S.Culture
INTERNATIONAL HOLDINGS LIMITED

# S. CULTURE INTERNATIONAL HOLDINGS LIMITED
# 港 大 零 售 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1255

# INTERIM REPORT 2018

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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

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

### Non-executive Directors

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

### Independent Non-executive Directors

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

## Audit Committee

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

## Remuneration Committee

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

## Nomination Committee

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

## Authorized Representatives

Mr. Lin Zheming
Ms. So Yee Kwan

## Chief Financial Officer

Mr. Lin Zheming

## Company Secretary

Ms. So Yee Kwan

## Registered Office

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

## Head Office and Principal Place of Business in Hong Kong

Flat F–J, 11th Floor
Block 2, Kwai Tak Industrial Centre
15–33 Kwai Tak Street
Kwai Chung
New Territories
Hong Kong

## Stock Code

1255

## Website

www.s-culture.com

## Legal Adviser

CFN Lawyers
In association with Broad & Bright
27/F, Neich Tower
128 Gloucester Road
Wanchai, Hong Kong

## Auditor

Deloitte Touche Tohmatsu
*Certified Public Accountants*
35/F, One Pacific Place
88 Queensway
Hong Kong

## Cayman Share Registrar

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

## Hong Kong Branch Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## Principal Bankers

Bangkok Bank Public Company Limited
Hang Seng Bank Limited

# FINANCIAL HIGHLIGHTS

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 (Restated) |
| Revenue | HK$'000 | **176,528** | 243,317 |
| Gross profit | HK$'000 | **103,125** | 133,318 |
| Loss before taxation | HK$'000 | **(354)** | (21,077) |
| Loss attributable to owners of the Company | HK$'000 | **(418)** | (21,172) |
| Gross profit margin | % | **58.4** | 54.8 |
| Loss margin attributable to owners of the Company | % | **(0.2)** | (8.7) |
| Loss per share — basic | HK$ | **(0.002)** | (0.106) |

| | As at | |
|---|---|---|
| | **30 June 2018** | 31 December 2017 |
| Current ratio | **3.0 times** | 1.6 times |
| Gearing ratio (total debt to total equity) | **20.5%** | 83.7% |
| Average trade receivables turnover period | **32.8 days** | 39.6 days |
| Average trade payables turnover period | **21.6 days** | 5.4 days |
| Average inventory turnover period | **359.9 days** | 300.7 days |

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of S. Culture International Holdings Limited ("S. Culture" or the "Company", together with its subsidiaries, the "Group"), I hereby present the Group's interim results for the six months ended 30 June 2018 (the "Period").

In the first half of 2018, according to the statistics from the Immigration Department of Hong Kong, visitor arrivals increased by 10.1% as compared with the even period of 2017. Meanwhile, as revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, the value of retail sales for footwear, allied products and other clothing accessories raised by 14.3% as compared with the even period of 2017. Taking advantage of the recovering tendency of retail market, we adjusted our brand portfolio and product mix and controlled discounts and promotional initiatives to lift our gross profit margin. Furthermore, we fine-tuned our retail outlet mix by closing down under-performing retail outlets, and downscaled our investment and loss-making operations in Taiwan, so as to improve efficiency and effectiveness of its retail operation.

In light of the above, the Group recorded a substantial decrease in loss attributable to owners of the Company for the Period by approximately 98.0%, as compared with the even period of 2017.

As mentioned in the annual report of 2017, the Board planned to diversify our business and explore investment opportunities in order to improve the performance of the Group and create better returns to our shareholders. In July 2018, the Company completed its acquisitions of the controlling interests in DSG Asset Management (Cayman) Company Limited ("DSG Holdings (Cayman)") and DSG Finance Holdings (Hong Kong) Limited ("DSG Holdings (HK)"), respectively, which are principally engaged in provision of financial services (the "DSG Transaction"); and will take steps to diversify into, inter alia, the business relating to distribution of healthcare products. The Board will continue to make great use of its intelligence and effort to achieve sustainable and optimal returns to our shareholders.

By Order of the Board

**S. Culture International Holdings Limited**
**Yang Jun**
*Chairman*

28 August 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operation Review

### Retail Operations

Revenue of the Group's retail business for the Period was HK$155.6 million, representing a 31.2% decrease from HK$226.2 million of the even period of 2017. We had recorded a same store sales decline of approximately 7.5% during the Period (30 June 2017: 10.8%). Despite the decrease in revenue of the Group's retail business, we had achieved a turnaround to profit of HK$0.6 million during the Period. This was mainly due to the improvement in operating results for (i) the retail business operations in Hong Kong and Macau attributable to the meticulous execution of both retail outlet mix optimisation and cost reduction strategies in the past year; (ii) the downsizing of our investment and operational exposure in Taiwan which had been in a loss-making position in the previous periods; and (iii) the picking up of the Hong Kong retail atmosphere in the past few months.

*Hong Kong*

Same as previous years, Hong Kong contributed the majority of sales as we had 51 retail outlets (31 December 2017: 57) in the locality as of the end of the Period. During the Period, we adjusted our brand portfolio and product mix and controlled discounts and promotional initiatives to lift our gross profit margin. To enhance our efficiency in operation and maintain the operating costs at a stable and reasonable level, we streamlined our workforce and continued our on-going practice of rationalising our retail network in Hong Kong. We regularly monitored the performance and productivity of each individual retail outlet, negotiated for better rental terms with landlord and closed the under-performing retail outlets. During the Period, we had operated 7 short-term lease promotion outlets to serve a wider base of customers and to reduce our aged and off-season inventories.

*Taiwan*

Taking into account the continuous loss-making position of business in Taiwan, we closed all retail outlets in Taiwan and maintained our Taiwan operation at a minimal scale until a due identification of other potential investment opportunities. In light of the downscaling strategy in Taiwan, we also completed our disposal of properties in Taiwan at a total consideration of NT$97.0 million. We are of the view that the downscaling strategy in Taiwan would improve the overall business performance and resource utilisation of the Group. The due disposal of properties had benefitted the Group by releasing bank borrowings which thus improved the liquidity and overall financial position of the Group.

*Macau*

The Group had maintained a comparable scale of its retail networks in Macau to reap the highest return amid the current level of economic conditions experienced in Macau. As at 30 June 2018, there were 2 retail outlets in Macau.

*Mainland China*

Given the rapid development of e-commerce and change in consumption pattern and behavior in the Mainland China market, together with the unsatisfactory performance of our retail and wholesale operations in the Mainland China, the management decided to downscale the Group's investment and operation there 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

During the Period, according to the statistics from the Immigration Department of Hong Kong, visitor arrivals increased by 10.1% as compared with the even period of 2017. Meanwhile, as revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, the value of retail sales for footwear, allied products and other clothing accessories raised by 14.3% as compared with the even period of 2017. It is our opinion that the retail market is under recovering tendency.

However, the recent trade war between the United States and China has brought uncertainties to the global economy. While continuing to optimise its operation of the existing retail and wholesale of footwear businesses, the Group is also actively diversifying its business and further exploring investment opportunities for performance improvement and risk management. On 27 July 2018, the Company completed the DSG Transaction. In addition, the Group will take steps to extend its business scope to distribution of healthcare and infant products.

The Group will strengthen its business operations and investments in the financial services and healthcare products and infant products distribution businesses so as to improve the performance of the Group and create better returns to our shareholders.

# Financial Review

## Revenue

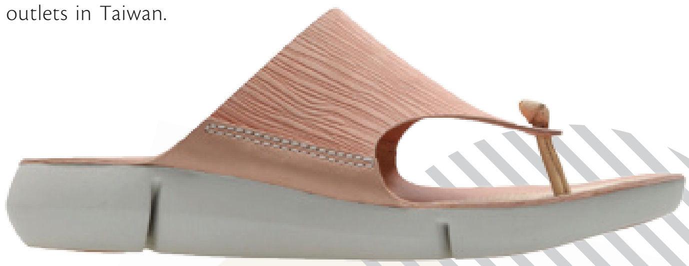
Revenue of the Group's business for the Period was HK$176.5 million, representing a 27.5% decrease from HK$243.3 million of the even period of 2017.

With regard to the sales of footwear products of the major brands under distribution agreements for the Period as compared with the even period of 2017, sales of "Clarks" footwear products had decreased by 24.2%, sales of "Josef Seibel" footwear products had decreased by 27.9%, sales of "The Flexx" footwear products had decreased by 59.7%, and sales of "Petite Jolie" had decreased by 92.8%, respectively.

As at 30 June 2018, the Group operated 51 retail outlets in Hong Kong and 2 retail outlets in Macau. As at the even date of 2017, the Group operated 63 retail outlets in Hong Kong, 2 retail outlets in Macau, 3 retail outlets in the Mainland China and 37 retail outlets in Taiwan.

## Cost of Goods Sold

Our cost of goods sold amounted to HK$73.4 million for the Period, representing 41.6% of revenue (30 June 2017: HK$110.0 million, representing 45.2% of revenue). The decrease in cost of goods sold was mainly due to the decrease in sales activities of the Group.



## Gross Profit

Gross profit (gross profit equals to revenue minus cost of goods sold) of the Group for the Period was HK$103.1 million, representing a decrease of 22.7% from HK$133.3 million of the even period of 2017. Gross profit margin of the Group for the Period was 58.4% (30 June 2017: 54.8%). Such increase in gross profit margin was predominately attributable to our controlled discounts and promotional activities.

## Staff Costs

Staff costs for the Period were HK$43.0 million, representing 24.4% of revenue (30 June 2017: HK$49.6 million, representing 20.4% of revenue). The decrease in staff costs was mainly due to the decrease in number of staff of the Group as compared to the even period of 2017.

## Depreciation

Depreciation accounted for 1.0% of revenue for the Period (30 June 2017: 2.0% of revenue).

## Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Period amounted to HK$46.8 million, representing 26.5% of revenue (30 June 2017: HK$78.3 million, representing 32.2% of revenue). The decrease in retail outlet rentals and related expenses was mainly due to the decrease in the number of our retail outlets during the Period. Our concession fees for the Period amounted to HK$16.0 million (30 June 2017: HK$25.9 million). Such decrease was mainly due to the decrease in the number of concession counters and the corresponding decrease in the sales made through these concessions, based on which part of the fees were charged.

## Finance Costs

Our finance costs for the Period amounted to HK$1.0 million (30 June 2017: HK$1.5 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 4.0% (30 June 2017: 1.9% to 2.8%).

## Loss Before Tax

As a result of the foregoing, our loss before tax for the Period was HK$0.35 million, representing a decrease of 98.3% from loss of HK$21.1 million of the even period of 2017.

## Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 30 June 2018, the Group had bank deposits and cash amounting to HK$52.5 million (31 December 2017: HK$24.3 million), representing an increase of 116.0% from 31 December 2017. Most bank deposits and cash were denominated in Hong Kong dollars. As at 30 June 2018, the Group had short-term bank borrowings amounting to HK$45.1 million (31 December 2017: HK$130.2 million), representing a decrease of 65.4% from 31 December 2017. As at 30 June 2018, the Group did not have any outstanding long-term bank borrowings, as compared to that with an amount of HK$8.8 million, comprising mainly mortgage for our office premises in Taiwan, as at 31 December 2017. During the Period, the Group disposed of its properties in Taiwan and hence settled the long-term bank borrowings with the proceeds thereof.

## Pledge of Assets

As at 30 June 2018 and 2017, 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 30 June 2017, bills receivables were pledged to secure the loans related to bills discounted with recourse (30 June 2018: nil).

## Investment Properties

The fair value of the Group's investment properties as at 30 June 2018 was HK$29.6 million. The fair value as at 30 June 2018 had been arrived at based on a valuation carried out on that date by ROMA Appraisals Limited, an independent valuer not connected with the Group and a member of Hong Kong Institute of Surveyors.

## Future Plans for Material Investments or Capital Assets

As disclosed in the paragraph headed "Prospects" above, the Group plans to strengthen its operation and investments in its new line of businesses, i.e. the financial services and healthcare and infant products distribution businesses.

## Treasury Policy

The Group adopts treasury policy that aims to better control its treasury operations and lowering its borrowing cost. As such, the Group endeavors to maintain an adequate level of cash and cash equivalents to address short-term funding needs. The Board also considers various funding sources depending on the Group's needs so as to ensure 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

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% equity interests each in DSG Holdings (Cayman) and DSG Holdings (HK), 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. The DSG Transaction was completed on 27 July 2018. Details of the DSG Transaction were disclosed in the announcements of the Company dated 19 January 2018 and 27 July 2018, respectively.

## Foreign Currency Risks

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

## Human Resources

As at 30 June 2018, the Group employed approximately 227 employees (31 December 2017: 325). Remuneration packages are generally structured with reference to market terms and individual qualifications and experience. During the Period, various training activities, such as training of product and service knowledge, management skills as well as local consumer laws, had been conducted to improve the quality of sales services.

## Dividends

The Board has resolved not to declare an interim dividend for the Period (2017: nil).

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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

## Introduction

We have reviewed the condensed consolidated financial statements of S. Culture International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 14 to 34, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

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

## Conclusion

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

28 August 2018

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2018*

| | NOTES | Six months ended 30.6.2018 HK$'000 (unaudited) | 30.6.2017 HK$'000 (unaudited and restated) |
|---|---|---|---|
| Revenue | 4 | **176,528** | 243,317 |
| Cost of goods sold | | **(73,403)** | (109,999) |
| Gross profit | | **103,125** | 133,318 |
| Other income | | **677** | 669 |
| Other gains and losses | 5 | **8,125** | 4,159 |
| Selling and distribution costs | | **(77,404)** | (115,852) |
| Administrative expenses | | **(33,928)** | (41,844) |
| Finance costs | | **(949)** | (1,527) |
| Loss before taxation | 6 | **(354)** | (21,077) |
| Taxation | 7 | **(64)** | (95) |
| Loss for the period | | **(418)** | (21,172) |
| Other comprehensive income | | | |
| Item that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **316** | 2,626 |
| Total comprehensive expense for the period | | **(102)** | (18,546) |
| Loss per share — basic (HK$) | 9 | **(0.002)** | (0.106) |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | NOTES | At 30.6.2018 HK$'000 (unaudited) | At 31.12.2017 HK$'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | **11,990** | 38,425 |
| Investment properties | 11 | **29,600** | 29,000 |
| Deferred tax assets | | **10,116** | 10,116 |
| Deposit and prepayment for a life insurance policy | | **1,870** | 1,868 |
| Rental deposits | | **8,753** | 6,136 |
| Deposit for acquisition of subsidiaries | 18(a) | **10,000** | — |
| | | **72,329** | 85,545 |
| Current assets | | | |
| Inventories | | **136,200** | 153,293 |
| Trade and other receivables | 12 | **32,837** | 72,163 |
| Taxation recoverable | | **2** | 313 |
| Bank balances and cash | | **52,521** | 24,287 |
| | | **221,560** | 250,056 |
| Current liabilities | | | |
| Trade and other payables | 14 | **28,167** | 26,032 |
| Amount due to a director | | **—** | 3,800 |
| Taxation payable | | **131** | 485 |
| Bank borrowings — due within one year | | **45,106** | 130,215 |
| | | **73,404** | 160,532 |
| Net current assets | | **148,156** | 89,524 |
| Total assets less current liabilities | | **220,485** | 175,069 |
| Non-current liabilities | | | |
| Bank borrowings — due after one year | | **—** | 8,842 |
| Net assets | | **220,485** | 166,227 |
| Capital and reserves | | | |
| Share capital | 15 | **2,140** | 2,000 |
| Reserves | | **218,345** | 164,227 |
| Total equity | | **220,485** | 166,227 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2018*

| | 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 31 December 2017 (audited) | **2,000** | **92,911** | **15,800** | **12** | **(459)** | **55,963** | **166,227** |
| Loss for the period | — | — | — | — | — | **(418)** | **(418)** |
| Exchanges difference arising on translation of foreign operations and other comprehensive income for the period | — | — | — | — | **316** | — | **316** |
| Total comprehensive income (expense) for the period | — | — | — | — | **316** | **(418)** | **(102)** |
| Placing of shares | **140** | **54,220** | — | — | — | — | **54,360** |
| At 30 June 2018 (unaudited) | **2,140** | **147,131** | **15,800** | **12** | **(143)** | **55,545** | **220,485** |
| At 1 January 2017 (audited) | **2,000** | **92,911** | **15,800** | **12** | **(2,311)** | **99,405** | **207,817** |
| Loss for the period (restated) | — | — | — | — | — | **(21,172)** | **(21,172)** |
| Exchanges difference arising on translation of foreign operations and other comprehensive income for the period | — | — | — | — | **2,626** | — | **2,626** |
| Total comprehensive income (expense) for the period | — | — | — | — | **2,626** | **(21,172)** | **(18,546)** |
| At 30 June 2017 (unaudited and restated) | **2,000** | **92,911** | **15,800** | **12** | **315** | **78,233** | **189,271** |

Notes:

(a) The special reserve of the Group represents the difference between the nominal amount of the share capital and share premium of Kong Tai Sundry Goods Company Limited ("Kong Tai Sundry Goods") and Grand Asian Limited, subsidiaries of the Company, and the nominal amount of share capital of the Company pursuant to a group reorganisation.

(b) As stipulated by the relevant laws and regulations in the Macau Special 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 period to a legal reserve until the legal reserve has reached 50% of its registered capital.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2018*

| | Six months ended | |
|---|---|---|
| | **30.6.2018** | 30.6.2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Net cash from operating activities | **50,582** | 31,797 |
| Net cash from (used in) investing activities | | |
| Net proceeds from disposal of property, plant and equipment | **33,034** | — |
| Interest received | **3** | 1 |
| Deposit paid for acquisition of subsidiaries | **(10,000)** | — |
| Purchase of property, plant and equipment | **(848)** | (1,276) |
| | **22,189** | (1,275) |
| Net cash used in financing activities | | |
| Net proceeds from issue of shares | **54,360** | — |
| New bank borrowings raised | **34,041** | 151,243 |
| Advance from a director | **1,000** | — |
| Repayment of bank borrowings | **(128,152)** | (186,381) |
| Repayment to a director | **(4,800)** | — |
| Interest paid | **(949)** | (1,527) |
| | **(44,500)** | (36,665) |
| Net increase (decrease) in cash and cash equivalents | **28,271** | (6,143) |
| Cash and cash equivalents at beginning of the period | **24,287** | 26,233 |
| Effect of foreign exchange rate changes | **(37)** | 349 |
| Cash and cash equivalents at end of the period, representing bank balances and cash | **52,521** | 20,439 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## 1. Basis of Preparation

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

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

## 2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values.

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRS"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

### Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC) — Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts" |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 — 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards which results in changes in accounting policies, amounts reported and/or disclosures as described below.

## 2. Principal Accounting Policies (Continued)

### 2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from trading of footwear products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018.

#### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

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

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

## 2. Principal Accounting Policies (Continued)

### 2.1 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (Continued)

#### 2.1.2 Summary of effects from initial application of HKFRS 15

The revenue of the Group is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from trading of footwear products is generally recognised when goods are delivered, which is the point of time when the customer has the ability to direct the use of products and obtain substantially all of the remaining benefits of the products. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

The application of HKFRS 15 has had no material impact on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening accumulated profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

## 2. Principal Accounting Policies (Continued)

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

#### 2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

*Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balance.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

## 2. Principal Accounting Policies (Continued)

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

#### 2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

*Impairment under ECL model (Continued)*

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

## 2. Principal Accounting Policies (Continued)

### 2.2 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments" (Continued)

#### 2.2.2 Summary of effects arising from initial application of HKFRS 9

*Impairment under ECL model*

In the current period, the Group has applied HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics, and there had been no significant increase in credit risk since initial recognition.

Loss allowance for other financial assets at amortised cost mainly comprise of other receivables and bank balances, and are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment allowance was recognised at 1 January 2018 and further assessment process is set out in note 13.

## 3. Summary of the Impact of Change in an Accounting Policy

In the preparation of consolidated financial statements for 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.

Accordingly, the comparative figures presented in the condensed consolidated statement of profit or loss and other comprehensive income and condensed consolidated statement of changes in equity of the Group for the six months ended 30 June 2017 have been restated.

## 3. 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 results for the preceding period by line items presented in the condensed consolidated statement of profit or loss and other comprehensive income are as follows:

| | Six months ended 30.6.2017 HK$'000 |
|---|---|
| **Impact on loss for the period** | |
| Decrease in administration expenses | 6 |
| Increase in other gains and losses | 3,700 |
| Net decrease in loss for the period | 3,706 |
| Decrease in loss for the period attributable to owners of the Company | 3,706 |
| Decrease in total comprehensive expense for the period attributable to owners of the Company | 3,706 |
| **Impact on basic loss per share** | |
| Basic loss per shares before adjustment | (0.124) |
| Adjustments arising from change in the accounting policy | 0.018 |
| Reported basic loss per share | (0.106) |

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

## 4. Revenue and Segment Information

Revenue represents amounts received or receivable from trading of footwear products, which is recognised at a point in time.

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

| | Six months ended | |
|---|---|---|
| | **30.6.2018** | 30.6.2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Hong Kong | **161,298** | 182,987 |
| Taiwan | **9,621** | 47,568 |
| Macau | **5,609** | 6,787 |
| Mainland China | **—** | 5,975 |
| | **176,528** | 243,317 |

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

## 4. Revenue and Segment Information (Continued)

The information of operating and reportable segments is as follows:

### Segment revenue and results

*For the six months ended 30 June 2018 (unaudited)*

| | Retail sales HK$'000 | Wholesale HK$'000 | Segment total HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales | **155,645** | **20,883** | **176,528** | **—** | **176,528** |
| Inter-segment sales | **—** | **65,829** | **65,829** | **(65,829)** | **—** |
| Segment revenue | **155,645** | **86,712** | **242,357** | **(65,829)** | **176,528** |
| Segment results | **1,069** | **(3,435)** | **(2,366)** | **—** | **(2,366)** |
| Unallocated income | | | | | **8,645** |
| Unallocated expenses | | | | | **(5,684)** |
| Finance costs | | | | | **(949)** |
| Loss before taxation | | | | | **(354)** |

*For the six months ended 30 June 2017 (unaudited and restated)*

| | Retail sales HK$'000 | Wholesale HK$'000 | Segment total HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales | 226,226 | 17,091 | 243,317 | — | 243,317 |
| Inter-segment sales | — | 99,662 | 99,662 | (99,662) | — |
| Segment revenue | 226,226 | 116,753 | 342,979 | (99,662) | 243,317 |
| Segment results | (17,855) | 541 | (17,314) | (2,067) | (19,381) |
| Unallocated income | | | | | 4,175 |
| Unallocated expenses | | | | | (4,344) |
| Finance costs | | | | | (1,527) |
| Loss before taxation | | | | | (21,077) |

*For the six months ended 30 June 2018*

## 4. Revenue and Segment Information (Continued)

### Segment revenue and results (Continued)

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the (loss) profit from each segment without allocation of central administration costs, change in fair value of investment properties, rental income, interest income, gain on disposal of property, plant and equipment, imputed interest income and 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.

## 5. Other Gains and Losses

| | Six months ended | |
|---|---|---|
| | **30.6.2018** | 30.6.2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Gain on disposal of property, plant and equipment | **7,568** | — |
| Change in fair value of investment properties | **600** | 3,700 |
| Net exchange (loss) gain | **(43)** | 459 |
| | **8,125** | 4,159 |

## 6. Loss Before Taxation

| | Six months ended | |
|---|---|---|
| | **30.6.2018** | 30.6.2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited and restated) |
| Loss before taxation has been arrived at after charging (crediting): | | |
| Operating lease rentals in respect of | | |
| — rented premises (minimum lease payments) | **1,700** | 1,444 |
| — retail stores (including in selling and distribution costs) | | |
| — minimum lease payments | **27,370** | 47,175 |
| — contingent rent (note) | **1,727** | 3,766 |
| | **29,097** | 50,941 |
| — department store counters (including concessionaire commission) (included in selling and distribution costs) | | |
| — minimum lease payments | **14,870** | 17,818 |
| — contingent rent (note) | **1,091** | 8,121 |
| | **15,961** | 25,939 |
| | **46,758** | 78,324 |
| Depreciation of property, plant and equipment | **1,725** | 4,804 |
| Premium charges on a life insurance policy | **13** | 13 |
| Staff costs, including directors' emoluments | **43,033** | 49,635 |
| Rental income | **(458)** | (458) |
| Interest income | **(3)** | (1) |
| Imputed interest income from deposit and prepayment for a life insurance policy | **(16)** | (16) |

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

## 7. Taxation

| | Six months ended | |
|---|---|---|
| | **30.6.2018** | 30.6.2017 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Current tax | | |
| Hong Kong Profits Tax | **—** | 1 |
| Macau Complementary Tax | **64** | 60 |
| People's Republic of China ("PRC") Enterprise Income Tax | **—** | 337 |
| | **64** | 398 |
| Overprovision in prior year | | |
| Macau complementary tax | **—** | (68) |
| Deferred taxation | **—** | (235) |
| | **64** | 95 |

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

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profit for the period. No provision for Hong Kong Profits Tax was made in the condensed consolidated financial statements for the six months ended 30 June 2018 as the subsidiaries operating in Hong Kong have no assessable profit for the period.

Taiwan income tax is calculated at 17% (six months ended 30 June 2017: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods in Taiwan for the period. No provision for Taiwan income tax has been made in the condensed consolidated financial statements as the branch operating in Taiwan has no assessable profits for both periods.

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (six months ended 30 June 2017: 9% to 12%) on the estimated assessable profit for the period.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% (six months ended 30 June 2017: 25%). No provision for PRC Enterprise Income Tax has been made in the condensed consolidated financial statements as the subsidiaries operating in the PRC had no assessable profits for the six months ended 30 June 2018.

## 8. Dividends

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2017: nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period.

## 9. Loss Per Share

The calculation of the basic loss per share for the six months ended 30 June 2018 is based on the loss for the period attributable to owners of the Company and the weighted average number of 209,436,464 (six months ended 30 June 2017: 200,000,000) ordinary shares in issue during the period.

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

## 10. Property, Plant and Equipment

During the six months ended 30 June 2018, the Group spent HK$848,000 (six months ended 30 June 2017: HK$1,276,000) on purchase of property, plant and equipment. During the six months ended 30 June 2018, the Group also disposed of certain property, plant and equipment with carrying amount of HK$25,563,000 at net consideration of HK$33,131,000, resulting in a gain on disposal of HK$7,568,000.

## 11. 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.

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

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.

The resulting increase in fair value of investment properties of HK$600,000 has been recognised directly in profit or loss for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$3,700,000).

## 12. Trade and Other Receivables

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

| | **At 30.6.2018 HK$'000 (unaudited)** | At 31.12.2017 HK$'000 (audited) |
|---|---|---|
| Within 30 days | **7,765** | 35,055 |
| 31 to 60 days | **2,692** | 8,916 |
| 61 to 90 days | **814** | 1,892 |
| Over 90 days | **4,504** | 1,736 |
| | **15,775** | 47,599 |

## 13. Impairment Assessment on Financial Assets Subject to ECL Model

The Group assessed the ECL for the trade receivables and other receivables with significant balance individually as at 1 January 2018 and 30 June 2018. No impairment allowance for trade receivables and other receivables were provided since the loss given default and exposure at default are low based on historical credit loss experience. The directors of the Company has also assessed all available forward looking information, including but not limited to expected growth rate of the industry and subsequent settlement, and concluded that there is no significant increase in credit risk.

For bank balances, no allowance for impairment was made since the directors of the Company consider the probability of default is negligible as such amounts are receivable from or placed in banks in Hong Kong, Mainland China and Taiwan having good reputation.

## 14. Trade and Other Payables

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

| | **At 30.6.2018 HK$'000 (unaudited)** | At 31.12.2017 HK$'000 (audited) |
|---|---|---|
| Within 30 days | **3,891** | 2,154 |
| 31 to 60 days | **7,948** | 1,670 |
| 61 to 90 days | **1,637** | — |
| Over 90 days | **42** | 15 |
| | **13,518** | 3,839 |

The average credit period of trade payables is 30 days.

## 15. Share Capital

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

| | **Number of shares** | **Amount** HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018 | 500,000,000 | 5,000 |
| Issued and fully paid: | | |
| At 1 January 2017, 30 June 2017 and 1 January 2018 | 200,000,000 | 2,000 |
| Placing of shares (note) | 14,000,000 | 140 |
| As at 30 June 2018 | 214,000,000 | 2,140 |

Note: On 1 March 2018, the Company issued 14,000,000 ordinary shares of HK$0.01 at HK$3.98 per shares by way of placing mainly to finance the acquisition of subsidiaries (see note 18) and future investment or new business development. All shares issued rank pari passu in all respects with the then existing shares.

## 16. Commitment

| | **At 30.6.2018 HK$'000 (unaudited)** | At 31.12.2017 HK$'000 (audited) |
|---|---|---|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of subsidiaries | **30,800** | — |

## 17. Related Party Transactions

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

| **Name of related companies** | **Nature of transactions** | **Six months ended 30.6.2018 HK$'000 (unaudited)** | Six months ended 30.6.2017 HK$'000 (unaudited) |
|---|---|---|---|
| Becking Investment Limited ("Becking Investment") (Note) | Rental expense | **N/A** | 241 |
| Mr. Chong Hok Shan | Rental expense | **N/A** | 235 |

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

### Compensation of key management personnel

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

| | **Six months ended 30.6.2018 HK$'000 (unaudited)** | Six months ended 30.6.2017 HK$'000 (unaudited) |
|---|---|---|
| Fees, salaries and allowance | **1,238** | 4,207 |
| Retirement benefit schemes contributions | **—** | 144 |
| | **1,238** | 4,351 |

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

## 18. Events after the end of the Reporting Period

(a) 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% equity interests each 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. As at 30 June 2018, a deposit of HK$10,000,000 was paid for the acquisitions. The acquisitions were completed on 27 July 2018. Details of the acquisitions were disclosed in the announcement of the Company dated 19 January 2018 and 27 July 2018, respectively.

(b) On 1 August 2018, an indirect wholly owned subsidiary of the Company, Shang Ying Health Holdings Limited ("SY Health"), entered into a loan agreement with Century Health Holdings Co., Limited ("Century Health"), pursuant to which SY Health has agreed to grant a secured loan to Century Health with a principal amount of AUD8,000,000 bearing interest at a rate of 2.5% per annum for a term of 3.5 years. The loan is embedded with a conversion option for SY Health to demand and require Century Health to issue its shares to SY Health up to a maximum of 40% equity interests in Century Health. Details of the arrangement were disclosed in the announcement of the Company dated 1 August 2018.

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

As at 30 June 2018, the interests of the directors of the Company in the shares or underlying shares or debentures of the Company and/or its associated corporations, which were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") of Appendix 10 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange, were as follows:

### (A) Long position in the 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 | 70.09% |
| Mr. Chu Chun Ho, Dominic | Person having a security interest in shares | 2 | 30,000,000 | 14.02% |

Notes:

(1) These shares were held by Shang Ying Financial Holding Co., Limited ("Shang Ying Financial"), 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) Mr. Chu Chun Ho, Dominic and Mr. Chong Hot Hoi (a former director of the Company) 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 30 June 2018.

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

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

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

+ The percentage represents the number of the associated corporation's shares interested divided by the number of the associated corporation's issued shares as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, none of the directors or chief executives of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2018, the following parties had interests of 5% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long position in the 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 | 70.09% |
| Great Wall X | Person having a security interest in shares | 2 | 119,993,617 | 56.07% |
| China Great Wall AMC | Interest held by controlled corporation | 2 | 119,993,617 | 56.07% |
| China Great Wall | Interest held by controlled corporations | 2 | 119,993,617 | 56.07% |
| Mr. Chong Hot Hoi | Person having a security interest in shares | 3 | 30,000,000 | 14.02% |

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) These shares held by Shang Ying Financial were pledged to Great Wall International Investment X Limited ("Great Wall X") to secure the repayment, obligations and responsibilities of a loan made by Great Wall X to Shang Ying Financial. Great Wall X 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 Great Wall X was wholly owned by China Great Wall AMC (International) Holdings Company Limited ("China Great Wall AMC"), which was in turn wholly owned by China Great Wall Asset Management Co., Ltd. ("China Great Wall"). Accordingly, China Great Wall and China Great Wall AMC were deemed to be interested in these shares of the Company which were deemed to be interested by Great Wall X pursuant to Part XV of the SFO.

(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 30 June 2018.

Save as disclosed above, as at 30 June 2018, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

## Share Option Scheme

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

The Board may, at its absolute discretion, grant an option to eligible participant(s) to subscribe for the shares of the Company at an exercise price and subject to the other terms of the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 20,000,000 shares, being 9.35% of the total number of shares in issue at the date of this report.

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

## Fund Raising — Placing

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) that 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 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.

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

The intended and actual use of proceeds from the Placing up to 30 June 2018 and the date of this report is set out as follows:

| **Purpose of the proceeds** | **Intended allocation of proceeds** | **Actual usage of proceeds up to** | | **Unutilised proceeds** |
|---|---|---|---|---|
| | | ***30 June 2018*** | ***the date of this report*** | |
| | *(Approx. HK$ million)* | *(Approx. HK$ million)* | *(Approx. HK$ million)* | *(Approx. HK$ million)* |
| Financing the DSG Transactions | 40.80 | 10.00 | 40.80 | Nil |
| General working capital (i.e. remuneration of directors and employees, legal and professional fees and other administrative expenses) | | 8.28 | 9.17 | |
| And | 13.56 | | | 4.39 |
| Financing future investment or new business development as and when opportunities arise | | Nil | Nil | (will be utilised as intended by 2018) |
| Total: | 54.36 | 18.28 | 49.97 | 4.39 |

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

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

## Corporate Governance

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

## Compliance with the Model Code for Securities Transactions by Directors

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

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

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

## Audit Committee

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

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

## Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at 30 June 2018 and the date of this report, the Company has maintained the prescribed minimum public float under the Listing Rules.

## Update on Director's Information

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of director of the Company is set out as follows:

- Mr. Lum Pak Sum retired as an independent non-executive director of Pearl Oriental Oil Limited (a company listed on the Stock Exchange, stock code: 632) on 29 June 2018.

## Publication of Interim Results Announcement and Interim Report

The interim results announcement of the Company has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.s-culture.com). This 2018 interim report, containing all the information required by the Listing Rules, has also been published on the above websites.

## Appreciation

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