017 is set out below:

Types of services provided by the external auditor	**2017** HK$'000
Audit service	1,000
Non-audit services	
— Interim review	260
— Provision for ESG reporting service	100
— Provision for internal control advisory service	210
Total:	1,570

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 its risks across business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the management. The Board evaluates and determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring 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 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. 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 ongoing monitoring of risk management and internal control systems of the Group and the management of the Group had performed ongoing monitoring of the risk management. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Relevant findings, the effectiveness of the risk management and internal control systems and significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure appropriate and prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board had performed annual review on the effectiveness of the Group's risk management and internal control systems for the Year, 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 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; and status of compliance with the Listing Rules. The Board considered that the Group's risk management and internal control systems for the Year are effective.

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 the 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 ensure 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 resigned and Ms. So Yee Kwan from Tricor Services Limited, an external service provider, was appointed by the Board as the Company Secretary of the Company on 10 July 2017. The biography of Ms. So Yee Kwan is set out in the section headed "Directors and Secretary" of this annual report. The primary contact of Ms. So Yee Kwan at the Company is Mr. Lin Zheming, an executive Director and the Chief Financial Officer of the Company.

During the year ended 31 December 2017, Ms. So Yee Kwan has taken not less than 15 hours of professional training.

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 2017, 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 present their report together with the audited consolidated financial statements for the year ended 31 December 2017 (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 12 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 13 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 6 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 2017, and the Consolidated Statement of Financial Position of the Group as at that date are set out in the Consolidated Financial Statements on pages 55 to 56 of this annual report.

Dividends

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2017.

Closure of Register of Members

The register of members of the Company will be closed from 5 June 2018, Tuesday to 8 June 2018, Friday (both days inclusive) for the purpose of determining the right to attend and vote at the forthcoming annual general meeting of the Company to be held on 8 June 2018, Friday (the "2018 AGM"). In order to be entitled to attend and vote at the 2018 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 4 June 2018, Monday.

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 2017 is set out on page 104 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 2017, the aggregate sales attributable to the Group's five largest customers were approximately 5.5%. The aggregate purchases attributable to the Group's five largest suppliers during the Year were approximately 86% while the purchases attributable to the Group's largest supplier during the Year were approximately 76%.

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 relationships 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, the Mainland China, Taiwan and Macau.

For wholesales customers, we had maintained business relationships and have been dealing with most of them for more than five years. Consistent with usual industry practice, the Group does 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 2017 amounted to approximately HK$87.5 million (2016: HK$92.5 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$625,000.

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2017 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 15 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 16 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 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 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 the 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 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.

As at the date of this annual report, the total number of securities of the Company available for issue under the Share Option Scheme was 20,000,000, representing approximately 9.35% of the issued shares as at the date of this annual report. 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. Yang Jun *(Chairman)**
Mr. Lin Zheming*
Mr. Zhu Fangming*
Mr. Chu Siu Ming**
Mr. Chu Chun Wah, Haeta**

Non-executive Directors

Mr. Law Fei Shing*
Mr. Lin Jun*
Mr. Chu Chun Ho, Dominic***
Mr. Chong Hot Hoi**
Mr. Chong Hok Hei, Charles**
Mr. Yu Fuk Lun**

Independent non-executive Directors

Mr. Xie Rongxing*
Mr. Chen Huigang*
Mr. Lum Pak Sum*
Mr. Wan Kam To**
Mr. Yau Tat Wang, Dennis**
Mr. Lam Man Tin**

* Mr. Yang Jun, Mr. Lin Zheming, Mr. Zhu Fangming, Mr. Law Fei Shing, Mr. Lin Jun, Mr. Xie Rongxing, Mr. Chen Huigang and Mr. Lum Pak Sum were appointed as Directors on 17 June 2017.

** Mr. Chu Siu Ming, Mr. Chu Chun Wah, Haeta, Mr. Chong Hot Hoi, Mr. Chong Hok Hei, Charles, Mr. Yu Fuk Lun, Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin resigned as Directors on 10 July 2017.

*** Mr. Chu Chun Ho, Dominic was re-designated from an executive Director to a non-executive Director on 10 July 2017.

Pursuant to Article 108 of the Articles, Mr. Chu Chun Ho, Dominic shall retire by rotation at the 2018 AGM. Pursuant to Article 112 of the Articles, Mr. Yang Jun, Mr. Lin Zheming, Mr. Zhu Fangming, Mr. Law Fei Shing, Mr. Lin Jun, Mr. Xie Rongxing, Mr. Chen Huigang and Mr. Lum Pak Sum shall hold office until the 2018 AGM. All of the above nine Directors, being eligible, will offer themselves for re-election at the 2018 AGM.

Biographies of Directors

Brief biographical details of Directors are set out on pages 17 to 20 of this annual report.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the 2018 AGM has a service contract with the Company that is not determinable within one year without payment of compensation (other than statutory compensation).

Update on Director's Information

The following is an updated information of the Director required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

The Company entered into a supplemental agreement to the service agreement with Mr. Yang Jun to adjust his fee from approximately HK$12,083 to HK$50,000 per month with effect from 1 November 2017.

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 11(a) to the Consolidated Financial Statements.

Directors' Interests in Transactions, Arrangements or Contracts

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.

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 2017, the interests of the Directors in the shares of the Company and/or its associated corporations, which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(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	149,993,617	74.99%
Mr. Law Fei Shing	Interest held by controlled corporations	2	119,993,617	60.00%
Mr. Chu Chun Ho, Dominic	Person having a security interest in shares	3	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) These shares held by Shang Ying Financial were pledged to Excel Precise International Limited ("Excel Precise") to secure the repayment, obligations and responsibilities of a loan 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 (the former Director) were jointly having security interest in these shares of the Company.

+ 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 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 31 December 2017.

Save as disclosed above, as at 31 December 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 "Controlling 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 Controlling 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, representing approximately 58.41% of the then 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 of the Company (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 of the Company, representing approximately 82.54% of the then entire issued share capital of the Company. The public float was then restored on 21 September 2017 upon completion of the placing of 15,080,000 shares of the Company by the Offeror.

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

As at 31 December 2017, the following parties had interests of 5% or more of the issued share capital of the Company which 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 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	149,993,617	74.99%
Excel Precise	Person having a security interest in shares	2	119,993,617	60.00%
True Promise	Interest held by controlled corporation	2	119,993,617	60.00%
Mr. Chong Hot Hoi	Person having a security interest in shares	3	30,000,000	15.00%

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".

(3) The above interest of Mr. Chong Hot Hoi was also disclosed as the interest of Mr. Chu Chun Ho, Dominic 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 2017.

Save as disclosed above, as at 31 December 2017, 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 30 to the Consolidated Financial Statements. As far as the transactions set out in note 30 to the Consolidated Financial Statements are concerned, the lease related transactions were connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules; and the other transactions were the remuneration of the Directors as determined pursuant to the service contracts which were connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules and the remuneration of the management which did not constitute connected transactions of the Company under the Listing Rules.

Non-Competition Undertaking

Pursuant to the deed of non-competition (the "Non-Competition Undertaking") dated 27 June 2013 (the "Deed"), each of the former 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 during the restricted period. 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 former controlling shareholders, and their respective associates has confirmed to the Company of his/its compliance with the Non-Competition Undertaking provided to the Company.

During the period from 1 January 2017 to 15 June 2017, the former 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 Undertaking as set out in the Deed. The Non-Competition Undertaking lapsed when the former controlling shareholders ceased to exercise or control of 30% of the voting power at general meeting of the Company since 15 June 2017.

At a meeting of the Audit Committee held on 28 March 2018, all the independent non-executive Directors reviewed and confirmed the compliance of the Non-Competition Undertaking by the former 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 and the Company's 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 complied with the code provisions set out in the CG Code as contained in Appendix 14 to the Listing Rules during the Year.

Events After the Reporting Period

(i) On 26 December 2017, Kong Tai Sundry Goods Company Limited, an indirect wholly-owned subsidiary of the Company, entered into a formal sale and purchase agreement to dispose of its properties in Taiwan which were used as its office and car parking spaces at a consideration of NT$97,000,000 (equivalent to approximately HK$25,350,000), as the Group planned downscale its investment and operations in Taiwan taking into account of the continuous decrease in revenue attributable to, and the loss-making position of, its operation in Taiwan. The aforesaid disposal of Taiwan properties has not been completed as at the date of this report. For further details of the transaction, please refer to the announcements issued by the Company dated 27 December 2017 and 15 February 2018, respectively.

(ii) On 28 December 2017, KTS Properties Holdings Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to dispose of a property of the Group located in Hong Kong, which is classified as property, plant and equipment in the Consolidated Financial Statements, at a cash consideration of HK$8,380,000. Up to the date of this report, the disposal has not yet been completed.

(iii) On 19 January 2018, Shang Ying Capital Limited (the "Purchaser"), a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with DSG Investment Limited, Wonderful Sky Investment Limited and Ever Beauty Investments Limited (collectively, the "Vendors") and Mr. Xie Hao, pursuant to which the Purchaser conditionally agreed to purchase and the Vendors conditionally agreed to sell an aggregate of 8,287,500 shares of DSG Finance Holdings (Hong Kong) Limited ("DSG Holdings (HK)") and an aggregate of 25,500 shares of DSG Asset Management (Cayman) Company Limited ("DSG Holdings (Cayman)"), each representing 51% of the total number of issued shares of DSG Holdings (HK) and DSG Holdings (Cayman), respectively, for a total consideration of HK$40,800,000 (subject to adjustment) (the "DSG Transaction"). For further details of the DSG Transaction, please refer to the announcement issued by the Company dated 19 January 2018.

    As at the date of the report, the DSG 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 of the Company when and where appropriate.

(iv) On 19 January 2018, the Company and a placing agent entered into a placing agreement (as supplemented by an agreement dated 7 February 2018), pursuant to which the placing agent has conditionally agreed to procure, on a best effort basis, not less than six placees, who are professional, institutional and/or other investor(s) who are third parties independent of and are not connected with the Company and its connected persons, to subscribe for up to a maximum of 20,000,000 new shares at a placing price of HK$3.98 per placing share (the "Placing"). The net price to the Company of each placing share is approximately HK$3.88. The market price of the new shares on the date when the issuance terms were determined (i.e. 19 January 2018) was HK$4.00.

The Placing was completed on 1 March 2018 and a total of 14,000,000 placing shares have been successfully placed by the placing agent. The gross proceeds and net proceeds from the Placing were HK$55,720,000 and approximately HK$54,360,000, respectively. The Company intends to apply the net proceeds as to approximately HK$41 million for financing the DSG Transaction, and the remaining proceeds for financing future investment or new business development as and when opportunities arise and for general working capital purpose.

For details of the Placing, please refer to the Company's announcements dated 19 January 2018, 7 February 2018 and 1 March 2018, respectively.

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 all the three independent non-executive Directors) has reviewed with management the principal accounting policies adopted by the Group and discussed the risk management and internal control systems and financial reporting matters including a review of the audited consolidated 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 2018 AGM. A resolution will be submitted to the 2018 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
Yang Jun
Chairman

Hong Kong, 28 March 2018

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 55 to 103, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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

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 5 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 2017, the carrying amount of inventories is HK$153,293,000, net of allowance of HK$1,667,000.

How our audit addressed the key audit matter

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;
- Testing the aging analysis of inventories, on a sample basis, to the purchase invoices;
- 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; and
- Tracing a selection of inventories with subsequent sales to the sales invoices.

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the significant unobservable inputs and significant judgements associated with determining the fair value. As disclosed in note 16 to the consolidated financial statements, the Group's investment properties were commercial properties located in Hong Kong and were stated at fair value of HK$23,580,000, HK$24,500,000 and HK$29,000,000, accounting for approximately 4.9%, 5.6% and 8.6% of the Group's total assets as at 1 January 2016, 31 December 2016 and 31 December 2017, respectively, with a change in fair value of HK$920,000 and HK$4,500,000 recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 and 31 December 2017, respectively. All of the Group's investment properties were measured using the fair value model based on valuation conducted by an independent firm of professional valuers (the "Valuers"). As disclosed in note 5 to the consolidated financial statements, in determining the fair values of the Group's investment properties, the Valuers applied a market value basis which involves, inter-alia, significant unobservable inputs and significant judgements, representing adjusted market prices that have taken into account of property-specific adjustments such as location and timing of referenced transactions.	Our procedures in relation to the valuation of investment properties included: • Evaluating the competence, capabilities and objectivity of the Valuers; • Obtaining an understanding from the Valuers about the valuation techniques, the performance of the property market, significant assumptions adopted, critical judgmental areas, key inputs and data used in the valuations; and • Evaluating the reasonableness of significant unobservable inputs by comparing adjusted market prices with comparable market transactions for comparable properties in similar location and conditions on a sample basis.

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.

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

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.

- 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.

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

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
28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000 (Restated)
Revenue	6	**483,722**	562,474
Cost of goods sold		**(230,880)**	(241,947)
Gross profit		**252,842**	320,527
Other income	7	**1,350**	1,344
Other gains and losses	8	**5,184**	(51)
Selling and distribution costs		**(212,963)**	(263,108)
Administrative expenses		**(82,145)**	(91,378)
Other expenses		**(4,022)**	—
Finance costs	9	**(3,177)**	(3,713)
Loss before taxation	10	**(42,931)**	(36,379)
Taxation	12	**(511)**	2,705
Loss for the year		**(43,442)**	(33,674)
Other comprehensive income for the year			
Item that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		**1,852**	1,098
Total comprehensive expense for the year		**(41,590)**	(32,576)
Loss for the year attributable to owners of the Company		**(43,442)**	(33,674)
Total comprehensive expense for the year attributable to owners of the Company		**(41,590)**	(32,576)
Loss per share — basic *(HK$)*	14	**(0.22)**	(0.17)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	**31.12.2017 HK$'000**	31.12.2016 HK$'000 (Restated)	1.1.2016 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	15	**38,425**	46,929	52,066
Investment properties	16	**29,000**	24,500	23,580
Deferred tax assets	17	**10,116**	10,155	6,773
Deposit and prepayment for a life insurance policy	18	**1,868**	1,862	—
Deposits paid for acquisition of property, plant and equipment		**—**	—	349
Rental deposits		**6,136**	10,940	19,216
		85,545	94,386	101,984
Current assets				
Inventories	19	**153,293**	227,121	251,713
Trade and other receivables	20	**72,163**	87,038	87,719
Derivative financial instruments		**—**	—	141
Taxation recoverable		**313**	2,795	2,896
Bank balances and cash	21	**24,287**	26,233	32,647
		250,056	343,187	375,116
Current liabilities				
Trade and other payables	22	**26,032**	24,469	26,992
Amount due to a director	23	**3,800**	—	—
Taxation payable		**485**	211	268
Obligation under a finance lease — due within one year		**—**	—	155
Bank borrowings — due within one year	24	**130,215**	195,867	199,103
		160,532	220,547	226,518
Net current assets		**89,524**	122,640	148,598
Total assets less current liabilities		**175,069**	217,026	250,582
Non-current liabilities				
Bank borrowings — due after one year	24	**8,842**	9,209	10,189
Net assets		**166,227**	207,817	240,393
Capital and reserves				
Share capital	25	**2,000**	2,000	2,000
Reserves		**164,227**	205,817	238,393
Total equity		**166,227**	207,817	240,393

The consolidated financial statements on pages 55 to 103 were approved and authorised for issue by the board of directors on 28 March 2018 and are signed on its behalf by:

Yang Jun
DIRECTOR

Lin Zheming
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 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 2016 (originally stated)	2,000	92,911	15,800	12	(3,409)	110,263	217,577
Effect on change in an accounting policy (note 4)	—	—	—	—	—	22,816	22,816
At 1 January 2016 (restated)	2,000	92,911	15,800	12	(3,409)	133,079	240,393
Loss for the year (restated)	—	—	—	—	—	(33,674)	(33,674)
Exchange differences arising on translation of foreign operations and other comprehensive income for the year	—	—	—	—	1,098	—	1,098
Total comprehensive income (expense) for the year	—	—	—	—	1,098	(33,674)	(32,576)
At 31 December 2016 (restated)	2,000	92,911	15,800	12	(2,311)	99,405	207,817
Loss for the year	—	—	—	—	—	(43,442)	(43,442)
Exchange differences arising on translation of foreign operations and other comprehensive income for the year	—	—	—	—	1,852	—	1,852
Total comprehensive income (expense) for the year	—	—	—	—	1,852	(43,442)	(41,590)
At 31 December 2017	2,000	92,911	15,800	12	(459)	55,963	166,227

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 2017

	2017 HK$'000	2016 HK$'000 (Restated)
Operating activities		
Loss before taxation	(42,931)	(36,379)
Adjustments for:		
Allowance for doubtful debts	48	32
Allowance for inventories	1,629	—
Interest income	(1)	(73)
Interest expenses	3,177	3,713
Imputed interest income from deposit and prepayment for a life insurance policy	(32)	(26)
Depreciation of property, plant and equipment	8,066	10,839
Change in fair value of investment properties	(4,500)	(920)
Premium charges on a life insurance policy	26	21
Loss on disposal/write off of property, plant and equipment	1,160	—
Fair value loss on derivative financial instruments	—	142
Operating cash flows before movements in working capital	(33,358)	(22,651)
Decrease in rental deposits	10,384	1,357
Decrease in inventories	76,191	23,695
Decrease in trade and other receivables	11,968	7,864
Increase (decrease) in trade and other payables	1,151	(157)
Cash generated from operations	66,336	10,108
Hong Kong Profits Tax refunded (paid)	2,403	(427)
Tax paid in other jurisdictions	(84)	(202)
Net cash from operating activities	68,655	9,479
Investing activities		
Interest received	1	73
Purchase of property, plant and equipment	(2,260)	(5,284)
Deposit and prepayment paid for a life insurance policy	—	(1,883)
Net cash used in investing activities	(2,259)	(7,094)
Financing activities		
New bank borrowings raised	170,881	312,738
Advance from a director	3,800	—
Repayments of bank borrowings	(240,254)	(317,637)
Interest paid	(3,311)	(3,713)
Repayment of obligation under a finance lease	—	(155)
Net cash used in financing activities	(68,884)	(8,767)
Net decrease in cash and cash equivalents	(2,488)	(6,382)
Cash and cash equivalents at beginning of the year	26,233	32,647
Effect of foreign exchange rate changes	542	(32)
Cash and cash equivalents at end of the year, representing bank balances and cash	24,287	26,233

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.

During the year ended 31 December 2017, as the Group has downscaled its operations in Taiwan by terminating the retail business, severance payments of HK$4,022,000 was charged to profit or loss for the year ended 31 December 2017 (see note 10(a)).

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 HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

Except as described below, 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.

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the followings 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.

A reconciliation between the opening and closing balances of these items is provided in note 33. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 33, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and amendments to HKFRSs and interpretations 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]
HKFRS 17	Insurance contracts[4]
HK(IFRIC)—Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC)—Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 cycle[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 9	Prepayment features with negative compensation[2]
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 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]

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 2021.

HKFRS 9 "Financial instruments"

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

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

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 "Financial instruments" (Continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate all financial assets and liabilities will continue to be measured on the same basis as are currently measured under HKAS 39 on initial application of HKFRS 9.

In the opinion of the directors of the Company, based on the business model and historical experience of the Group, the default rate of the outstanding balances with customers is low. Hence, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 would not have material impact on the Group's future consolidated financial statements.

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 principle 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. Specifically, 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 directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 "Leases" (Continued)

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. Upon application of 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 by the Group.

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 2017, the Group has non-cancellable operating lease commitments of HK$83,247,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of HK$20,571,000 and refundable rental deposits received of HK$128,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange 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, except for investment properties that are measured at fair value at the end of each reporting period, as explained in the accounting policies as set out below.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 buildings, 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.

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 the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Debt 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 at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 and accumulated in equity is recognised in profit or loss.

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

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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 immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 on payable to a foreign operation for which statement 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 the 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 and termination benefits

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.

A liability for a termination benefit is recognised at the earlier of when an entity of the Group can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from results 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.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property", the carrying amounts of such properties are presumed to be recovered through sale. Such a presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate 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. SUMMARY OF THE IMPACT OF CHANGE IN AN ACCOUNTING POLICY

During the year ended 31 December 2017, the Group changed its accounting policy with respect to the measurement of investment properties. Prior to this change in policy, the Group applied the cost model, under which investment properties were stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. The Group now applies the fair value model, under which investment properties are stated at fair value and recognises the fair value changes to profit or loss in which they arise.

The directors of the Company believe that market value of the investment properties held by the Group will be better reflected in a more objective and fair manner through the adoption of the fair value model for the measurement of investment properties, which will assist the management and investors to keep abreast of the financial condition of the Group on a timely basis and provide more relevant and transparent information to the users of the consolidated financial statements of the Group.

The effects of the change in the Group's accounting policy described above on the results for the current and preceding years by line items presented in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Year ended	
	31.12.2017	31.12.2016
	HK$'000	HK$'000
Impact on loss for the year		
Decrease in administrative expenses	**13**	13
Increase in other gains	**4,500**	920
Net decrease in loss for the year	**4,513**	933
Decrease in loss for the year attributable to owners of the Company	**4,513**	933
Decrease in total comprehensive expense for the year attributable to owners of the Company	**4,513**	933

Certain comparative figures have also been reclassified to conform with the current year's presentation.

4. SUMMARY OF THE IMPACT OF CHANGE IN AN ACCOUNTING POLICY (Continued)

The effects of the change in the Group's accounting policy described above on the financial positions of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2016, is as follows:

	As at 31.12.2016 HK$'000 (Original stated)	Adjustment arising from change in the accounting policy HK$'000	As at 31.12.2016 HK$'000 (Restated)
Investment properties	751	23,749	24,500
Total effect on net assets	184,068	23,749	207,817
Accumulated profits	75,656	23,749	99,405
Total effect on total equity	184,068	23,749	207,817

The effect of the change in the Group's accounting policy described above on the financial positions of the Group as at the beginning of the comparative period, i.e. 1 January 2016, are as follows:

	As at 1.1.2016 HK$'000 (Original stated)	Adjustment arising from change in the accounting policy HK$'000	As at 1.1.2016 HK$'000 (Restated)
Investment properties	764	22,816	23,580
Total effect on net assets	217,577	22,816	240,393
Accumulated profits	110,263	22,816	133,079
Total effect on total equity	217,577	22,816	240,393

	Year ended	
	31.12.2017 HK$	31.12.2016 HK$
Impact on basic loss per share		
Basic loss per share before adjustment	**(0.24)**	(0.17)
Adjustments arising from change in the accounting policy	**0.02**	—
Reported basic loss per share	**(0.22)**	(0.17)

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimation, that the directors of the Company have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the investment property portfolio of the Group and concluded that none of the investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the directors of the Company have determined that the "sale" presumption set out in the amendments to HKAS 12 "Income taxes" is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties to the extent in which the disposal of those investment properties are not subject to income taxes.

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 the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position as at 31 December 2017 at their fair values of HK$29,000,000 (31 December 2016: HK$24,500,000 and 1 January 2016: HK$23,580,000) (Note 16) and based on valuation of these properties conducted by an independent firm of professional valuers. In determining the fair values of the Group's investment properties, the valuers applied a market value basis which involves, inter-alia, significant unobservable inputs and significant judgements, representing adjusted market price that has taken into account of property-specific adjustments such as location and timing of referenced transactions. The management of the Company has reviewed the valuation techniques and inputs for fair value measurements.

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, products 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 2017, the carrying amount of inventories is HK$153,293,000 (2016: HK$227,121,000) (net of allowance for inventories of HK$1,667,000) (2016: nil)).

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Income taxes

As at 31 December 2017, a deferred tax asset of HK$2,417,000 and HK$7,699,000 (2016: HK$2,456,000 and HK$7,699,000) 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$73,633,000 (2016: HK$29,465,000). 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.

6. 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 year ended 31 December 2017

	Retail sales HK$'000	Wholesale HK$'000	Segment total HK$'000	Elimination HK$'000	Total HK$'000
REVENUE					
External sales	437,454	46,268	483,722	—	483,722
Inter-segment sales	—	180,305	180,305	(180,305)	—
Segment revenue	437,454	226,573	664,027	(180,305)	483,722
Segment results	(33,625)	(1,437)	(35,062)	(758)	(35,820)
Unallocated income					5,449
Unallocated expenses					(9,383)
Finance costs					(3,177)
Loss before taxation					(42,931)

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2016 (Restated)

	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)	3,102	(28,878)	(2,466)	(31,344)
Unallocated income					1,935
Unallocated expenses					(3,257)
Finance costs					(3,713)
Loss before taxation					(36,379)

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 on derivative financial instruments, change in fair value of investment properties, 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 2017

	Retail sales HK$'000	**Wholesale HK$'000**	**Unallocated HK$'000**	**Total HK$'000**
Amounts included in measure of segment results:				
Allowance for inventories	**—**	**1,629**	**—**	**1,629**
Depreciation	**6,717**	**1,203**	**146**	**8,066**
Loss on disposal/write off of property, plant and equipment	**1,160**	**—**	**—**	**1,160**

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2016 (Restated)

	Retail sales HK$'000	Wholesale HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in measure of segment results:				
Depreciation	8,817	1,876	146	10,839

Geographical information

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

	2017 HK$'000	2016 HK$'000
Hong Kong	**353,303**	445,340
Taiwan	**109,995**	98,910
Macau	**12,278**	12,309
Mainland China	**8,146**	5,915
	483,722	562,474

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:

	2017 HK$'000	2016 HK$'000 (Restated)
Hong Kong	**53,982**	56,806
Taiwan	**19,067**	25,055
Macau	**273**	120
Mainland China	**239**	388
	73,561	82,369

Information about major customers

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

7. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Rental income (outgoings of HK$89,000 (2016: HK$89,000))	**916**	916
Commission income	**268**	83
Interest income	**1**	73
Imputed interest income from deposit and prepayment for a life insurance policy	**32**	26
Others	**133**	246
	1,350	1,344

8. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000 (Restated)
Change in fair value of investment properties	**4,500**	920
Net exchange gain (loss)	**1,892**	(797)
Loss on disposal/write off of property, plant and equipment	**(1,160)**	—
Allowance for doubtful debts	**(48)**	(32)
Fair value loss on derivative financial instruments	**—**	(142)
	5,184	(51)

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank borrowings	**3,177**	3,711
Interest on finance lease	**—**	2
	3,177	3,713

10. LOSS BEFORE TAXATION

	2017 HK$'000	2016 HK$'000 (Restated)
Loss before taxation has been arrived at after charging:		
Directors' remuneration (note 11)	**6,033**	9,231
Other staff costs	**85,562**	95,254
Severance payments (included in other expenses) (note a)	**4,022**	—
Retirement benefit schemes contributions for other staff	**3,664**	4,213
Total staff costs	**99,281**	108,698
Auditors' remuneration	**1,680**	1,535
Allowance for inventories	**1,629**	—
Cost of inventories recognised as expenses (including allowance for inventories)	**230,880**	241,947
Depreciation of property, plant and equipment	**8,066**	10,839
Premium charges on a life insurance policy	**26**	21
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**4,150**	5,194
— retail stores (included in selling and distribution costs)		
— minimum lease payments	**85,728**	110,799
— contingent rent (note b)	**2,347**	4,224
	88,075	115,023
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	**31,487**	31,600
— contingent rent (note b)	**18,258**	28,129
	49,745	59,729
	141,970	179,946

Notes:

(a) Taking into account the continuous decrease in revenue attributable to, and the loss-making position of, the Group's operations in Taiwan, the Group has downscaled its operations in Taiwan by terminating the retail business during the year ended 31 December 2017. The Group will continue the wholesale business in the future. As a result of the downscale of operations in Taiwan, severance payments of HK$4,022,000 (2016: nil) was charged to profit or loss during the year ended 31 December 2017.

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

11. 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 2017				
Executive directors:				
Mr. Yang Jun (note a)	154	—	—	154
Mr. Lin Zheming (note a)	79	—	—	79
Mr. Zhu Fangming (note a)	79	—	—	79
Mr. Chu Siu Ming (note b)	63	1,865	57	1,985
Mr. Chu Chun Ho, Dominic (note c)	63	1,194	55	1,312
Mr. Chu Chun Wah, Haeta (note b)	63	1,194	39	1,296
Non-executive directors:				
Mr. Law Fei Shing (note a)	542	—	—	542
Mr. Lin Jun (note a)	79	—	—	79
Mr. Chu Chun Ho, Dominic (note c)	—	—	—	—
Mr. Chong Hot Hoi (note b)	1	—	—	1
Mr. Chong Hok Hei, Charles (note b)	1	—	—	1
Mr. Yu Fuk Lun (note b)	63	—	—	63
Independent non-executive directors:				
Mr. Xie Rongxing (note a)	79	—	—	79
Mr. Chen Huigang (note a)	79	—	—	79
Mr. Lam Pak Sum (note a)	79	—	—	79
Mr. Wan Kam To (note b)	79	—	—	79
Mr. Yau Tat Wang, Dennis (note b)	63	—	—	63
Mr. Lam Man Tin (note b)	63	—	—	63
	1,629	4,253	151	6,033

11. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

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

	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

Notes:

(a) These directors were appointed on 17 June 2017.

(b) These directors resigned on 10 July 2017, in which Mr. Chu Siu Ming and Mr. Chu Chun Wah, Haeta retained as the employee of the Group and Mr. Chong Hot Hoi retained as the director of the Company's subsidiary. Their emoluments disclosed above were for their services as directors of the Company.

(c) The director was re-designated from an executive director to a non-executive director on 10 July 2017 and retained as an employee of the Group. His emoluments disclosed above were for his services as a director of the Company.

Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta were the chief executives of the Company up to 10 July 2017 while Mr. Yang Jun was appointed as the chief executive of the Company on 10 July 2017. 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.

Neither the chief executives nor any of the directors waived any emoluments in both years.

11. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals in the year included 3 (2016: 3) directors and the chief executives of the Company whose emoluments paid in the capacity as directors and the chief executives of the Company are included in the disclosure above. Total emoluments of the five highest paid individuals are as follows:

	2017 HK$'000	2016 HK$'000
Directors' fees	189	360
Salaries and allowance	10,936	11,114
Retirement benefits scheme contributions	361	323
	11,486	11,797

Their emoluments were within the following bands:

	Number of individuals	
	2017	2016
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	2	2
HK$3,500,001 to HK$4,000,000	1	1
	5	5

12. TAXATION

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong Profits Tax	—	375
Macau Complementary Tax	68	158
People's Republic of China ("PRC") Enterprise Income Tax	452	55
	520	588
(Over)underprovision in prior years	(48)	89
Deferred taxation (note 17)	39	(3,382)
	511	(2,705)

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.

12. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong Profits Tax was made in the consolidated financial statements for the year ended 31 December 2017 as the subsidiaries operating in Hong Kong have no assessable profits for the year.

Taiwan income tax is calculated at 17% (2016: 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% (2016: 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 subsidiary is 25% (2016: 25%).

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:

	2017 **HK$'000**	2016 HK$'000 (Restated)
Loss before taxation	**(42,931)**	(36,379)
Tax credit at Hong Kong Profits Tax rate of 16.5% (2016: 16.5%)	**(7,084)**	(6,003)
Tax effect of expenses not deductible for tax purposes	**1,501**	645
Tax effect of income not taxable for tax purposes	**(1,069)**	(203)
Tax effect of utilisation of tax losses previously not recognised	**—**	(39)
Tax effect of tax losses not recognised	**7,099**	2,707
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(140)**	(353)
(Over)underprovision in prior years	**(48)**	89
Others	**252**	452
Taxation	**511**	(2,705)

13. DIVIDENDS

No dividend was proposed for ordinary shareholders of the Company during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).

14. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31 December 2017 is based on the loss for the year attributable to owners of the Company and the weighted average number of 200,000,000 (2016: 200,000,000) ordinary shares in issue during the year.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST					
At 1 January 2016	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
Exchange adjustments	—	1,863	238	22	2,123
Additions	—	2,111	149	—	2,260
Disposal/write off	—	(16,124)	(1,192)	—	(17,316)
At 31 December 2017	46,302	38,711	10,226	3,435	98,674
DEPRECIATION					
At 1 January 2016	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
Exchange adjustments	—	1,527	198	22	1,747
Provided for the year	794	6,060	1,069	143	8,066
Eliminated on disposal/write off	—	(13,114)	(1,128)	—	(14,242)
At 31 December 2017	11,065	36,489	9,593	3,102	60,249
CARRYING VALUES					
At 31 December 2017	35,237	2,222	633	333	38,425
At 31 December 2016	36,031	8,845	1,577	476	46,929

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's land and buildings are situated:

	2017 HK$'000	2016 HK$'000
In Hong Kong	**16,310**	16,806
In Taiwan	**18,927**	19,225
	35,237	36,031

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

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2016	23,580
Change in fair value recognised in profit or loss	920
At 31 December 2016	24,500
Change in fair value recognised in profit or loss	4,500
At 31 December 2017	29,000

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties has been arrived at on the basis of a valuation carried out on the respective dates by ROMA Appraisals Limited, an independent firm of professional valuers not connected to the Group and being a member of Hong Kong Institute of Surveyors.

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.

16. INVESTMENT PROPERTIES (Continued)

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

Investment properties	**Valuation technique**	**Significant unobservable input(s)**	**Unobservable inputs**	**Relationship of unobservable inputs to fair value**
Commercial property units located in Hong Kong	Direct comparison method	Price per square foot using market direct comparison and taking into account of property specific adjustments such as location and timing of referenced transactions	HK$7,500 (2016: HK$6,130) per square foot	Higher price per square foot will result in correspondingly higher fair value, and vice versa

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 2017		
Commercial property units located in Hong Kong	**29,000**	**29,000**
At 31 December 2016		
Commercial property units located in Hong Kong	24,500	24,500

There were no transfers into or out of Level 3 during both years.

17. 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 2016	6,398	375	6,773
(Charge) credit to profit or loss (note 12)	(3,942)	7,324	3,382
At 31 December 2016	2,456	7,699	10,155
Charge to profit or loss (note 12)	(39)	—	(39)
At 31 December 2017	2,417	7,699	10,116

17. DEFERRED TAXATION (Continued)

At the end of the reporting period, the Group has unutilised tax losses of HK$120,295,000 (2016: HK$76,127,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$46,662,000 (2016: HK$46,662,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of HK$73,633,000 (2016: HK$29,465,000). Included in unrecognised tax losses are losses of HK$13,839,000 (2016: HK$10,742,000) and HK$33,593,000 (2016: HK$13,680,000) that will expire within five years and ten years, respectively. Other losses may be carried forward indefinitely.

As at 31 December 2017, the aggregate amount of temporary difference associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised was HK$1,510,000 (2016: HK$155,000). No liability has been recognised in respect of those differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

18. 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 certain subsidiaries of the Group. 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 2017, 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.

19. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Finished goods	**153,293**	227,121

20. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	42,655	35,762
Bills receivables	5,070	21,677
Less: Allowance for doubtful debts	(126)	(138)
	47,599	57,301
Rental deposits	14,435	19,919
Other deposits	1,067	1,517
Prepayments	4,308	3,066
Other receivables	4,728	5,209
Deposit and prepayment for a life insurance policy	26	26
	24,564	29,737
	72,163	87,038

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 the reporting period:

	2017 HK$'000	2016 HK$'000
Within 30 days	35,055	49,049
31 to 60 days	8,916	3,878
61 to 90 days	1,892	2,132
Over 90 days	1,736	2,242
	47,599	57,301

For sales by wholesale, before accepting any new customers, 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$3,628,000 (2016: HK$4,374,000) 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.

20. 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 the reporting period:

	2017 **HK$'000**	2016 HK$'000
61 to 90 days	**1,892**	2,132
Over 90 days	**1,736**	2,242
	3,628	4,374

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

	2017 **HK$'000**	2016 HK$'000
Balance at beginning of the year	**138**	104
Exchange adjustments	**13**	2
Impairment loss recognised on receivables	**48**	32
Amounts written off as uncollectible	**(73)**	—
Balance at end of the year	**126**	138

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

	Bills receivables discounted to banks with full recourse	
	2017 **HK$'000**	2016 HK$'000
Carrying amount of bills receivables	**5,070**	21,677
Carrying amount of associated liabilities	**5,070**	21,677
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.

21. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates of 0% to 0.001% (2016: 0% to 0.001%) per annum.

22. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	3,839	3,021
Accrued staff costs	7,073	8,889
Accrued severance payments (see note 10(a))	3,491	—
Accrued expenses	7,785	8,206
Deposits received from customers	1,820	2,206
Other payables	2,024	2,147
	26,032	24,469

The average credit period of trade payables is 30 days.

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

	2017 HK$'000	2016 HK$'000
Within 30 days	2,154	1,161
31 to 60 days	1,670	1,833
Over 90 days	15	27
	3,839	3,021

23. AMOUNT DUE TO A DIRECTOR

The amount is non-trade in nature, unsecured, interest free and repayable on demand. Such balance has been fully settled subsequent to the end of the reporting period.

24. BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans	**77,472**	98,943
Loans related to bills discounted with recourse	**5,070**	21,677
Trust receipt loans	**56,515**	84,456
	139,057	205,076
Secured	**136,315**	154,739
Unsecured	**2,742**	50,337
	139,057	205,076
Carrying amount repayable*		
Within one year	**106,076**	186,145
More than one year, but not more than two years	**1,263**	1,151
More than two years, but not more than five years	**3,789**	3,454
More than five years	**3,790**	4,604
	114,918	195,354
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)	**24,139**	9,722
	139,057	205,076
Less: Amounts shown under current liabilities	**(130,215)**	(195,867)
Amounts shown under non-current liabilities	**8,842**	9,209

* 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 0.45% to 1.25% (2016: 0.65% to 1.25%) or Hong Kong Interbank Offered Rate plus 1.5% to 2.0% (2016: 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:

	2017 HK$'000	2016 HK$'000
Effective interest rates:		
Variable-rate borrowings	**1.5%–2.8%**	1.9%–2.8%

Details of the pledged assets to secure the bank borrowings are set out in note 29.

25. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	500,000,000	5,000
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	200,000,000	2,000

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

Details of movement in share capital subsequent to the end of reporting period are disclosed in note 36(iv).

26. RETIREMENT BENEFITS SCHEMES

The Group participates in the 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 schemes 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 or loss represents contributions paid or payable to the schemes by the Group at rates specified in the rules of the schemes. At the end of the 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 2017 and 31 December 2016.

28. OPERATING LEASE COMMITMENTS

As lessee

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

	2017 **HK$'000**	2016 HK$'000
Within one year	**55,915**	90,087
In the second to fifth year inclusive	**27,332**	55,849
	83,247	145,936

Operating lease payments represent rentals payable by the Group for the warehouses, retail stores and department store counters. Leases are negotiated for terms ranging from one to three (2016: one to five) years.

Certain retail stores and department store counters include payment obligations with rentals 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.

28. OPERATING LEASE COMMITMENTS (Continued)

As lessee (Continued)

Included in above, as at 31 December 2016, 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 former shareholders of the Company, and Mr. Chong Hok Shan, respectively. No disclosure for 2017 was made as the above mentioned parties are no longer related parties of the Group.

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

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:

	2017 HK$'000	2016 HK$'000
Within one year	**1,055**	1,151
In the second to fifth years inclusive	**—**	1,055
	1,055	2,206

29. PLEDGE OF ASSETS

Land and buildings, investment properties and deposit and prepayment for a life insurance policy amounting to HK$28,775,000, HK$29,000,000 and HK$1,894,000 (2016: HK$29,423,000, HK$24,500,000 and HK$1,888,000) were pledged to secure the bank borrowings and banking facilities granted to the Group.

Bills receivables amounting to HK$5,070,000 (2016: HK$21,677,000) were pledged to secure the loans related to bills discounted with recourse.

30. 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	2017 HK$'000	2016 HK$'000
Becking Investment	Rental expense	**241**	525
Mr. Chong Hok Shan	Rental expense	**235**	513

The amounts disclosed above for the year ended 31 December 2017 included transactions up to 10 July 2017, the date of change of directors and shareholders of the Company.

Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Salaries and allowances	**9,702**	8,944
Retirement benefit schemes contributions	**287**	287
	9,989	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.

31. 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.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**79,090**	91,310
Rental deposits	**20,571**	30,859
Financial liabilities		
Amortised cost	**148,720**	210,244

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, trade and other payables, amount due to a director 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.

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	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
HK$	**208**	511	**5,079**	21,615
United States dollars ("USD")	**2,011**	2,528	**2,078**	1,969
Renminbi ("RMB")	**117**	13	**—**	—

The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group did not enter into any foreign currency forward contracts to hedge against foreign currency risk as at 31 December 2017.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

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% (2016: 5%) increase and decrease in foreign currency. 5% (2016: 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% (2016: 5%) against the relevant foreign currency. For a 5% (2016: 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.

	2017 **HK$'000**	2016 HK$'000
HK$	**244**	1,055
RMB	**(6)**	(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.

Interest rate risk

The Group is 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 the 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$695,000 (2016: HK$889,000).

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.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the 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 the 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.

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 the reporting period.

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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 2017							
Trade and other payables	**N/A**	**5,863**	**—**	**—**	**—**	**5,863**	**5,863**
Amount due to a director	**N/A**	**3,800**	**—**	**—**	**—**	**3,800**	**3,800**
Bank borrowings — variable rate	**2.30**	**133,913**	**1,466**	**3,963**	**4,033**	**143,375**	**139,057**
		143,576	**1,466**	**3,963**	**4,033**	**153,038**	**148,720**
At 31 December 2016							
Trade and other payables	N/A	5,168	—	—	—	5,168	5,168
Bank borrowings — variable rate	2.47	200,939	1,376	3,650	5,030	210,995	205,076
		206,107	1,376	3,650	5,030	216,163	210,244

32. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

Bank loans with a repayment on demand clause were included in the "on demand or less than 1 year" time band in the above maturity analysis. As at 31 December 2017, the principal amount of such bank loans amounted to HK$47,972,000 (2016: HK$26,389,000). 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 believe that such bank loans will be repaid in accordance with the scheduled repayment date set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates 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 2017						
Bank borrowings						
— variable rate	**2.48**	**24,662**	**8,876**	**16,204**	**49,742**	**47,972**
At 31 December 2016						
Bank borrowings						
— variable rate	1.88	17,112	8,483	1,393	26,988	26,389

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

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The fair values of financial assets and financial liabilities have been determined in accordance with generally accepted pricing model based on discounted cashflow analysis.

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

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable	**Amount due to a director**	**Bank borrowings**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	177	—	205,076	205,253
Financing cash flows (note)	(3,311)	3,800	(69,373)	(68,884)
Non-cash changes:				
Finance costs recognised (note 9)	3,177	—	—	3,177
Exchange adjustments	17	—	3,354	3,371
At 31 December 2017	60	3,800	139,057	142,917

Note: The cash flows represent new bank borrowing raised, repayments of bank borrowings, advance from a director and interest paid in the consolidated statement of cash flows.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017	2016
	HK$'000	HK$'000
Non-current assets		
Investment in subsidiaries	**94,873**	94,872
Current assets		
Other receivables	**145**	145
Bank balances and cash	**180**	172
	325	317
Current liabilities		
Other payable	**947**	43
Amount due to a director	**3,800**	—
Amounts due to subsidiaries	**944**	652
	5,691	695
Net current liabilities	**(5,366)**	(378)
Net assets	**89,507**	94,494
Capital and reserves		
Share capital	**2,000**	2,000
Reserves (note)	**87,507**	92,494
Total equity	**89,507**	94,494

Note: Movement in the Company's reserves:

	Share premium	**Accumulated profits (losses)**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2016	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
Loss and total comprehensive expense for the year	—	(4,987)	(4,987)
At 31 December 2017	92,911	(5,404)	87,507

For the year ended 31 December 2017

35. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company 2017	Equity interest attributable to the Company 2016	Principal activities
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
Shang Ying Capital Limited*#	BVI	US$100	**100%**	N/A	Not yet commenced operations
Shang Ying Commerce and Trade Holding Co. Limited#	Hong Kong	HK$10,000	**100%**	N/A	Not yet commenced operations
Shang Ying Development Limited#	BVI	US$100	**100%**	N/A	Not yet commenced operations
Shang Ying Internet Micro-credit Co., Limited#	Hong Kong	HK$1	**100%**	N/A	Not yet commenced operations
Shang Ying International Trade Holdings Limited*#	BVI	US$100	**100%**	N/A	Investment 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
恒贏商貿(上海)有限公司**#	PRC	US$1,500,000	**100%**	N/A	Not yet commenced operations
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

35. PARTICULARS OF SUBSIDIARIES (Continued)

* Directly held by the Company.

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

\# These companies were incorporated during the year ended 31 December 2017.

^ The registered capital of the subsidiary is RMB5,000,000. As at 31 December 2017, 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 2017, 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 2017 and 2016 or at any time during both years.

36. EVENTS AFTER THE REPORTING PERIOD

(i) On 26 December 2017 and 14 February 2018, Kong Tai Sundry Goods entered into a sale and purchase agreement and a supplementary agreement with an independent third party to dispose of certain properties of the Group located in Taiwan, which are classified as property, plant and equipment in the consolidated financial statements, at a cash consideration of NT$97,000,000 (equivalent to approximately HK$25,350,000). Up to the date of this report, the disposal has not yet completed. The properties are not classified as assets held for sale in the consolidated statement of financial position as the properties are not yet available for immediate sale in their present condition as at 31 December 2017.

(ii) On 28 December 2017, an indirect wholly owned subsidiary of the Company, KTS Properties Holdings Limited, entered into a sale and purchase agreement with an independent third party to dispose of a property of the Group located in Hong Kong, which is classified as property, plant and equipment in the consolidated financial statements, at a cash consideration of HK$8,380,000. Up to the date of this report, the disposal has not yet completed. The property is not classified as asset held for sale in the consolidated statement of financial position as the property is not yet available for immediate sale in its present condition as at 31 December 2017.

(iii) On 19 January 2018, a direct wholly owned subsidiary of the Company, Shang Ying Capital Limited, entered into a sale and purchase agreement with independent third parties to acquire 51% and 51% equity interests in DSG Asset Management (Cayman) Company Limited ("DSG Holdings (Cayman)") and DSG Finance Holdings (Hong Kong) Limited ("DSG Holdings (HK)"), respectively, at a total cash consideration of HK$40,800,000, which is subject to adjustment based on acquirees' aggregated net profits as shown in their audited consolidated financial statements for the year ending 31 December 2018. DSG Holdings (Cayman) is an investment fund manager and DSG Holdings (HK) is engaged in provision of financial services. Details of the acquisition are disclosed in the announcement of the Company dated 19 January 2018. Up to the date of this report, the acquisition has not yet completed.

(iv) On 19 January 2018, the Company entered into a placing agreement to place maximum number of 20,000,000 shares of the Company to not less than six independent third parties at HK$3.98 per share. On 1 March 2018, 14,000,000 shares of the Company at HK$3.98 per share have been placed. The net proceeds from the placing is amounted to HK$54,360,000.

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				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)		
Revenue	**483,722**	562,474	561,028	590,539	550,134
(Loss) profit before tax	**(42,931)**	(36,379)	(16,048)	12,121	20,958
Income tax expense	**(511)**	2,705	(13)	(3,086)	(4,456)
(Loss) profit after tax	**(43,442)**	(33,674)	(16,061)	9,035	16,502

Assets and Liabilities

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)		
Total assets	**335,601**	437,573	477,100	407,301	395,256
Total liabilities	**(169,374)**	(229,756)	(236,707)	(167,946)	(154,144)
Total equity	**166,227**	207,817	240,393	239,355	241,112

Restatement in respect of the change in an accounting policy described in note 4 to the consolidated financial statement has not been made for the years ended 31 December 2013 and 2014.