# 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

# 2018
# ANNUAL REPORT

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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 year ended 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| Revenue | HK$'000 | **358,006** | 483,722 |
| Gross profit | HK$'000 | **220,507** | 252,842 |
| Profit (loss) before taxation | HK$'000 | **6,583** | (42,931) |
| Loss attributable to owners of the Company | HK$'000 | **(1,749)** | (43,442) |
| Gross profit margin | % | **61.6** | 52.3 |
| Loss margin attributable to owners of the Company | % | **(0.5)** | (9.0) |
| Loss per share — basic | HK$ | **(0.01)** | (0.22) |

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Current ratio | **2.4 times** | 1.6 times |
| Gearing ratio (total debt to total equity) | **20.0%** | 83.7% |
| Average trade receivables turnover period | **34.9 days** | 39.6 days |
| Average trade payables turnover period | **20.1 days** | 5.4 days |
| Average inventory turnover period | **389.2 days** | 300.7 days |


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# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present 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 2018 (the "Year").

In 2018, according to the statistics from the Immigration Department of the Government of Hong Kong (the "Immigration Department"), visitor arrivals increased by 14.8% as compared with the even year 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 10.5% as compared with the even year of 2017. Taking advantage of the recovering tendency of the retail market, we adjusted our brand portfolio and product mix and controlled discounts and promotional initiatives to improve our gross profit margin. Furthermore, we fine-tuned our retail outlet mix by closing under-performing retail outlets and downscaled our investment and loss-making operations in Taiwan, in order to improve efficiency and effectiveness in retail operation.

In addition, to diversify the Group's business operations and broaden its source of revenue, the Group acquired controlling interests in DSG Asset Management (Cayman) Company Limited ("DSG Cayman") and DSG Finance Holdings (Hong Kong) Limited ("DSG Finance Group", and together with DSG Cayman, collectively referred to as "DSG Group"), which are principally engaged in the provision of financial services, in July 2018. Furthermore, taking advantage of the huge market opportunities of healthcare business in China, and making effective use of Australia's natural location and supply advantages, the Group expanded into the healthcare industry in the second half of 2018 by collaborating with parties with proven track record in this industry in Australia.

In light of above, the Group recorded a net profit for the Year amounting to HK$6.1 million as compared to a net loss amounting to HK$43.4 million for the even year of 2017.

I, together with other members of the Board, will continue to contribute our 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 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

### Principal Risks and Uncertainties

The Group's principal business activities are the trading of footwear products and healthcare products and the provision of financial services, and the business performance and profitability for the Year were affected by the volatility and uncertainty of macro-economic conditions in Hong Kong, Macau, Mainland China and Australia. The Group was also exposed to a variety of key business risks and financial risks.

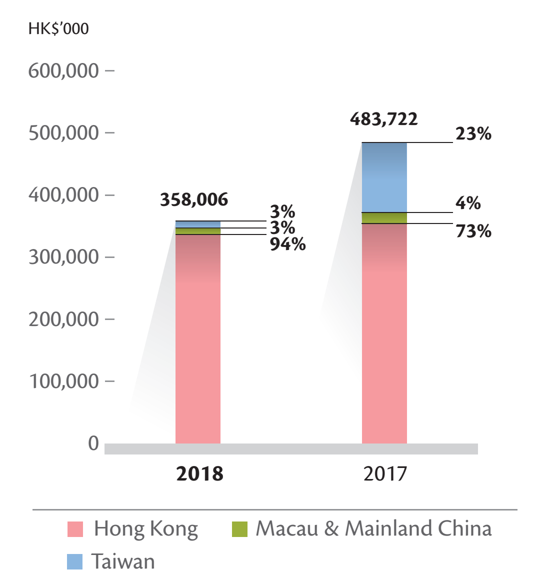
With regard to footwear business, the main risks included our heavy dependence on a single major supplier, risk of excessive and obsolete inventory and risks relating to the commercial real estate rental market, including the unpredictable rental fluctuation and ability to secure existing retail outlets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

With regard to healthcare business, the main risks included uncertainty of regulations and policies of cross-border transactions with Mainland China.

With regard to financial services business, the main risks included uncertainty of capital markets in Hong Kong and Mainland China.

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 section headed "Foreign Currency Risk" below and note 39 "Financial Instruments" to the consolidated financial statements of this annual report.


Revenue by Geographical Location



## Operation Review and Future Development

To diversify the Group's business operations and broaden its source of revenue, the Group acquired controlling interests in the DSG Group, which are principally engaged in the provision of financial services, during the Year. In addition, in view of the increasing demand for Australian health products in the PRC, the Group has also expanded its business to engage in, inter alia, the distribution of healthcare products to capture a share in China's growing health and wellness market. Therefore, during the Year, the Group's revenue was contributed by a combination of its footwear business, healthcare business and the provision of financial services business. Please refer to the paragraph headed "Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Ventures" below for further details.

### Footwear Business

Revenue of the Group's footwear business for the Year was HK$337.9 million, representing a 30.1% decrease from HK$483.7 million of the even year of 2017. We had recorded a same store sales decline of approximately 2.0% during the Year (2017: 10.6%). Despite the decrease in revenue of the Group's footwear business, we had achieved a turnaround with a segment profit of HK$1.6 million during the Year. 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; and (ii) the downsizing of our investment and operational exposure in Taiwan which had been in a loss-making position in the previous years.

### Healthcare Business

According to the report 'From Insight to Action: Capturing a Share of China's Consumer Health Market' released by the Boston Consulting Group (BCG) in February 2014, China's health market is expected to rapidly reach to nearly RMB400 billion by 2020 due to the increasing health consciousness of the Chinese consumer. Taking advantage of this huge market opportunity and making effective use of Australia's natural location and supply advantages, the Group expanded its business to the healthcare industry in the second half of 2018 by collaborating with parties with proven track record in this industry — Sixth Avenue Group Holdings Pty Ltd ("Sixth Avenue GH") through direct investment as a minority shareholder in Century Health Holdings Co., Limited ("Century Health"). For further details, please refer to the announcement of Company dated 1 August 2018 and the "Advance to Entity" section below.

Revenue of the Group's healthcare business for the Year was HK$1.1 million (2017: Nil), while segment loss for the Year was HK$0.3 million, which was mainly due to the short operation period of the healthcare business and the offset by the initial set up costs and share-based payment expenses.

### Financial Services Business

On 27 July 2018, the Group completed the acquisition of 51% equity interests in the DSG Group. The DSG Group's operating revenue derives from: (i) advisory services in securities; (ii) investment management services; and (iii) advisory services in corporate finance. During the Year, the DSG Group recorded revenue and a segment profit in the amount of HK$18.9 million and HK$16.4 million, respectively, which was mainly contributed by the investment management services.

### Prospects

In 2018, according to the statistics from the Immigration Department, visitor arrivals increased by 14.8% as compared with the even year 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 10.5% as compared with the even year of 2017. It is our opinion that the retail market is under a recovering tendency. However, the Sino-US trade conflict has brought the global economy with great uncertainty. The Group will face operational pressure from traditional footwear business, and will cautiously run this business segment.

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We are optimistic about the growth potential of our financial services business in 2019. In the forthcoming year, we will focus on developing cross-border financial advisory and asset management under our investment management services, and will continue to expand our advisory services business in corporate finance. In view of our forthcoming focus in the asset management business, we will further strengthen our products and services to capture opportunities in cross-border investments and asset management, driven by the increasing demand from Chinese corporates and high net worth individuals for overseas asset allocation services. Meanwhile, we will further enhance our business cooperation with other business units of the Group to achieve synergy and sustainable growth.

With regard to our healthcare business, there will be huge room for development as the demand for healthcare products will seldom be affected by economic uncertainty. The Group plans to expand its healthcare business from Australia to other markets to increase this segment's revenue and profit as and when appropriate.

The Group will continue to integrate the businesses of footwear, financial services and healthcare to rationalise our structure of business segments, and will continue to look for strategic partnerships in the health related sector to build up a healthy business ecosystem, and create substantial value to our shareholders.

## Financial Review

### Revenue

Revenue of the Group's businesses for the Year was HK$358.0 million, representing a 26.0% decrease from HK$483.7 million for the even year of 2017. The decrease of revenue was mainly due to the decrease of revenue of the footwear business in the amount of HK$145.8 million, which was netted off by the new sources of revenue from the healthcare business and the provision of financial services business.

**Revenue from footwear business**

Revenue of the Group's footwear business for the Year was HK$337.9 million, representing a 30.1% decrease from HK$483.7 million for the even year of 2017.

With regard to the sales of the major brands under distribution agreements for the Year as compared with the even year of 2017, sales of "Clarks" footwear products had decreased by 28.8%, sales of "Josef Seibel" footwear products had decreased by 19.6%, sales of "The Flexx" footwear products had decreased by 65.5% and sales of "Petite Jolie" footwear products had decreased by 92.0%, respectively.

As at 31 December 2018, the Group operated 47 retail outlets in Hong Kong (2017: 57) and 2 retail outlets in Macau (2017: 2).

**Revenue from the provision of financial services**

Revenue of the Group's financial services for the Year was HK$18.9 million (2017: Nil), which was mainly contributed by the provision of investment management services.

**Revenue from healthcare business**

Revenue of the Group's healthcare business for the Year was HK$1.1 million (2017: Nil), as the sales only contributed to the Group's revenue since October 2018.

With regard to the sales of the major brands under distribution agreements for the Year, sales of "AXS" supplement products, "Metamucil" supplement products and other brands supplement products represented approximately 59.9%, 11.6%, and 28.5% of revenue from the healthcare business, respectively.

## Cost of Goods Sold

Our cost of goods sold amounted to HK$137.5 million for the Year, representing 38.4% of the Group's revenue (2017: HK$230.9 million, representing 47.7% of the Group's revenue). The decrease in cost of goods sold was mainly due to the overall decrease in footwear sales activities of the Group.

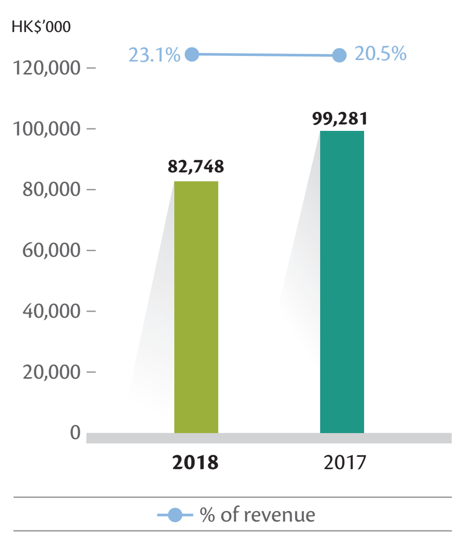
## Gross Profit

The gross profit (gross profit equals to revenue minus cost of goods sold) of the Group for the Year was HK$220.5 million, representing a decrease of 12.8% from HK$252.8 million of the year of 2017. Gross profit margin of the Group for the Year was 61.6% (2017: 52.3%). Such increase in gross profit margin was predominately attributable to our controlled discounts and promotional activities of the footwear business and the higher profit margin business from the provision of financial services.

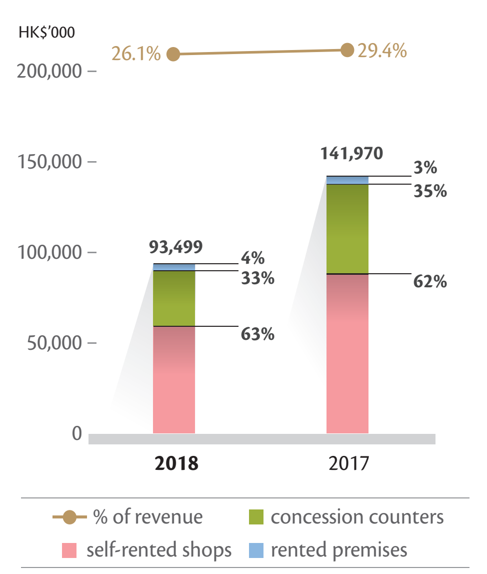
## Depreciation

Depreciation accounted for 1.0% of revenue for the Year (2017: 1.7%).

## Staff Costs




## Retail Outlet Rentals and Related Expenses



## Staff Costs

Staff costs for the Year were HK$82.7 million, representing 23.1% of the Group's revenue (2017: HK$99.3 million, representing 20.5% of the Group's revenue). The decrease in staff costs was mainly due to the decrease in the number of staff of the Group as compared to the even year of 2017.

## Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Year amounted to HK$93.5 million, representing 26.1% of the Group's revenue (2017: HK$142.0 million, representing 29.4% of the Group's 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$30.7 million (2017: HK$49.7 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.

## Finance Costs

Our finance costs for the Year amounted to HK$1.6 million (2017: HK$3.2 million). The finance costs were mainly interest expenses incurred from mortgage facilities for the Group's office premises in Taiwan and trade-related financing facilities entered into with banks. The effective interest rates on the Group's borrowings ranged from 2.5% to 2.9% (2017: 1.5% to 2.8%).

## Profit (Loss) Before Tax

As a result of the foregoing, our profit before tax for the Year was HK$6.6 million, as compared to loss before tax of HK$42.9 million for the year ended 31 December 2017.

## Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 31 December 2018, the Group had bank deposits and cash amounting to HK$28.8 million (2017: HK$24.3 million), representing an increase of 18.5% from 31 December 2017. Most bank deposits and cash were denominated in Hong Kong dollars. As at 31 December 2018, the Group had short-term bank borrowings amounting to HK$47.4 million (2017: HK$130.2 million), representing a decrease of 63.6% from 31 December 2017. As at 31 December 2018, the Group did not have any outstanding long-term bank borrowings, as compared to an amount of HK$8.8 million, comprising mainly mortgage facilities for our office premises in Taiwan, as at 31 December 2017. As disclosed above, during the Year, the Group disposed of its properties in Taiwan and hence settled the long-term bank borrowings with the proceeds thereof.

## Pledge of Asset

As at 31 December 2018, land and real estate properties, investment properties classified as held for sale of a subsidiary of the Company and deposit and prepayment of a life insurance policy were pledged to secure the bank borrowings and banking facilities granted to the Group.

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

## Gearing Ratio

As at 31 December 2018, the Group's gearing ratio (total debt to total equity) was 20.0% (2017: 83.7%). The lower gearing ratio was mainly attributable to the Group not having any outstanding long-term bank borrowings, as compared to an amount of HK$8.8 million, comprising mainly mortgage facilities for our office premises in Taiwan, as at 31 December 2017.

## Assets Classified as Held for Sale and Investment Properties

On 30 November 2018, the Group (as the vendor) entered into sale and purchase agreements with independent third parties to dispose of the investment properties with completion expected to take place on or before 1 September 2019. Therefore, the investment properties were classified as held for sale. The fair value of the Group's investment properties classified as held for sale as at 31 December 2018 was HK$29.7 million. 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 2018 was arrived based on a valuation carried out on that date by ROMA Appraisals Limited (a member of Hong Kong Institute of Surveyors), an independent valuer not connected with the Group.

## Advance to Entity

On 1 August 2018, Shang Ying Health Holdings Limited (an indirect wholly-owned subsidiary of the Company) ("SY Health"), as lender, entered into a loan agreement (the "Loan Agreement") with Century Health, as borrower, pursuant to which SY Health had 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"), for the purpose of funding the health products business of Century Health and its subsidiaries (the "CH Group"). The Loan will be secured by: (a) a first ranking security over all assets of Century Health; (b) a first ranking security over 90% of the entire issued share capital of Century Health held by Sixth Avenue GH; and (c) personal guarantees held by certain key individuals of CH Group. For further details, please refer to the announcement of the Company dated 1 August 2018. As of 31 December 2018, part of the Loan in the principal amount of AUD100,000 had been advanced to Century Health and the remaining amount of the Loan is expected to be advanced in 2019.

## Future Plans for Material Investments or Capital Assets

As disclosed in the paragraph headed "Prospects" above, the Group will continue its business integration and look for strategic partnerships in the health related sector to build up a healthy business ecosystem.

## Treasury Policy

The Group adopts a treasury policy that aims to better control its treasury operations and lower borrowing costs. 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

On 19 January 2018, Shang Ying Capital Limited (a direct wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with independent third parties to acquire 51% equity interests in the DSG Group at a total cash consideration of HK$40,800,000, which was subject to adjustment based on the acquirees' aggregated net profits as shown in their audited consolidated financial statements for the Year (the "DSG Transaction"). DSG Cayman is an investment fund manager and engaged in the provision of financial services and DSG Finance Group is principally engaged in the 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 Risk

The Group's sales and purchases for the Year were mostly denominated in Hong Kong dollars, Renminbi, Macau Pataca, New Taiwan dollars, Euros, US and Australian dollars. The Renminbi is not a freely convertible currency, and 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 geopolitical 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 also have an impact on the Group's results.

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 2018.

## Human Resources

As at 31 December 2018, the Group employed 227 employees (2017: 325). 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 were 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 (2017: Nil).

## Total Shareholder Return

Total shareholder return ("TSR") is calculated based on capital gains and dividends of the Shares. The Company had a TSR of approximately negative 28.4% for the Year (2017: negative 6.02%).

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 our fiscal year ended 31 December 2018 (the "Reporting Period").

## Reporting Scope

This report covers the Group's principal business in trading of footwear products, which includes all Hong Kong retail shops and concession counters operated by the Group, while excluding those that are beyond our direct control. The report includes only material ESG issues which have been identified by S. Culture though materiality assessment and were directly controllable by the Group.

## ESG Working Group

Our Group is committed to fulfilling stakeholders' expectations on our ESG practices. The Board has the overall responsibility for the Group's ESG strategy and reporting, and is responsible for ensuring that appropriate and effective ESG risk management and internal control systems are in place.

To further raise awareness of environmental protection and drive behavioural changes among employees, we have established the ESG Taskforce with representatives from different functions, including finance, human resources and retail shops, with endorsement from the Board. Our ESG Taskforce monitors issues that are material to the Group's operations. In addition, our ESG Taskforce evaluates the impact, efficiency and effectiveness of policies that are already in place, and takes remedial actions if the ESG policies are not properly implemented. ESG risks in our operations are covered by the Group's comprehensive risk management and internal control systems as described in the "Risk Management and Internal Control" section of the "Corporate Governance Report". As part of the Group's internal control systems, an independent professional consultant has been engaged for ongoing assessment of the risk management and internal control systems so as to identify any significant deficiencies and provide recommendations for improvement accordingly.

## Stakeholder Engagement

With the aim to achieve sustainable development, it is essential to understand our stakeholder's expectations and concerns. In order to identify key ESG matters of the Group, we have engaged with our internal and external stakeholders and provided updates on recent developments through diverse engagement channels. The table below highlights our key stakeholders and our communication channels:

| Major stakeholder groups | Key engagement channels and frequencies |
|---|---|
| Shareholders and investors | • Annual general meeting and notices<br>• Regular corporate publications including financial statements<br>• Circulars and announcements whenever necessary<br>• Company websites<br>• Enquires and suggestions mailed to Company's principal place of business<br>• Meetings and responses to phone and written enquiries on a need basis |
| Government bodies | • Verbal and written communications on a need basis |
| Media | • Company website |
| Employees | • Weekly business and operational meetings<br>• Monthly group meeting<br>• Internal meetings whenever needed<br>• Regular email communication |
| Customer | • Customer service hotline<br>• Marketing and promotion activities<br>• Company website |
| Suppliers/business partners | • Regular communication meeting<br>• Site visit<br>• Cooperation agreement |
| Community and general public | • Charity activities<br>• Community activities |
| Board members | • Board and committee meetings |

## Materiality Assessment

According to the results from the stakeholder engagement exercise, we have performed a materiality assessment to identify relevant ESG issues and assess their materiality to our businesses as well as to our stakeholders. The materiality assessment process is set out as follows:

- Identification of potential issues: Initial screening of related issues with reference to the ESG Guide and benchmarking suitable peers' material ESG issues.

- Stakeholder engagement: Internal and external stakeholders have been invited to provide rating and comments to each ESG issue via questionnaires and established engagement channels.

- Prioritisation: The results from issues identification and stakeholder engagement have been consolidated and considered to assess and prioritise ESG risks.

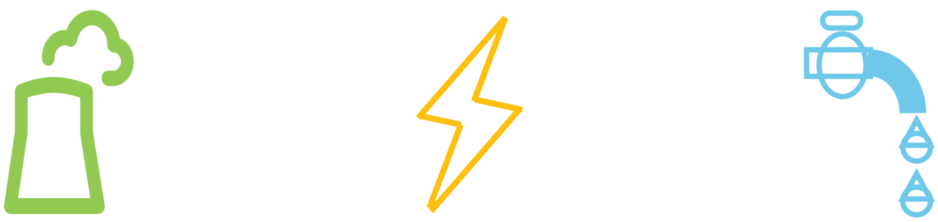
- Validation: Our ESG Taskforce has validated and confirmed the key material ESG issues, and how they link to the respective Aspects and KPIs of the ESG Guide.

The table below lists out the ESG issues which were determined to be material to the Group during the Reporting Period:

| Aspect in the ESG Guide | Material ESG issues |
|---|---|
| **A. Environmental** | |
| **A1. Emissions** | • Greenhouse gas emissions |
| **A2. Use of resources** | • Use of energy |
| | • Use of water |
| | • Packaging materials |
| **A3. The environment and natural resources** | • Environmental impact management |
| **B. Social** | |
| **B1. Employment** | • Labour practices |
| **B2. Health & safety** | • Workplace health and safety |
| **B3. Development and training** | • Employee development and training |
| **B4. Labour standards** | • Prevention of child and forced labour |
| **B5. Supply chain management** | • Responsible procurement |
| **B6. Product responsibility** | • Product and service responsibility |
| | • Customer services |
| | • Data privacy policy |
| **B7. Anti-corruption** | • Anti-corruption and whistle-blowing channels |
| **B8. Community investment** | • Contributions to local communities |
| | • Awards and recognition |

## Conserve and Protect Our Environment

### Key highlights



**$CO_2$e reduced by 30%**

**Electricity consumption dropped by 28%**

**Water usage cut by over 70%**

With the increasing public awareness to environmental issues due to the prominence of climate change and extreme weather, the Group attaches much importance to environment-friendly practices by advocating green culture in the corporate landscape. In this regard, the Group focuses on controlling the impact of its operations 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 the Group's internal management and daily operational activities so as to achieve the goal of sustainable development, and has continuously assessed and controlled the potential impact of its activities on the environment.

Due to the retail nature of the Group's business, we do not generate significant amount of emissions nor consume significant amount of resources. As such, there are no environment-related laws and regulations that have a material impact on the Group. During the Reporting Period, the Group did not note any cases of non-compliance relating to the environmental laws and regulations in Hong Kong.

## Emissions

For the footwear trading business, the Group's operations involve the procurement of footwear products for retailing. It did not generate significant air emissions, water discharge nor hazardous waste during the Reporting Period, with only a limited amount of non-hazardous waste from administrative and selling activities. Therefore, disclosures in relation to air emissions, water discharge and hazardous waste are considered inapplicable.

The Group is committed to reducing the amount of waste generated from its operations and business activities. The Group encourages recycling in its daily operations, and has implemented proper waste handling measures. The Group has been gradually adopting an electronic work platform 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 have been adopted to replace the circulation of printed notices.

### 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 399.88[1] tonnes (2017: 580.49 tonnes), with an intensity of 9.78kg $CO_2$e/square feet of shop floor area (2017: 13.36 kg $CO_2$e/square feet). We regularly monitor our carbon footprint and have implemented a wide range of energy saving measures to reduce the corresponding emissions. We have achieved approximately 31% decrease in the greenhouse gas emission during the Reporting Period. Please refer to the "Use of Energy" section below for our energy consumption data and reduction initiatives.

## Use of Resources

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

### Use of Energy

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

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 741,664 kWh (2017: 1,035,299 kWh), with an intensity of 18.13 kWh (2017: 23.83 kWh) per square feet. Owing to our continuous efforts to achieve higher energy efficiency, we have saved approximately 28% of electricity during the Reporting Period.

### Use of Water

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

1 Carbon emission is calculated based on the Reporting Guidance on Environmental KPIs issued by the Stock Exchange.

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

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. As a result, there was a significant reduction in our water consumption of over 70% during the Reporting Period.

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 245 $m^3$ (2017: 931 $m^3$), with an intensity of 0.006 $m^3$ (2017: 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 the trading of footwear products, our only packaging material is non-woven shopping bags for our retail customers, which was about 3.27 tonnes (2017: 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.

## The Environment and Natural Resources

Besides from matter relating to emissions and the use of resources as 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.

Apart from the aforesaid internal environment-friendly 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.

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 environment-friendly materials, conduct renovation work in accordance with the Noise Control Ordinance (Cap. 400 of the Laws of Hong Kong), and dispose of the construction waste properly in the process of renovation in accordance with the Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong).

To further raise awareness of environmental protection and drive behavioural changes among employees, we have established the ESG Taskforce with representatives from different functions, including finance, human resources and retails shops, with endorsement from the Board. We will continue to broaden the scope of our green agenda in order to uphold our environmental commitment.

[3] The above statistics include water which was 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.

## Respect and treasure our employees

### Employment

S. Culture recognises that employees are important assets to our Group. 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 Group's business. We also aim to promote workforce diversity, in terms of age, gender and nationality, as well as a culture of equal opportunity.

We strictly comply with the relevant employment laws and regulations including the Employment Ordinance (Cap. 57 of the Laws of Hong Kong) (the "Employment Ordinance"), Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong), Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong), Sex Discrimination Ordinance (Cap. 480 of the Laws of Hong Kong), Disability Discrimination Ordinance (Cap. 487 of the Laws of Hong Kong), Family Status Discrimination Ordinance (Cap. 527 of the Laws of Hong Kong) and Race Discrimination Ordinance (Cap. 602 of the Laws of Hong Kong). Furthermore, the Group has established staff handbooks and properly 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. The Human Resources Department is responsible for ensuring the employment-related processes and procedures are conducted in accordance with the established policies, thereby complying with the aforementioned laws and regulations.

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

As at 31 December 2018, the Group employed 227 employees (2017: 325).

### Health and Safety

The Group places strong emphasis on the health and safety of our staff. The Group has implemented internal guidelines and reporting systems for occupational health and 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.

During the Reporting Period, there were no incidents of serious injuries or accidents, and there were no material non-compliance cases noted in relation to the Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong).

Other than the risks related to their physical health, the Group considers that the mental health of our staff is equally 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.

### 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.

### Labour Standards

The Group strictly prohibits child and forced labour. We adopt a comprehensive screening and recruitment 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, including but not limited to the Employment Ordinance during the Reporting Period.

## Sustainable and ethical business practices

### 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.

### 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 accurate, clear and open. Furthermore, the Group upholds the principle of ethical selling by ensuring the truthfulness and fairness of the information on marketing material with regular and adequate reviews, in order to comply with the Trade Description Ordinance (Cap. 362 of the Laws of Hong Kong). The Group has established its Customer Right Policy to govern customer rights, health and safety relating to our products and services, with proper return and recall procedures for defective products.

**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. Our effective follow-up mechanism helps ensure customer complaints will not be left unattended.

**Data Privacy Policy**

We put personal data privacy as our top priority and strictly comply with the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong). 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 and data privacy as required by related laws and regulations during the Reporting Period.

### 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 (the "Code of Conducts"). Other than the anti-bribery and anti-corruption policies as stated in the Code of Conducts, the Group has established whistle-blowing channels and performed regular evaluations on the effectiveness of its internal control system so as to detect and prevent any cases of fraudulent activities, in an effort to abide by relevant regulations including but not limited to the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong).

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.

## Caring for our community

### 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. During the Reporting Period:

- S. Culture supported the Community Chest BEA Golf Day 2018; and
- S. Culture donated and sponsored over HK$1.4 million to the charity fund of The Community Chest of Hong Kong, Hong Kong St. John Ambulance, We R Family Foundation Limited, Scout Association of Hong Kong and other associations and institutions.

**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 2017/18, 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 39, 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. Mr. Yang is the chairman and the controlling shareholder of Shang Yang Holdings Group Limited ("Shang Yang Holdings"). 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 general manager of Shangying Global since December 2018, a director of Shangying Global since January 2019 and a director of Etong Technology since March 2013. Mr. Yang is a director of Shang Ying International Holding Co., Ltd. and Shang Ying Financial Holding Co., Limited (substantial shareholders of the Company).

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 39, 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 Fellow of CPA Australia, and is a member of each of The Chinese Institute of Certified Public Accountants, Chartered Professional Accountants of Canada and Institute of Directors. 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, 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 50, 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 59, 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 29 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). He was an executive director from August 2013 to 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 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 of the Stock Exchange ("GEM"), stock code: 8001) from February 2009 to May 2016. He was an executive director of China Assurance Finance Group Limited (a company listed on GEM, stock code: 8090) from December 2017 to March 2019.

**Mr. Lin Jun**, aged 40, 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 47, was an executive Director from May 2013 to July 2017 and has been re-designated a non-executive Director since July 2017. Mr. Chu has joined the Group for 20 years. He is currently a director of each of Kong Tai Sundry Goods Company Limited, Grand Asian Limited, Cobblers Limited, Shoe Mart Company Limited, Advertiser's Media Agency Limited, Cobblers (Hong Kong) Trading Company Limited and Shoes Culture (Hong Kong) Trading Company Limited, and an administrator of Shoes Culture Company Limited (all are the subsidiaries of the Company).

Mr. 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 68, 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 Canature Health Technology Group Co., Ltd (formerly known as 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 55, has been an independent non-executive Director since June 2017. He is also the chairman of the Remuneration Committee, and a member of each of 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 58, 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 |
| 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 |
| Beautiful China Holdings Company Limited (stock code: 706) | Independent non-executive director | January 2014 to August 2018 |
| Pearl Oriental Oil Limited (stock code: 632) | Independent non-executive director | December 2017 to April 2018 |
| Roma Group Limited (stock code: 8072) | Chief executive officer | June 2017 to 1 October 2017 |

## Company Secretary

**Ms. So Yee Kwan**, aged 37, was appointed as our company secretary (the "Company Secretary") in July 2017. Ms. So is a Senior 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 14 years. Ms. So is a Chartered Secretary and a Fellow 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 was 11 July 2013).

The Board considers that during the Year, 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.

## 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. Yang Jun *(Chairman)* | Mr. Law Fei Shing | Mr. Xie Rongxing (Note 2) |
| Mr. Lin Zheming | Mr. Lin Jun | Mr. Chen Huigang (Note 2) |
| Mr. Zhu Fangming | Mr. Chu Chun Ho, Dominic | Mr. Lum Pak Sum (Note 2) |
| Total number: 3 | Total number: 3 | Total number: 3 (Note 1) |
| % to total Directors: 33.3% | % to total Directors: 33.3% | % to total Directors: 33.3% (Note 3) |

Notes:

1. Minimum number of independent non-executive Directors: 3 (pursuant to Listing Rule 3.10(1))

2. Independent non-executive Director having accounting expertise (pursuant to Listing Rule 3.10(2))

3. Independent non-executive Directors represent 1/3 of the Board (pursuant to Listing Rule 3.10A)

The Board includes a balanced composition of executive and non-executive Directors (including independent non-executive Directors) and one-third of the Directors are independent non-executive Directors so that there is a strong independent element 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 in the section headed “Directors and Secretary” 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 the Board committees of the Company (the “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 the 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, being Mr. Yang Jun, 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, 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. Lin Zheming is temporarily taking up the responsibility of Chief Executive Officer. The Board is still identifying a 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.

The independent non-executive Directors and 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 their independence 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 an initial term of three years and renewable automatically for successive terms of one year until terminated by the non-executive Director or the Company by giving not less than three months' written notice. Each of the Directors is subject to retirement and re-election at least once every three years 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 Board Committees, provide effective means for the Board and Board Committees to perform their work and discharge their duties.

During the Year, seven Board meetings, two Audit Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting and one general meeting were held. Details of individual Directors' attendance at these meetings are set out in the following table:

| **Directors** | **Board Meeting** | **Audit Committee Meeting** | **Remuneration Committee Meeting** | **Nomination Committee Meeting** | **2018 Annual General Meeting** |
|---|---|---|---|---|---|
| *Executive Directors* | | | | | |
| Mr. Yang Jun | 7/7 | — | 1/1 | 1/1 | 1/1 |
| Mr. Lin Zheming | 7/7 | — | — | — | 1/1 |
| Mr. Zhu Fangming | 7/7 | — | — | — | 1/1 |
| *Non-executive Directors* | | | | | |
| Mr. Law Fei Shing | 7/7 | — | — | — | 1/1 |
| Mr. Lin Jun | 7/7 | — | — | — | 1/1 |
| Mr. Chu Chun Ho, Dominic | 7/7 | — | — | — | 1/1 |
| *Independent non-executive Directors* | | | | | |
| Mr. Xie Rongxing | 7/7 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. Chen Huigang | 7/7 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. Lum Pak Sum | 7/7 | 2/2 | — | — | 1/1 |

## Board Committees

The Board has proper delegation of its powers and has established four Board Committees, namely the Executive Committee, the Audit Committee, the Remuneration Committee and the 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 auditor 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 *(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 *(Chairman)* |
| Mr. Xie Rongxing |
| Mr. Chen Huigang |
| Total number of members: 3<br>% of Independent Non-executive Directors: 100%<br>Minimum number of meetings per year: 2<br>In attendance: Representatives from the 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 Companies Ordinance (Cap. 622 of the Laws of Hong Kong)) 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, the Audit Committee has 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 2017, with recommendations to the Board for approval;

— noted and considered the major audit findings related to the 2017 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 2018, 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;

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

— reviewed the Company's corporate governance compliance matters.

The attendance records of each committee member at the Audit Committee meeting held during the Year are set out in the above section headed "Directors' Attendance Records".

There was 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 *(Chairman)* |
| Mr. Xie Rongxing |
| Total number of members: 3<br>% of Independent Non-executive Directors: 66.7%<br>Minimum number of meetings per year: 1<br>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, the Remuneration Committee has 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 Code Provision B.1.2(c)(ii) of the CG Code is adopted); and

— reviewed the remuneration packages of the Directors and management.

The attendance records of each committee member at the Remuneration Committee meeting held during the Year are set out in the above section headed "Directors' Attendance Records".

The executive Directors are the senior management of the Company. Further details of the remuneration of Directors and the 5 highest paid employees have been set out in note 11 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 review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and recommending any changes directly to the Board; identifying qualified and suitable individuals to become Board members and selecting and/or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

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 *(Chairman)* |
| *Independent Non-executive Directors* |
| Mr. Xie Rongxing |
| Mr. Chen Huigang |
| Total number of members: 3<br>% of Independent Non-executive Directors: 66.7%<br>Minimum number of meetings per year: 1<br>In attendance: The Chief Financial Officer, the Company Secretary and other members of the management, as applicable |

The key roles and responsibilities of the 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 and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Company believes that greater diversity of Directors is good for corporate governance and is committed to attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talents; and to assess regularly the diversity profile of the Board and, where applicable, the Senior Management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any. A Board diversity policy was adopted by the Company, pursuant to which the Board and 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) and for ensuring that changes to the Board's composition can be managed without undue disruption. 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 that are aligning with the Company's strategy and objectives.

During the Year, the Nomination Committee has 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 2018 annual general meeting; and

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

The attendance records of each committee member at the Nomination Committee meeting held during the Year are set out in the above section headed "Directors' Attendance Records".

During the Year, in response to the amendment to the CG Code effective on 1 January 2019, the Company has also adopted the Director Nomination Policy. Such policy, devising the criteria and process of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing better Board effectiveness and diversity as well as in compliance with the applicable rules and regulations.

The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. In selecting and evaluating candidates for directorship, 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. Each candidate shall be ranked by order of preference based on the needs of the Company and his/her reference check. The Nomination Committee shall report its findings and make recommendation to the Board on the appointment of appropriate candidate for directorship for decision.

## 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, 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 each of the Board Committees; 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 an 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 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 is summarised as follows:

| **Directors** | **Type of continuous professional development training** [Notes] |
|---|---|
| *Executive Directors* | |
| Mr. Yang Jun | A, B |
| Mr. Lin Zheming | A, B |
| Mr. Zhu Fangming | A, B |
| *Non-executive Directors* | |
| Mr. Law Fei Shing | A, B |
| Mr. Lin Jun | A, B |
| Mr. Chu Chun Ho, Dominic | A, B |
| *Independent Non-executive Directors* | |
| Mr. Xie Rongxing | A |
| Mr. Chen Huigang | A, B |
| Mr. Lum Pak Sum | A, 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 in the section headed "Management Discussion and Analysis" of 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 50 to 55 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 is set out below:

| **Type of services provided by the external auditor** | **2018**<br>HK$'000 |
|---|---|
| Audit service | 1,380 |
| Non-audit services | |
| — Interim review | 270 |
| — Provision for ESG reporting service | 90 |
| — Provision for internal control advisory service | 190 |
| — Provision for risk management consulting service | 120 |
| Total: | 2,050 |

## Risk Management and Internal Control

The main features of the 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 determines and evaluates 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 risk management and internal control systems.

The Group has formulated and adopted the 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 objectives, and 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 conducting ongoing monitoring of risk management and internal control systems of the Group and the management of the Group had conducted 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 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, 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 Group's ability to cope with its business transformation and changing external environment; the scope and quality of 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 systems review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems 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 Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("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 that 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 will immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements are 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

Ms. So Yee Kwan from Tricor Services Limited, an external service provider, was appointed by the Board as the Company Secretary on 10 July 2017. The biography of Ms. So 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, Ms. So Yee Kwan has taken no 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, the Nomination Committee and the 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.

## Dividend Policy

The Board has adopted the Dividend Policy to set out the basic principles and criteria based on which the Board may consider in determining the distribution of the dividends. Such declaration and payment of dividends shall remain to be determined at the absolute discretion of the Board, subject to all the applicable laws and regulations and the Articles.

The Company intends to pay dividend(s) of approximately 20% to 60% of its annual profits available for distribution. However, the Board will take into account the following conditions and factors before recommending or declaring dividends, including without limitation to: (i) financial results; (ii) cash flow situation; (iii) balance of distributable reserves; (iv) business conditions and strategies; (v) future operations and earnings; and (vi) capital requirements and expenditure plans.

The Board will review the said Dividend Policy as appropriate from time to time. The historical declarations of dividends of the Group should not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Group in the future. Any declaration and payment as well as the amount of the dividends will be subject to any restrictions under the applicable laws and regulations and the Articles.

## Constitutional Documents

During the Year, there was no change in the memorandum and Articles of the Company. An up-to-date version of the memorandum and Articles of the Company is available on the websites of the Stock Exchange and the Company.

# REPORT OF THE DIRECTORS

The Directors present this annual report together with the audited consolidated financial statements for the Year (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 the trading of footwear products and healthcare products and the provision of financial services.

The business review required under Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), 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 20 of this annual report. These discussions form part of this "Report of the Directors".

An analysis of the revenue and the results of the Group by operating segments during the 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 42 to the Consolidated Financial Statements.

## Financial Results

The profit of the Group for the Year, and the Consolidated Statement of Financial Position of the Group as at that date are set out in the Consolidated Financial Statements on pages 56 to 58 of this annual report.

## Dividends

The Directors do not recommend the payment of any dividend in respect of the Year (2017: Nil).

## Closure of Register of Members

The register of members of the Company will be closed from 25 June 2019 to 28 June 2019 (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 28 June 2019 (the "2019 AGM"). In order to be entitled to attend and vote at the 2019 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 24 June 2019.

## 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 2018 is set out on page 132 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 2018, the aggregate sales attributable to the Group's five largest customers were approximately 6.1%. The aggregate purchases attributable to the Group's five largest suppliers during the Year were approximately 87% 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 of footwear business are typically local department stores or footwear retail chain stores, whereas our wholesales customers of healthcare business are small wholesalers and Chinese E-commerce platforms. The Group's retail customers are mainly members of the public or tourists in Hong Kong, the Mainland China and Macau.

For wholesales customers of footwear business, 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 wholesales customers of healthcare business, we started the business relationship with them during the Year and will review the buying terms from time to time to ensure each customer reaches the minimum purchase orders with us.

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.

The Group's customers of financial services business are mainly institutions and corporations. Consistent with usual financial services practice, customers must sign a contract with us to outline the major financing terms and conditions to safeguard the interests of both parties.

**(b) Suppliers**

S. Culture is an established and reputable distributor and retailer with distribution rights with a number of renowned international lifestyle comfort footwear brands and reputable healthcare 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 and healthcare products to our customers.

## Reserves and Distributable Reserves

Movements in the reserves of the Company during the Year are set out in note 41 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 2018 amounted to approximately HK$129.8 million (2017: HK$87.5 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 approximately HK$1,432,000 (2017: HK$625,000).

## Bank Borrowings

Particulars of bank borrowings of the Group as at 31 December 2018 are set out in note 29 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

Details of the Company's share capital and movements during the Year are set out in note 30 to the Consolidated Financial Statements.

## Equity-linked Agreements

Other than the share option scheme of the Company and the placing agreement 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 and will remain in force for 10 years from that date. The remaining life of the Share Option Scheme is approximately 4 years. 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 33 to the Consolidated Financial Statements. No option has been granted by the Company under the Share Option Scheme since its adoption.

## 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 closing 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, and the net proceeds were fully utilized during the Year.

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 31 December 2018 is set out as follows:

| **Purpose/use of the proceeds** | **Intended allocation of proceeds** (Approx. HK$ million) | **Actual use of proceeds as at 31 December 2018** (Approx. HK$ million) |
|---|---|---|
| Financing the DSG Transaction; | 40.80 | 40.80 |
| General working capital (i.e. remuneration of Directors and employees, legal and professional fees and other administrative expenses); and | 13.56 | 12.99 |
| Financing future investment or new business development as and when opportunities arise | | 0.57 |
| Total: | 54.36 | 54.36 |

## 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

### 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

Pursuant to Article 108 of the Articles, Mr. Zhu Fangming, Mr. Lin Jun and Mr. Xie Rongxing shall retire by rotation at the 2019 AGM. Each of Mr. Zhu Fangming, Mr. Lin Jun and Mr. Xie Rongxing, being eligible, will offer himself for re-election at the 2019 AGM.

## Biographies of Directors

Brief biographical details of Directors are set out on pages 21 to 23 of this annual report.

## Directors' Service Contracts

None of the Directors who are proposed for re-election at the 2019 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 the updated information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- Mr. Yang Jun, an executive Director, has been appointed as a general manager and director of Shangying Global, with effect from December 2018 and January 2019, respectively.

- Mr. Lum Pak Sum, an independent non-executive Director, has resigned as an independent non-executive director of Beautiful China Holdings Company Limited (stock code: 706) with effect from August 2018, and has retired as an independent non-executive director of Pearl Oriental Oil Limited (stock code: 632) with effect from April 2018.

- Mr. Law Fei Shing, a non-executive Director, has resigned as an executive director of China Assurance Finance Group Limited (stock code: 8090) with effect from March 2019.

## 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

Save as disclosed in this annual report, 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 and up to the date of this annual report, the following person is considered to have interests in a business which competes or is likely to compete, directly or indirectly, with the business of the Group, as defined in the Listing Rules, as set out below:

Mr. Law Fei Shing, a non-executive Director, is the director and shareholder of Excel Precise Securities Limited ("Excel Precise"), which is a corporation licensed to conduct Type 1 (dealing in securities) regulated activity under the SFO. As DSG Securities (Hong Kong) Limited ("DSG Securities"), a subsidiary of the Company, is a corporation licensed to conduct Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, the Type 1 (dealing in securities) regulated activity of Excel Precise has, to a certain extent, overlapped and thus may compete with that of DSG Securities. The Board considered that the Group is capable of managing and operating the said business independently and at arm's length.

Save as disclosed, as far as the Directors are aware, none of the Directors had any competing interest in a business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

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

As at 31 December 2018, the interests of the Directors and chief executive 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 | 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) 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 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 31 December 2018.

Save as disclosed above, as at 31 December 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 31 December 2018, 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 | 70.09% |
| Great Wall International Investment X Limited | Person having a security interest in shares | 2 | 119,993,617 | 56.07% |
| China Great Wall AMC (International) Holdings Company Limited | Interest held by controlled corporations | 2 | 119,993,617 | 56.07% |
| China Great Wall Asset Management Co., Ltd. | 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 therefore 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 31 December 2018.

Save as disclosed above, as at 31 December 2018, 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 37 to the Consolidated Financial Statements. As far as the transactions set out in note 37 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.

## Management Contracts

No contract (other than the employment contracts) concerning 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 Companies Ordinance (Cap. 622 of the Laws of Hong Kong)) 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

There have been no important events affecting the Group that have occurred since 31 December 2018.

## Audit Committee

The Company established the 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 Consolidated Financial Statements.

## Auditor

Deloitte Touche Tohmatsu, the auditor of the Company, will retire and, being eligible, offer themselves for re-appointment at the 2019 AGM. A resolution will be submitted to the 2019 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 2019

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE SHAREHOLDERS OF S. CULTURE INTERNATIONAL HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of S. Culture International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 56 to 130, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

## Key Audit Matters (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment on goodwill and intangible assets with indefinite useful life* | |
| We identified the impairment assessment on goodwill and intangible assets with indefinite useful life as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amount of the cash-generating units to which goodwill and intangible assets have been allocated.<br><br>As disclosed in notes 17 and 18 to the consolidated financial statements, the carrying value of goodwill and intangible assets as at 31 December 2018 are HK$31,027,000 and HK$22,224,000, respectively. For the purpose of impairment testing, as disclosed in note 17 to the consolidated financial statements, goodwill and intangibles assets have been allocated to the cash-generating units of financial services.<br><br>The recoverable amounts of the cash-generating units were determined based on the value in use calculations which require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. | Our procedures in relation to the impairment assessment on goodwill and intangible assets with indefinite useful life included:<br><br>• Evaluating the independent external valuer's competence, capabilities and objectivity;<br><br>• Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions;<br><br>• Testing the appropriateness of key inputs applied by the management in preparing the cash flow forecasts against historical performance, including revenue, cost of services, operating expenses and growth rates with reference to the future strategic plans of the Group;<br><br>• Assessing the key factors in determining the discount rates, including the debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in the financial services industry for reasonableness; and<br><br>• Evaluating the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the value in use. |

## Key Audit Matters (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Estimated allowance for inventories*<br><br>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.<br><br>As disclosed in note 4 to the consolidated financial statements, the aged or obsolete inventories were identified by management based on the conditions and marketability of the inventories. Allowance for inventories is estimated based on an assessment of the net realisable value of inventories by the management. In determining the net realisable value of the inventories, the management considers the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent sales of the inventories. As at 31 December 2018, the carrying amount of inventories is HK$139,940,000, net of accumulated allowance amounting to HK$3,448,000. | Our procedures in relation to evaluating the appropriateness of the estimated allowance for inventories included:<br><br>• Obtaining an understanding from the management how the allowance for inventories and the net realisable value of inventories are estimated;<br><br>• Testing the aging analysis of inventories, on a sample basis, to the purchase invoices;<br><br>• 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;<br><br>• 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<br><br>• Tracing a selection of inventories with subsequent sales to the sales invoices. |

## Other Information

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

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

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

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## 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 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | NOTES | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **358,006** | 483,722 |
| Cost of sales | | **(137,499)** | (230,880) |
| Gross profit | | **220,507** | 252,842 |
| Other income | 7 | **1,497** | 1,350 |
| Other gains and losses | 8 | **7,558** | 5,184 |
| Selling and distribution costs | | **(147,370)** | (212,963) |
| Administrative expenses | | **(72,758)** | (82,145) |
| Other expenses | | **(1,207)** | (4,022) |
| Share of results of an associate | | **(1)** | — |
| Finance costs | 9 | **(1,643)** | (3,177) |
| Profit (loss) before taxation | 10 | **6,583** | (42,931) |
| Taxation | 12 | **(498)** | (511) |
| Profit (loss) for the year | | **6,085** | (43,442) |
| Other comprehensive income for the year | | | |
| *Item that may be subsequently reclassified to profit or loss* | | | |
| Exchange differences arising on translation of foreign operations | | **716** | 1,852 |
| Total comprehensive income (expense) for the year | | **6,801** | (41,590) |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **(1,749)** | (43,442) |
| Non-controlling interests | | **7,834** | — |
| | | **6,085** | (43,442) |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **(1,033)** | (41,590) |
| Non-controlling interests | | **7,834** | — |
| | | **6,801** | (41,590) |
| Loss per share — basic (HK$) | 14 | **(0.01)** | (0.22) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 15 | **13,861** | 38,425 |
| Investment properties | 16 | **—** | 29,000 |
| Goodwill | 17 | **31,027** | — |
| Intangible assets | 18 | **22,224** | — |
| Interest in an associate | 19 | **—** | — |
| Loan to an associate | 20 | **568** | — |
| Deferred tax assets | 21 | **10,063** | 10,116 |
| Deposit and prepayment for a life insurance policy | 22 | **1,900** | 1,868 |
| Rental deposits | | **5,949** | 6,136 |
| | | **85,592** | 85,545 |
| Current assets | | | |
| Inventories | 23 | **139,940** | 153,293 |
| Trade and other receivables | 24 | **63,289** | 72,163 |
| Taxation recoverable | | **408** | 313 |
| Bank balances and cash | 25 | **28,835** | 24,287 |
| | | **232,472** | 250,056 |
| Assets classified as held for sale | 26 | **29,700** | — |
| | | **262,172** | 250,056 |
| Current liabilities | | | |
| Trade and other payables | 27 | **46,507** | 26,032 |
| Amount due to immediate holding company | 28 | **12,610** | — |
| Amount due to a director | 28 | **—** | 3,800 |
| Taxation payable | | **630** | 485 |
| Bank borrowings — due within one year | 29 | **47,434** | 130,215 |
| | | **107,181** | 160,532 |
| Net current assets | | **154,991** | 89,524 |
| Total assets less current liabilities | | **240,583** | 175,069 |
| Non-current liabilities | | | |
| Bank borrowings — due after one year | 29 | **—** | 8,842 |
| Deferred tax liabilities | 21 | **3,667** | — |
| | | **3,667** | 8,842 |
| Net assets | | **236,916** | 166,227 |

*At 31 December 2018*

| | NOTE | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 30 | **2,140** | 2,000 |
| Reserves | | **217,552** | 164,227 |
| Equity attributable to owners of the Company | | **219,692** | 166,227 |
| Non-controlling interests | | **17,224** | — |
| Total equity | | **236,916** | 166,227 |

The consolidated financial statements on pages 56 to 130 were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

**Yang Jun**
*DIRECTOR*

**Lin Zheming**
*DIRECTOR*

*For the year ended 31 December 2018*

| | Attributable to owner of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special reserve | Legal reserve | Share-based compensation reserve of a subsidiary | Translation reserve | Accumulated profits | Total | Non-controlling interests | Total equity |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | (Note a) | (Note b) | | | | | | |
| At 1 January 2017 | 2,000 | 92,911 | 15,800 | 12 | — | (2,311) | 99,405 | 207,817 | — | 207,817 |
| Loss for the year | — | — | — | — | — | — | (43,442) | (43,442) | — | (43,442) |
| Exchange differences arising on translation of foreign operations and other comprehensive income for the year | — | — | — | — | — | 1,852 | — | 1,852 | — | 1,852 |
| Total comprehensive income (expense) for the year | — | — | — | — | — | 1,852 | (43,442) | (41,590) | — | (41,590) |
| At 31 December 2017 | 2,000 | 92,911 | 15,800 | 12 | — | (459) | 55,963 | 166,227 | — | 166,227 |
| (Loss) profit for the year | — | — | — | — | — | — | (1,749) | (1,749) | 7,834 | 6,085 |
| Exchange differences arising on translation of foreign operations and other comprehensive income for the year | — | — | — | — | — | 716 | — | 716 | — | 716 |
| Total comprehensive income (expense) for the year | — | — | — | — | — | 716 | (1,749) | (1,033) | 7,834 | 6,801 |
| Acquisition of subsidiaries | — | — | — | — | — | — | — | — | 9,390 | 9,390 |
| Placing of shares | 140 | 54,220 | — | — | — | — | — | 54,360 | — | 54,360 |
| Recognition of equity-settled share-based payments | — | — | — | — | 138 | — | — | 138 | — | 138 |
| At 31 December 2018 | 2,140 | 147,131 | 15,800 | 12 | 138 | 257 | 54,214 | 219,692 | 17,224 | 236,916 |

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 2018*

| | NOTE | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Operating activities | | | |
| Profit (loss) before taxation | | **6,583** | (42,931) |
| Adjustments for: | | | |
| Share of results of an associate | | **1** | — |
| Allowance for doubtful debts | | **—** | 48 |
| Allowance for inventories | | **1,781** | 1,629 |
| Share-based payments | | **138** | — |
| Interest income | | **(5)** | (1) |
| Interest expenses | | **1,643** | 3,177 |
| Imputed interest income from deposit and prepayment for a life insurance policy | | **(32)** | (32) |
| Depreciation of property, plant and equipment | | **3,698** | 8,066 |
| Change in fair value of investment properties | | **(700)** | (4,500) |
| Premium charges on a life insurance policy | | **26** | 26 |
| (Gain) loss on disposal of property, plant and equipment | | **(7,402)** | 1,160 |
| Operating cash flows before movements in working capital | | **5,731** | (33,358) |
| Decrease in rental deposits | | **2,645** | 10,384 |
| Decrease in inventories | | **11,333** | 76,191 |
| Decrease in trade and other receivables | | **10,285** | 11,968 |
| (Decrease) increase in trade and other payables | | **(7,142)** | 1,151 |
| Cash generated from operations | | **22,852** | 66,336 |
| Hong Kong Profits Tax (paid) refunded | | **(316)** | 2,403 |
| Tax paid in other jurisdictions | | **(396)** | (84) |
| Net cash from operating activities | | **22,140** | 68,655 |
| Investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | **33,032** | — |
| Interest received | | **5** | 1 |
| Acquisition of subsidiaries | 31 | **(28,247)** | — |
| Purchase of property, plant and equipment | | **(1,703)** | (2,260) |
| Advance to an associate | | **(568)** | — |
| Investment in an associate | | **(1)** | — |
| Net cash from (used in) investing activities | | **2,518** | (2,259) |

*For the year ended 31 December 2018*

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Financing activities | | |
| New bank borrowings raised | **90,358** | 170,881 |
| Net proceeds from issue of shares | **54,360** | — |
| Advance from immediate holding company | **12,610** | — |
| Advance from a director of a subsidiary | **9,912** | — |
| Advance from a director | **1,000** | 3,800 |
| Repayments of bank borrowings | **(181,720)** | (240,254) |
| Repayment to a director | **(4,800)** | — |
| Interest paid | **(1,700)** | (3,311) |
| Net cash used in financing activities | **(19,980)** | (68,884) |
| Net increase (decrease) in cash and cash equivalents | **4,678** | (2,488) |
| Cash and cash equivalents at beginning of the year | **24,287** | 26,233 |
| Effect of foreign exchange rate changes | **(130)** | 542 |
| Cash and cash equivalents at end of the year, representing bank balances and cash | **28,835** | 24,287 |

## 1. GENERAL

S. Culture International Holdings Limited (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 and healthcare products, and provision of financial services. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

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

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

### New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

| | |
|---|---|
| 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 |

Except as described below, the application of the new and amendments to HKFRSs and interpretation 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.

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

### New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

#### 2.1 HKFRS 15 "Revenue from Contracts with Customers"

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

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. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

During the year ended 31 December 2017, the Group recognises revenue from trading of footwear products.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

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 consolidated financial statements.

#### 2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 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 under ECL model) 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 and other components of equity, without restating comparative information.

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

### New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

**2.2 HKFRS 9 "Financial Instruments" (Continued)**

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

*Classification and measurement of financial assets*

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. There is no change in classification and measurement on the Group's financial assets.

*Impairment under ECL model*

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 assessed individually, 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 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated profits as the estimated allowance under the ECL model was not significantly different to that under HKAS 39 based on the counterparties' past repayment history and forward looking information.

### New and amendments to HKFRSs issued but not effective

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015–2017 Cycle[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[5] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |

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

### New and amendments to HKFRSs issued but not effective (Continued)

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

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

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

**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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Other than certain requirements which are also applicable to lessors, 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.

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

### New and amendments to HKFRSs issued but not effective (Continued)

**HKFRS 16 "Leases" (Continued)**

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$73,691,000 as disclosed in note 35. 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$18,410,000 and refundable rental deposits received of HK$600,000 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right- of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

**Amendments to HKAS 1 and HKAS 8 "Definition of Material"**

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRS standards and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

## 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 (the "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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

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.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Investment properties classified as held for sale are measured in accordance with the accounting policy for investment properties below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

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 or 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.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

### Revenue recognition (prior to 1 January 2018)

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 each 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.

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.

### Intangible assets

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points 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 financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Financial assets**

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

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

# 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

## Financial instruments (Continued)

**Financial assets (Continued)**

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

In addition, the Group may irrevocably designate a financial asset that are required to be measured at amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

*Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan to an associate 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, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets (Continued)**

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)*

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, in which case 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.

(i) 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.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk of financial assets except trade receivables 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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets (Continued)**

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when the instrument except trade receivables 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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two year past due, whichever occur sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets (Continued)**

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)*

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- nature of financial instruments;
- past-due status;
- nature, size and industry of debtors; and
- external credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets (Continued)**

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

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.

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 trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)*

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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets (Continued)**

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)*

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.

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.

*Derecognition of financial assets*

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

**Financial liabilities and equity**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial liabilities and equity (Continued)**

*Financial liabilities at amortised cost*

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

*Derecognition of financial liabilities*

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, intangible assets other than goodwill

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 relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but to the extent 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

## 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 each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

### Borrowing costs

Borrowing costs not 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 recognised in profit or loss in the period in which they are incurred.

### Retirement benefit costs

Payments to government-managed retirement benefit schemes, state-managed retirement benefit schemes and the Mandatory Provident Fund Schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

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)

### Share-based payments

**Equity-settled share-based payment transactions**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based compensation reserve.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and 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 are 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, 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 and interest 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

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 purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 4. 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.

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

### Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Estimated impairment of goodwill and intangible assets**

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill and intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances of which results in downward revision of future cash, a material impairment loss or a further impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill and intangible assets are HK$31,027,000 and HK$22,224,000, respectively (2017: nil). Details of the recoverable amount calculation are disclosed in note 17.

**Fair value of investment properties**

Investment properties are carried in the consolidated statement of financial position as at 31 December 2018 at their fair values of HK$29,700,000 (2017: HK$29,000,000) as disclosed in notes 26 and 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 including 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 2018, the carrying amount of inventories is HK$139,940,000 (2017: HK$153,293,000) (net of accumulated allowance for inventories of HK$3,448,000 (2017: HK$1,667,000)).

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

### Key sources of estimation uncertainty (Continued)

**Income taxes**

As at 31 December 2018, a deferred tax asset of HK$1,201,000 and HK$8,862,000 (2017: HK$2,417,000 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$72,457,000 (2017: HK$73,633,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

## 5. REVENUE

*For the year ended 31 December 2018*

### Disaggregation of revenue from contracts with customers

| | HK$'000 |
|---|---|
| Sales of goods | |
| Footwear products | 337,929 |
| Healthcare products | 1,134 |
| Financial services | 18,943 |
| | 358,006 |

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

| | Segment revenue HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| Footwear products | 337,929 | — | 337,929 |
| Healthcare products | 1,134 | — | 1,134 |
| Financial services | 21,763 | (2,820) | 18,943 |
| | 360,826 | (2,820) | 358,006 |

The Group sells footwear products to the wholesale market and directly to customers through its retails shops and concession counters in department stores.

## 5. REVENUE (Continued)

### Disaggregation of revenue from contracts with customers (Continued)

For sales of footwear products to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the wholesaler's specific location. Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 60 days upon delivery.

For sales of footwear products to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retails shops and concession counters in department stores. Sales made at retail shops are settled by cash or credit cards at the point the customer purchases the goods. The department stores collect payments from customers and then repay the balance after deducting the concessionaire commission to the Group. The credit term granted to department stores range from 30 to 60 days.

The Group sells healthcare products through internet sales. Revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location.

Revenue from provision of financial services is recognised at a point in time when the services are rendered to customers, being at the point that the customer receives the services and the Group has present right to payment and collection of the consideration is probable.

*For the year ended 31 December 2017*

An analysis of the Group's revenue for the year is as follows:

| | HK$'000 |
|---|---|
| Sales of goods | |
| Footwear products | 483,722 |

## 6. OPERATING SEGMENT

Information reported to the executive directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. During the year, the Group commenced the business in the trading of healthcare products and provision of financial services along with the acquisition of subsidiaries (as detailed in note 31), and they are considered as new operating and reportable segments by the CODM.

In the current year, the Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments. Retail sales and wholesale have been combined as trading of footwear products. Prior year segment disclosures have been represented to conform with the current year's presentation.

## 6. OPERATING SEGMENT (Continued)

Specifically, the Group's reportable segments under HKFRS 8 "Operating Segments" are as follows:

1. Trading of footwear products
2. Trading of healthcare products
3. Financial services

No operating segments have been aggregated in arriving at the reportable segments of the Group.

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments:

*For the year ended 31 December 2018*

| | Trading of footwear products HK$'000 | Trading of healthcare products HK$'000 | Financial services HK$'000 | Segment total HK$'000 | Eliminations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| External sales | **337,929** | **1,134** | **18,943** | **358,006** | **—** | **358,006** |
| Inter-segment sales | **—** | **—** | **2,820** | **2,820** | **(2,820)** | **—** |
| | **337,929** | **1,134** | **21,763** | **360,826** | **(2,820)** | **358,006** |
| Segment results | **1,584** | **(318)** | **16,396** | **17,662** | **—** | **17,662** |
| Unallocated income | | | | | | **1,593** |
| Unallocated expenses | | | | | | **(12,672)** |
| Profit before taxation | | | | | | **6,583** |

*For the year ended 31 December 2017 (Restated)*

| | Trading of footwear products HK$'000 | Total HK$'000 |
|---|---|---|
| Revenue | 483,722 | 483,722 |
| Segment results | (43,360) | (43,360) |
| Unallocated income | | 5,416 |
| Unallocated expenses | | (4,987) |
| Loss before taxation | | (42,931) |

Inter-segment sales are charged at prevailing market rates.

## 6. OPERATING SEGMENT (Continued)

### Segment revenue and results (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit (loss) earned from each segment without allocation of central administration costs, change in fair value of investment properties, certain other income and rental income. This is the measure reported to the CODM of the Company for the purpose of resource allocation and performance assessment.

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| *Segment assets* | | |
| Trading of footwear products | **209,846** | 295,846 |
| Trading of healthcare products | **19,283** | — |
| Financial services | **71,137** | — |
| Total reportable segment assets | **300,266** | 295,846 |
| Unallocated assets | **47,498** | 39,755 |
| Consolidated assets | **347,764** | 335,601 |
| *Segment liabilities* | | |
| Trading of footwear products | **75,215** | 164,141 |
| Trading of healthcare products | **10,018** | — |
| Financial services | **1,903** | — |
| Total reportable segment liabilities | **87,136** | 164,141 |
| Unallocated liabilities | **23,712** | 5,233 |
| Consolidated liabilities | **110,848** | 169,374 |

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than receivables and bank balances and cash of head office and inactive subsidiaries, investment properties, taxation recoverable and deferred tax assets; and
- all liabilities are allocated to operating segments other than payables of head office and inactive subsidiaries, amount due to a director, amount due to immediate holding company, taxation payable and deferred tax liabilities.

## 6. OPERATING SEGMENT (Continued)

### Other segment information

*For the year ended 31 December 2018*

| | Trading of footwear products HK$'000 | Trading of healthcare products HK$'000 | Financial services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Amounts included in measure of segment results or segment assets: | | | | | |
| Addition of non-current assets (note) | **1,692** | **—** | **56,320** | **11** | **58,023** |
| Loan to an associate | **—** | **568** | **—** | **—** | **568** |
| Depreciation | **(2,947)** | **—** | **(750)** | **(1)** | **(3,698)** |
| Allowance for inventories | **(1,781)** | **—** | **—** | **—** | **(1,781)** |
| Gain on disposal of property, plant and equipment | **7,402** | **—** | **—** | **—** | **7,402** |
| Interest income | **1** | **—** | **2** | **2** | **5** |
| Share of results from an associate | **—** | **(1)** | **—** | **—** | **(1)** |
| Finance costs | **(1,643)** | **—** | **—** | **—** | **(1,643)** |

*For the year ended 31 December 2017 (Restated)*

| | Trading of footwear products HK$'000 |
|---|---|
| Amounts included in measure of segment results or segment assets: | |
| Addition of non-current assets (note) | 2,260 |
| Depreciation | (8,066) |
| Loss on disposal of property, plant and equipment | (1,160) |
| Allowance for inventories | (1,629) |
| Interest income | 1 |
| Finance costs | (3,177) |

Note: Non-current assets included goodwill, property, plant and equipment and intangible assets.

## 6. OPERATING SEGMENT (Continued)

### Geographical information

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Hong Kong | **335,085** | 353,303 |
| Taiwan | **9,447** | 109,995 |
| Macau | **12,340** | 12,278 |
| Australia | **1,134** | — |
| Mainland China | **—** | 8,146 |
| | **358,006** | 483,722 |

Information about the Group's non-current assets is presented based on the location of the assets:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Hong Kong | **74,847** | 55,850 |
| Taiwan | **—** | 19,067 |
| Macau | **105** | 273 |
| Mainland China | **9** | 239 |
| | **74,961** | 75,429 |

Note: Non-current assets excluded loan to an associate and deferred tax assets.

### Information about major customers

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

## 7. OTHER INCOME

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Commission income | **189** | 268 |
| Imputed interest income from deposit and prepayment for a life insurance policy | **32** | 32 |
| Interest income | **5** | 1 |
| Rental income (outgoings of HK$78,000 (2017: HK$89,000)) | **873** | 916 |
| Others | **398** | 133 |
| | **1,497** | 1,350 |

## 8. OTHER GAINS AND LOSSES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Allowance for doubtful debts | **—** | (48) |
| Change in fair value of investment properties | **700** | 4,500 |
| Gain (loss) on disposal of property, plant and equipment | **7,402** | (1,160) |
| Net exchange (loss) gain | **(551)** | 1,892 |
| Others | **7** | — |
| | **7,558** | 5,184 |

## 9. FINANCE COSTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Interest on bank borrowings | **1,643** | 3,177 |

## 10. PROFIT (LOSS) BEFORE TAXATION

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Profit (loss) before taxation has been arrived at after charging: | | |
| Directors' remuneration (note 11) | **4,886** | 7,154 |
| Other staff costs | **74,737** | 84,490 |
| Share-based payments | **138** | — |
| Severance payments (included in other expenses) (note a) | **—** | 4,022 |
| Retirement benefit schemes contributions for other staff | **2,987** | 3,615 |
| Total staff costs | **82,748** | 99,281 |
| Auditors' remuneration | **2,066** | 1,680 |
| Allowance for inventories | **1,781** | 1,629 |
| Cost of inventories recognised as expenses (including allowance for inventories) | **137,499** | 230,880 |
| Depreciation of property, plant and equipment | **3,698** | 8,066 |
| Premium charges on a life insurance policy | **26** | 26 |
| Operating lease rentals in respect of | | |
| — rented premises (minimum lease payments) | **3,508** | 4,150 |
| — retail stores (included in selling and distribution costs) | | |
| — minimum lease payments | **56,699** | 85,728 |
| — contingent rent (note b) | **2,558** | 2,347 |
| | **59,257** | 88,075 |
| — department store counters (including concessionaire commission) (included in selling and distribution costs) | | |
| — minimum lease payments | **26,384** | 31,487 |
| — contingent rent (note b) | **4,350** | 18,258 |
| | **30,734** | 49,745 |
| | **93,499** | 141,970 |

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 had downscaled its operations in Taiwan by terminating the retail business during the year ended 31 December 2017. The Group would continue the wholesale business in the future. As a result of the downscale of operations in Taiwan, severance payments of HK$4,022,000 was charged to profit or loss during the year ended 31 December 2017 (2018: nil).

(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 2018** | | | | |
| Executive directors: | | | | |
| Mr. Yang Jun | 600 | — | — | 600 |
| Mr. Lin Zheming | 145 | — | — | 145 |
| Mr. Zhu Fangming | 145 | — | — | 145 |
| Non-executive directors: | | | | |
| Mr. Law Fei Shing | 1,000 | — | — | 1,000 |
| Mr. Lin Jun | 145 | — | — | 145 |
| Mr. Chu Chun Ho, Dominic | — | 2,309 | 107 | 2,416 |
| Independent non-executive directors: | | | | |
| Mr. Xie Rongxing | 145 | — | — | 145 |
| Mr. Chen Huigang | 145 | — | — | 145 |
| Mr. Lam Pak Sum | 145 | — | — | 145 |
| | 2,470 | 2,309 | 107 | 4,886 |

## 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 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) | — | 1,072 | 49 | 1,121 |
| 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 | 5,325 | 200 | 7,154 |

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

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

Notes:

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

(b) These directors resigned on 10 July 2017. Mr. Chu Siu Ming and Mr. Chu Chun Wah, Haeta retained as the employees of the Group and Mr. Chong Hot Hoi retained as a 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.

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. Lin Zheming 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 (except for Mr. Chu Chun Ho, Dominic) and independent non-executive directors shown above were mainly for their services as directors of the Company. During the year ended 31 December 2018, salaries and allowances and retirement benefit scheme contributions of HK$2,309,000 and HK$107,000 (2017: HK$1,072,000 and HK$49,000), respectively, were paid to Mr. Chu Chun Ho, Dominic mainly for his services in connection with management of the affairs of certain subsidiaries of the Group after 10 July 2017, the date he was re-designated as a non-executive director.

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

### (b) Employees' emoluments

The five highest paid individuals in the year included one director of the Company (2017: three 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:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Directors' fee | **—** | 189 |
| Salaries and allowance | **11,078** | 10,936 |
| Retirement benefits scheme contributions | **365** | 361 |
| | **11,443** | 11,486 |

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

### (b) Employees' emoluments (Continued)

Their emoluments were within the following bands:

| | Number of individuals 2018 | 2017 |
|---|---|---|
| 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

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Current tax | | |
| Hong Kong Profits Tax | **410** | — |
| Macau Complementary Tax | **103** | 68 |
| People's Republic of China ("PRC") Enterprise Income Tax ("EIT") | **—** | 452 |
| | **513** | 520 |
| Overprovision in prior years | **(68)** | (48) |
| Deferred taxation (note 21) | **53** | 39 |
| | **498** | 511 |

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.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. Accordingly, starting from the current year, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK$2 million.

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 ended 31 December 2017.

## 12. TAXATION (Continued)

Macau Complementary Tax is calculated at progressive rates ranging from 9% to 12% (2017: 9% to 12%) on the estimated assessable profit for the year.

Under the applicable corporate tax law in Australia, income tax is charged at 30% of the estimated assessable profit. No provision for Australian income tax has been made in the consolidated financial statements as the subsidiary operating in Australia has no assessable profits for the year ended 31 December 2018.

Taiwan income tax is calculated at 17% (2017: 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.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% (2017: 25%). No provision for PRC EIT has been made in the consolidated financial statements for the year ended 31 December 2018 as the subsidiaries operating in the PRC have no assessable profits for the year.

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

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Profit (loss) before taxation | **6,583** | (42,931) |
| Tax charge (credit) at Hong Kong Profits Tax rate of 16.5% (2017: 16.5%) | **1,086** | (7,084) |
| Tax effect of expenses not deductible for tax purposes | **2,200** | 1,501 |
| Tax effect of income not taxable for tax purposes | **(1,431)** | (1,069) |
| Tax effect of utilisation of tax losses previously not recognised | **(2,522)** | — |
| Tax effect of tax losses not recognised | **1,756** | 7,099 |
| Effect of different tax rate of subsidiaries operating in other jurisdictions | **(352)** | (140) |
| Overprovision in prior years | **(68)** | (48) |
| Others | **(171)** | 252 |
| Taxation charge | **498** | 511 |

## 13. DIVIDENDS

No dividend was proposed for ordinary shareholders of the Company during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

## 14. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31 December 2018 is based on the loss for the year attributable to owners of the Company and the weighted average number of 211,737,000 (2017: 200,000,000) ordinary shares in issue during the year.

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

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2017 | 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 |
| Exchange adjustments | — | (167) | (28) | (3) | (198) |
| Acquisition of subsidiaries | — | 1,985 | 501 | 583 | 3,069 |
| Additions | — | 1,467 | 236 | — | 1,703 |
| Disposal/write-off | (28,355) | (20,559) | (2,595) | (271) | (51,780) |
| At 31 December 2018 | 17,947 | 21,437 | 8,340 | 3,744 | 51,468 |
| DEPRECIATION | | | | | |
| At 1 January 2017 | 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 disposals/ write-off | — | (13,114) | (1,128) | — | (14,242) |
| At 31 December 2017 | 11,065 | 36,489 | 9,593 | 3,102 | 60,249 |
| Exchange adjustments | — | (163) | (24) | (3) | (190) |
| Provided for the year | 536 | 2,592 | 442 | 128 | 3,698 |
| Eliminated on disposal/ write-off | (3,181) | (20,334) | (2,371) | (264) | (26,150) |
| At 31 December 2018 | 8,420 | 18,584 | 7,640 | 2,963 | 37,607 |
| CARRYING VALUES | | | | | |
| At 31 December 2018 | 9,527 | 2,853 | 700 | 781 | 13,861 |
| At 31 December 2017 | 35,237 | 2,222 | 633 | 333 | 38,425 |

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's land and buildings are situated:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| In Hong Kong | **9,527** | 16,310 |
| In Taiwan | **—** | 18,927 |
| | **9,527** | 35,237 |

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 2017 | 24,500 |
| Change in fair value recognised in profit or loss | 4,500 |
| At 31 December 2017 | 29,000 |
| Change in fair value recognised in profit or loss | 700 |
| Transfer to assets classified as held for sale (note 26) | (29,700) |
| At 31 December 2018 | — |

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

The fair value of the Group's investment properties had 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 a member of Hong Kong Institute of Surveyors.

## 16. INVESTMENT PROPERTIES (Continued)

The fair value was determined based on direct comparison method assuming sales of each of the property interests in their existing states and making references to comparable market observable transactions of similar properties in similar locations and conditions as available in the relevant market. Those comparable properties were analysed and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

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

| Investment properties | Valuation technique | Significant unobservable input(s) | Unobservable inputs | | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| | | | **2018** | 2017 | |
| 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 including location and timing of referenced transactions | **HK$7,400 per square foot** | HK$7,300 per square foot | Higher the price per square foot will result in correspondingly higher the fair value |

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 2018** | | |
| Commercial property units located in Hong Kong | **29,700** | **29,700** |
| **At 31 December 2017** | | |
| Commercial property units located in Hong Kong | 29,000 | 29,000 |

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

## 17. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2018 | — |
| Acquisition of subsidiaries | 31,027 |
| At 31 December 2018 | 31,027 |

For the purpose of impairment testing, goodwill and intangible assets with indefinite useful life have been allocated to the cash-generating units including subsidiaries engaged in provision of financial services.

During the year ended 31 December 2018, the management of the Group has determined that there is no impairment of any of its cash-generating units containing goodwill.

The basis of the recoverable amounts of the cash-generating units above and their major underlying assumptions are summarised below:

The recoverable amounts of the cash-generating units have been determined based on value in use calculations which use cash flow projections based on most recent financial budgets approved by management covering a five-year period, and discount rates of 20.25%. Cash flows beyond the five-year period have been extrapolated using an estimated constant growth rate of 2.5% which do not exceed the average growth rate for the relevant markets. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include gross margin, discount rates and growth rates, such estimation is based on the unit's past performance and the management's expectations for the market development. The management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the group of units to exceed the aggregate of its recoverable amount.

## 18. INTANGIBLE ASSETS

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2018 | — |
| Acquisition of subsidiaries | 22,224 |
| At 31 December 2018 | 22,224 |

Intangible assets represent the Type 1 (Dealing in Securities), Type 4, (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) licences issued by the Securities and Futures Commission which were acquired through acquisition of subsidiaries (see note 31). These licences are renewable annually at minimal costs. In the opinion of the directors, the intangible assets have an indefinite useful life because they are expected to contribute net cash inflows indefinitely. The intangible assets will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired.

## 18. INTANGIBLE ASSETS (Continued)

During the year, the management performed impairment assessment on intangible assets of each cash-generating unit with aggregated carrying amount of HK$22,224,000 in accordance with HKAS 36. The management estimated the recoverable amount of those cash-generating units of which these intangible assets have been allocated. The recoverable amounts of those cash-generating units are higher than the carrying amount of these intangible assets and accordingly, no impairment loss has been recognised.

Particulars regarding impairment testing on intangible assets are disclosed in note 17.

## 19. INTEREST IN AN ASSOCIATE

| | HK$'000 |
|---|---|
| Cost of investment, unlisted | 1 |
| Share of post-acquisition loss | (1) |
| | — |

Details of the Group's associates at the end of the reporting period are as follows:

| Name of associate | Place of incorporation | Principal place of business | Equity interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Century Health Holdings Co. Limited ("Century Health") | Hong Kong | Hong Kong | 10% | Investment holding |
| Dermaco Pty Ltd # ("Dermaco") | Australia | Australia | 8.5% | Manufacturing and trading of beauty products |
| Pharma Science Australia Pty. Ltd. # ("Pharma Science") | Australia | Australia | 10% | Trading of healthcare products |

\# These companies are subsidiaries of Century Health.

## 19. INTEREST IN AN ASSOCIATE (Continued)

### Summarised financial information of an associate

The associate is accounted for using the equity method in the consolidated financial statements. Summarised financial information in respect of Century Health and its subsidiaries for the year ended 31 December 2018 is set out below.

| | HK$'000 |
|---|---|
| Current assets | 2,165 |
| Non-current assets | 201 |
| Current liabilities | (20,593) |
| Revenue | 4,615 |
| Loss for the year | (7,998) |
| Other comprehensive income for the year | 1,554 |
| Total comprehensive expense for the year | (6,444) |

| | HK$'000 |
|---|---|
| The unrecognised share of loss and cumulative unrecognised share of loss | (123) |

## 20. LOAN TO AN ASSOCIATE

The amount is secured, interest bearing at 2.5% per annum with a term of 3.5 years.

Details of impairment assessment for the year ended 31 December 2018 are set out in note 39.

## 21. DEFERRED TAXATION

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Deferred tax assets | **10,063** | 10,116 |
| Deferred tax liabilities | **(3,667)** | — |
| | **6,396** | 10,116 |

## 21. DEFERRED TAXATION (Continued)

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

| | **Fair value adjustment arising from acquisition of subsidiaries** HK$'000 | **Accelerated tax depreciation** HK$'000 | **Tax losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 January 2017 | — | 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 |
| Acquisition of subsidiaries | **(3,667)** | **—** | **—** | **(3,667)** |
| Charge to profit or loss (note 12) | **—** | **(1,216)** | **1,163** | **(53)** |
| At 31 December 2018 | **(3,667)** | **1,201** | **8,862** | **6,396** |

At the end of the reporting period, the Group has unutilised tax losses of HK$126,167,000 (2017: HK$120,295,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$53,710,000 (2017: HK$46,662,000) of such losses. No deferred tax asset has been recognised in respect of the remaining losses of HK$72,457,000 (2017: HK$73,633,000). Included in unrecognised tax losses are losses of HK$11,209,000 (2017: HK$13,839,000) and HK$35,848,000 (2017: HK$33,593,000) that will expire within five years and ten years, respectively. Other losses may be carried forward indefinitely.

As at 31 December 2018, the aggregate amount of temporary difference associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised was HK$492,000 (2017: HK$1,510,000). 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.

## 22. 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 2018, 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 Policy exposes the insurer to significant insurance risk. The gross premium paid at inception of the Policy consists of a deposit placed element and a prepayment for life insurance element. These two elements are recognised on the consolidated statement of financial position at the aggregate of the amount of gross premium paid plus interest earned, and after deducting the annual cost of insurance, other applicable charges as well as the amortisation of the expected surrender charge at the end of the life of the Policy.

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.

## 23. INVENTORIES

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Finished goods | **139,940** | 153,293 |

## 24. TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **20,875** | 42,655 |
| Bills receivables | **—** | 5,070 |
| Less: Allowance for doubtful debts | **—** | (126) |
| | **20,875** | 47,599 |
| Rental deposits | **12,461** | 14,435 |
| Other deposits | **725** | 1,067 |
| Prepayments | **1,820** | 4,308 |
| Other receivables | **9,523** | 3,882 |
| Advance payments to suppliers | **17,885** | 872 |
| | **42,414** | 24,564 |
| | **63,289** | 72,163 |

Retail sales of footwear products 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 of footwear products, trading of healthcare products and provision of financial services, the Group allows a credit period ranging from 30 to 90 days to its trade customers. The following is an aging analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of each reporting period:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 30 days | **16,167** | 35,055 |
| 31 to 60 days | **1,456** | 8,916 |
| 61 to 90 days | **1,501** | 1,892 |
| Over 90 days | **1,751** | 1,736 |
| | **20,875** | 47,599 |

For sales by wholesale of footwear products, trading of healthcare products and provision of financial services, before accepting any new customer, the Group will check the historical default records of these customers through external source.

The management of the Group closely monitors the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of a good credit quality.

## 24. TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2018, included in the Group's trade receivables balances are debtors with aggregated carrying amount of HK$3,252,000 which are past due as at the reporting date. Out of the past due balances, HK$1,751,000 has been past due 90 days or more and is not considered as in default based on good repayment records for those debtors and continuous business with the Group. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balances were debtors with aggregate carrying amount of HK$3,628,000 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.

The following was an aging analysis of trade receivables based on the invoice date which were past due but not impaired at 31 December 2017:

| | HK$'000 |
|---|---|
| 61 to 90 days | 1,892 |
| Over 90 days | 1,736 |
| | 3,628 |

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.

Details of impairment assessment for the year ended 31 December 2018 are set out in note 39.

### Movement in the allowance for doubtful debts

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **126** | 138 |
| Exchange adjustments | **—** | 13 |
| Impairment loss recognised on receivables | **—** | 48 |
| Amounts written off as uncollectible | **(126)** | (73) |
| Balance at end of the year | **—** | 126 |

## 24. TRADE AND OTHER RECEIVABLES (Continued)

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

| | Bills receivables discounted to banks with full recourse | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Carrying amount of bills receivables | **—** | 5,070 |
| Carrying amount of associated liabilities | **—** | 5,070 |
| 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.

## 25. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates of 0% to 0.35% (2017: 0% to 0.001%) per annum.

Details of impairment assessment for the year ended 31 December 2018 are set out in note 39.

## 26. ASSETS CLASSIFIED AS HELD FOR SALE

On 30 November 2018, an indirect wholly owned subsidiary of the Company entered into sale and purchase agreements with independent third parties to dispose of the Group's investment properties. The fair values of investment properties are measured at their fair values using direct comparison method. The directors of the Company assessed whether the held-for-sale criteria set out in HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are met. Taking into account (a) the fact that the subject properties are immediately available for sale, and (b) the conditions to be met to complete the disposal as set out in the terms of the relevant agreements, the directors of the Company believe that the disposals will be completed on or before 1 September 2019 and accordingly the relevant investment properties were classified as held for sale at 31 December 2018.

Details of fair value measurement and information about the fair value hierarchy are disclosed in note 16.

## 27. TRADE AND OTHER PAYABLES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade payables | **11,306** | 3,839 |
| Accrued staff costs | **6,812** | 7,073 |
| Accrued severance payments (see note 10(a)) | **—** | 3,491 |
| Accrued expenses | **7,799** | 7,785 |
| Rental deposits received | **600** | 128 |
| Deposit received for disposal of investment properties (note a) | **4,125** | — |
| Consideration payable for acquisition of subsidiaries | **5,100** | — |
| Amount due to a director of a subsidiary (note b) | **9,912** | — |
| Other payables | **853** | 3,716 |
| | **46,507** | 26,032 |

Notes:

(a) The deposit was received and held in an escrow account at 31 December 2018.

(b) The amount is non-trade in nature, unsecured, interest free and repayable on demand.

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 each reporting period:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within 30 days | **1,545** | 2,154 |
| 31 to 60 days | **9,610** | 1,670 |
| Over 90 days | **151** | 15 |
| | **11,306** | 3,839 |

## 28. AMOUNTS DUE TO A DIRECTOR AND IMMEDIATE HOLDING COMPANY

The amounts are non-trade in nature, unsecured, interest free and repayable on demand.

## 29. BANK BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank loans | **29,139** | 77,472 |
| Loans related to bills discounted with recourse | **—** | 5,070 |
| Trust receipt loans | **18,295** | 56,515 |
| | **47,434** | 139,057 |
| Secured | **47,434** | 136,315 |
| Unsecured | **—** | 2,742 |
| | **47,434** | 139,057 |
| Carrying amount repayable* | | |
| Within one year | **31,684** | 106,076 |
| More than one year, but not more than two years | **—** | 1,263 |
| More than two years, but not more than five years | **—** | 3,789 |
| More than five years | **—** | 3,790 |
| | **31,684** | 114,918 |
| Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but certain a repayment on demand clause (shown under current liabilities) | **15,750** | 24,139 |
| | **47,434** | 139,057 |
| Less: Amounts shown under current liabilities | **(47,434)** | (130,215) |
| Amounts shown under non-current liabilities | **—** | 8,842 |

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

*For the year ended 31 December 2018*

## 29. BANK BORROWINGS (Continued)

As at 31 December 2018, the above bank borrowings bear interests at Hong Kong Interbank Offered Rate plus 1.4% to 2.1% per annum.

As at 31 December 2017, the above bank borrowings bear interests at benchmark interest rate of Central Bank of Taiwan plus 0.45% to 1.25% or Hong Kong Interbank Offered Rate plus 1.5% 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:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Effective interest rates: | | |
| Variable-rate borrowings | **2.5%–2.9%** | 1.5%–2.8% |

Details of the pledged assets to secure the bank borrowings are set out in note 36.

## 30. SHARE CAPITAL

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

| | **Number of shares** | **Amount**<br>HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | 500,000,000 | 5,000 |
| Issued and fully paid: | | |
| At 1 January 2017 and 31 December 2017 | 200,000,000 | 2,000 |
| Placing of shares (note) | 14,000,000 | 140 |
| At 31 December 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 share by way of placing mainly to finance the acquisition of subsidiaries (see note 31) and future investment or new business development. All shares issued rank pari passu in all respects with the then existing shares.

## 31. ACQUISITION OF SUBSIDIARIES

On 19 January 2018, the Group entered into a sale and purchase agreement with independent third parties for the acquisition of 51% and 51% equity interests in DSG Finance Holdings (Hong Kong) Limited ("DSG Finance") and its subsidiaries ("DSG Finance Group") and DSG Asset Management (Cayman) Company Limited ("DSG Cayman"), respectively, at a total cash consideration of HK$40,800,000. DSG Finance Group is engaged in provision of financial services and DSG Cayman is an investment fund manager and engaged in provision of financial services. The transaction has been accounted for using the acquisition method. The acquisition is part of the ongoing expansion strategy of the Group with the aim of diversifying its operations and broadening its source of revenue. The acquisition was completed on 27 July 2018.

Pursuant to the sale and purchase agreement, (i) if the aggregated audited net profit shown in the consolidated financial statements of DSG Finance Group and financial statements of DSG Cayman for the year ended 31 December 2018 ("2018 Accounts") is more than HK$8,000,000 but less than HK$10,000,000, the consideration for the acquisition shall be adjusted from HK$40,800,000 to HK$35,700,000; and (ii) if the aggregated audited net profit shown in 2018 Accounts is less than HK$8,000,000, the consideration for the acquisition shall be adjusted from HK$40,800,000 to HK$35,700,000 and the vendor shall further pay to the Group an amount equal to the difference between HK$8,000,000 to the aggregated audited net profit shown in 2018 Accounts. The fair value of the contingent consideration is estimated to be insignificant because the management considers that it is highly likely that the specific level of the aggregated audited net profit can be achieved.

| | HK$'000 |
|---|---|
| Fair value of identified assets acquired and liabilities recognised at the date of acquisition was as follows: | |
| Property, plant and equipment | 3,069 |
| Intangible assets | 22,224 |
| Rental deposits | 493 |
| Trade and other receivables | 125 |
| Bank balances and cash | 7,453 |
| Trade and other payables | (10,199) |
| Taxation payable | (335) |
| Deferred tax liabilities | (3,667) |
| | 19,163 |
| Consideration transferred, satisfied by cash | 35,700 |
| Consideration payable included in trade and other payables | 5,100 |
| Plus: Non-controlling interests | 9,390 |
| Less: Net assets acquired | (19,163) |
| Goodwill arising on acquisition | 31,027 |
| Analysis of net cash outflow in respect of acquisition of subsidiaries: | |
| Cash consideration paid | (35,700) |
| Bank balances and cash acquired | 7,453 |
| | (28,247) |

## 31. ACQUISITION OF SUBSIDIARIES (Continued)

Acquisition-related costs amounting to HK$1,207,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the other expenses in the consolidated statement of profit or loss and other comprehensive income.

Goodwill arose in the acquisition of DSG Finance Group and DSG Cayman because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of DSG Finance Group and DSG Cayman. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The non-controlling interests recognised at the acquisition date was measured by reference to the proportionate share of the fair value of the acquirees' identifiable net assets and amounted to HK$9,390,000.

Included in the profit for the year is HK$15,987,000 attributable to DSG Finance Group and DSG Cayman. Revenue for the year includes HK$18,943,000 generated by DSG Finance Group and DSG Cayman.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been HK$361,494,000, and profit for the year would have been HK$1,629,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

## 32. 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.

## 32. RETIREMENT BENEFITS SCHEMES (Continued)

The employees employed in the subsidiaries established in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

The retirement scheme cost recognised in profit and loss represents contributions paid or payable to the schemes by the Group at rates specified in the rules of the scheme. At the end of each reporting period, the Group had no significant obligation apart from the contributions as stated above and there is no forfeited contribution arose upon employees leaving the retirement benefit schemes and which were available to reduce contributions payable.

## 33. 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 9.35% 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 2018 and 31 December 2017.

## 34. SHARE AWARD SCHEME OF A SUBSIDIARY

During the year ended 31 December 2018, Shang Ying Retail Plus Holdings Limited ("Shang Ying Retail Plus"), a subsidiary of the Company, adopted a share award scheme (the "Share Award Scheme") to recognise the contributions by certain management and employees of Sixth Avenue Plus Pty Ltd ("Sixth Avenue Plus"), a subsidiary of Shang Ying Retail, and to give incentives to them in order to retain them for the continuing operation and development of Sixth Avenue Plus. Subject to any early termination as may be determined by directors of Shang Ying Retail, the Share Award Scheme is valid and effective for 3 years from the date of adoption.

According to the Share Award Scheme, a total of 45% equity interests in the shares of Sixth Avenue Plus are to be awarded and transferred to those management and employees in three batches, being 15% each upon the fulfilment of the performance targets set for Sixth Avenue Plus for the financial period ending 30 June 2019, 2020 and 2021, respectively. The award price of those shares for first batch is nil and Australian dollar 600,000 each for second and third batch under certain conditions.

The fair value of the shares granted pursuant to the Share Award Scheme amounting to HK$507,000 was determined based on income approach. During the year ended 31 December 2018, the Group recognised share based payments amounting to HK$138,000 in relation to the Share Award Scheme (2017: nil).

## 35. OPERATING LEASE COMMITMENTS

### As lessee

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

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **56,789** | 55,915 |
| In the second to fifth year inclusive | **16,902** | 27,332 |
| | **73,691** | 83,247 |

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 (2017: one to three) 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.

## 35. OPERATING LEASE COMMITMENTS (Continued)

### As lessor

Investment properties were leased for a term within one year. At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **800** | 1,055 |

## 36. PLEDGE OF ASSETS

At the end of the reporting period, the Group's bank borrowings were secured by the Group's assets as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Land and buildings | **9,527** | 28,775 |
| Investment properties | **29,700** | 29,000 |
| Deposit and prepayment for a life insurance policy | **1,900** | 1,894 |
| Bills receivables | **—** | 5,070 |
| | **41,127** | 64,739 |

## 37. 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** | **2018** | 2017 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Becking Investment Limited (note a) | Rental expense (note b) | **N/A** | 241 |
| Mr. Chong Hok Shan | Rental expense (note b) | **N/A** | 235 |
| Pharma Science | Purchase of goods | **1,743** | — |
| Dermaco | Purchase of goods | **306** | — |

Notes:

(a) The company is wholly-owned by Mr. Chong Hok Shan, Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, the former shareholders of the Company.

(b) The amounts included transactions up to 10 July 2017, the date of change of directors and shareholders of the Company.

## 37. RELATED PARTY TRANSACTIONS (Continued)

### Compensation of key management personnel

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Salaries and allowances | **4,779** | 9,702 |
| Retirement benefit schemes contributions | **107** | 287 |
| | **4,886** | 9,989 |

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.

## 38. 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 29, 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.

## 39. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Financial assets | | |
| Financial assets at amortised cost | **59,801** | N/A |
| Loans and receivables (including cash and cash equivalents) | **N/A** | 75,768 |
| Financial liabilities | | |
| Amortised cost | **87,215** | 150,412 |

## 39. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies

The Group's major financial instruments include loan to an associate, trade and other receivables, bank balances and cash, trade and other payables, amount due to a director, amount due to immediate holding company 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 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 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **632** | 208 | **—** | 5,079 |
| United States dollars ("USD") | **2,192** | 143 | **10,336** | 2,078 |
| Renminbi ("RMB") | **14** | 117 | **—** | — |

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 2018.

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% (2017: 5%) increase and decrease in foreign currency. 5% (2017: 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 an increase in profit for the year (2017: a decrease in loss for the year) where the functional currency of each group entity strengthen 5% (2017: 5%) against the relevant foreign currency. For a 5% (2017: 5%) weakening of functional currency of each group entity against the relevant foreign currency, there would be an equal and opposite impact on the profit for the year (2017: loss for the year), and the balances below would be negative.

## 39. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Market risk (Continued)**

*Currency risk (Continued)*

Sensitivity analysis (Continued)

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| HK$ | (32) | 244 |
| RMB | (1) | (6) |

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 also exposed to cash flow interest rate risk in relation to bank balances (see note 25) and bank borrowings (see note 29). The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate of Central Bank of Taiwan and Hong Kong Interbank Offered Rate. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming that the amount of liabilities outstanding at the end of each reporting period were outstanding for the whole year. 50 basis point increase or decrease represent the management's assessment of the reasonably possible change in interest rates. No sensitivity analysis is presented for bank balances as the directors of the Company considered the Group's exposure to cash flow interest rate risk is not material.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year (2017: loss for the year) would decrease/increase (2017: increase/decrease) by HK$198,000 (2017: HK$574,000).

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.

## 39. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment**

As at 31 December 2018, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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 performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For credit card trade receivables, the credit risks are limited because the counterparties are financial institutions and there was no history of defaults. ECL is expected to be insignificant upon application of HKFRS 9.

For other receivables, management of the Group makes periodic individual assessment under 12m ECL on the recoverability of other receivables based on historical settlement records and past experience. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description |
|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts |
| Watch list | Debtor frequently repays but usually settles after due dates |

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| 2018 | External credit rating | Internal credit rating | 12m ECL or lifetime ECL | Gross carrying amount HK$'000 |
|---|---|---|---|---|
| Loan to an associate | N/A | Low risk | 12m ECL | 568 |
| Trade receivables | N/A | Low risk | Lifetime ECL (not credit impaired) | 16,752 |
| | | Watch list | Lifetime ECL (not credit impaired) | 3,253 |
| Credit card trade receivables | Aa3 | N/A | 12m ECL | 870 |
| Other receivables | N/A | Low risk | 12m ECL | 9,523 |
| Bank balances | Baa2–Aa3 | N/A | 12m ECL | 28,835 |

## 39. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Credit risk and impairment assessment (Continued)**

The credit risks on bank balances are limited because the counterparties are banks with high crediting ratings assigned by international credit-rating agencies. The management of the Group considers the probability of default in negligible and accordingly, no loss allowance was recognised.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties.

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 and the amount is insignificant. 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, Taiwan and Australia having good reputation.

**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 each reporting period.

## 39. 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 2018** | | | | | | | |
| Trade and other payables | **N/A** | **27,171** | **—** | **—** | **—** | **27,171** | **27,171** |
| Amount due to immediate holding company | **N/A** | **12,610** | **—** | **—** | **—** | **12,610** | **12,610** |
| Bank borrowings — variable rate | **3.15** | **48,926** | **—** | **—** | **—** | **48,926** | **47,434** |
| | | **88,707** | **—** | **—** | **—** | **88,707** | **87,215** |
| **At 31 December 2017** | | | | | | | |
| Trade and other payables | N/A | 7,555 | — | — | — | 7,555 | 7,555 |
| 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 |
| | | 145,268 | 1,466 | 3,963 | 4,033 | 154,730 | 150,412 |

## 39. FINANCIAL INSTRUMENTS (Continued)

### Financial risk management objectives and policies (Continued)

**Liquidity risk (Continued)**

*Liquidity and interest risk tables (Continued)*

Bank loan with a repayment on demand clause was included in the "on demand or less than 1 year" time band in the above maturity analysis. As at 31 December 2018, the principal amount of this bank loan amounted to HK$17,139,000 (2017: HK$47,972,000). 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 loan will be repaid in accordance with the scheduled repayment date set out in the loan agreement and the principal and interest cash outflows according to the scheduled repayment date are set out as follows:

| | Weighted average interest rate | On demand or less than 1 year | 1–2 years | 2–5 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2018** | | | | | | |
| Bank borrowing — variable rate | **2.48** | **8,876** | **7,310** | **1,894** | **18,080** | **17,139** |
| **At 31 December 2017** | | | | | | |
| Bank borrowing — variable rate | 2.48 | 24,662 | 8,876 | 16,204 | 49,742 | 47,972 |

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.

## 40. 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** | **Amount due to immediate holding company** | **Amount due to a director of a subsidiary** | **Bank borrowings** | **Total** |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | 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 cost 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 |
| Financing cash flows (note) | **(1,700)** | **(3,800)** | **12,610** | **9,912** | **(91,362)** | **(74,340)** |
| Non-cash changes: | | | | | | |
| Finance cost recognised (note 9) | **1,643** | **—** | **—** | **—** | **—** | **1,643** |
| Foreign exchange translation | **(3)** | **—** | **—** | **—** | **(261)** | **(264)** |
| At 31 December 2018 | **—** | **—** | **12,610** | **9,912** | **47,434** | **69,956** |

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

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Non-current assets | | |
| Interests in subsidiaries | **137,156** | 94,873 |
| Amounts due from subsidiaries | **10,984** | — |
| Property, plant and equipment | **9** | — |
| | **148,149** | 94,873 |
| Current assets | | |
| Other receivables | **447** | 145 |
| Bank balances and cash | **397** | 180 |
| | **844** | 325 |
| Current liabilities | | |
| Other payables | **3,333** | 947 |
| Amount due to immediate holding company | **12,610** | — |
| Amount due to a director | **—** | 3,800 |
| Amounts due to subsidiaries | **1,064** | 944 |
| | **17,007** | 5,691 |
| Net current liabilities | **(16,163)** | (5,366) |
| Net assets | **131,986** | 89,507 |
| Capital and reserves | | |
| Share capital | **2,140** | 2,000 |
| Reserves | **129,846** | 87,507 |
| Total equity | **131,986** | 89,507 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

### Movement in the Company's reserves:

| | Share premium | Accumulated losses | Total |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2017 | 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 |
| Loss and total comprehensive expense for the year | — | (11,881) | (11,881) |
| Placing of shares | 54,220 | — | 54,220 |
| At 31 December 2018 | 147,131 | (17,285) | 129,846 |

## 42. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2018 and 2017 are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Equity interest attributable to the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | **2018** | 2017 | |
| Cobblers Limited | Hong Kong | HK$10,000 | **100%** | 100% | Trading of footwear products |
| DSG Cayman | Cayman Islands | US$50,000 | **51% (note 31)** | N/A | Provision of financial services |
| DSG Asset Management (HK) Company Limited | Hong Kong | HK$2,000,000 | **51% (note 31)** | N/A | Provision of financial services |
| DSG Finance | Hong Kong | HK$16,250,000 | **51% (note 31)** | N/A | Investment holding |
| DSG Financial Advisory (HK) Co., Limited | Hong Kong | HK$2,000,000 | **51% (note 31)** | N/A | Provision of financial services |
| DSG Securities (Hong Kong) Limited | Hong Kong | HK$8,000,000 | **51% (note 31)** | N/A | Provision of financial services |
| Grand Asian | Hong Kong | HK$1,000,000 | **100%** | 100% | Trading of footwear products |
| Kong Tai Sundry Goods | Hong Kong | HK$5,000,000 | **100%** | 100% | Trading of footwear products |
| KTS Properties Holdings Limited | BVI | US$1 | **100%** | 100% | Property holding |
| Shoe Mart Company Limited | Hong Kong | HK$10,000 | **100%** | 100% | Trading of footwear products |
| Shoes Culture Company Limited | Macau | MOP25,000 | **100%** | 100% | Trading of footwear products |

## 42. PARTICULARS OF SUBSIDIARIES (Continued)

Details of the Company's principal subsidiaries as at 31 December 2018 and 2017 are as follows: (Continued)

| Name of subsidiary | Place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Equity interest attributable to the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | **2018** | 2017 | |
| Sixth Avenue Plus# | Australia | AUD10,000 | **100%** | N/A | Trading of healthcare products |
| S. Culture Holdings (BVI) Limited* | BVI | US$2,001 | **100%** | 100% | Investment holding |
| 西寶(上海)商貿有限公司**^ | PRC | RMB5,000,000 | **100%** | 100% | Trading of footwear products |
| 鞋舍(上海)商貿有限公司**@ | PRC | RMB5,000,000 | **100%** | 100% | Trading of footwear products |

* Directly held by the Company.

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

# The company was incorporated during the year ended 31 December 2018.

^ The registered capital of the subsidiary is RMB5,000,000. As at 31 December 2018, 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 2018, 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.

The above table lists subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at 31 December 2018 and 2017 or at any time during both years.

The table below shows details of non wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | | | | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| DSG Finance | Hong Kong | **49%** | N/A | **3,710** | N/A | **15,129** | N/A |
| DSG Cayman | Hong Kong | **49%** | N/A | **4,124** | N/A | **2,095** | N/A |
| | | | | **7,834** | N/A | **17,224** | N/A |

## 42. PARTICULARS OF SUBSIDIARIES (Continued)

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

### DSG Finance and its subsidiaries

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Current assets | **15,772** | N/A |
| Non-current assets | **24,543** | N/A |
| Current liabilities | **(5,773)** | N/A |
| Non-current liabilities | **(3,667)** | N/A |
| Equity attributable to owners of the Company | **15,746** | N/A |
| Non-controlling interests | **15,129** | N/A |
| Revenue | **12,942** | N/A |
| Expenses | **(5,370)** | N/A |
| Profit and total comprehensive income for the year | **7,572** | N/A |
| Profit and total comprehensive income for the year attributable to: | | |
| — owners of the Company | **3,862** | N/A |
| — non-controlling interests | **3,710** | N/A |
| | **7,572** | N/A |
| Dividends paid to non-controlling interests | **—** | N/A |
| Net cash inflow from operating activities | **5,647** | N/A |
| Net cash inflow from investing activities | **1,355** | N/A |
| Net cash outflow from financing activities | **(5,956)** | N/A |
| Net cash inflow | **1,046** | N/A |

## 42. PARTICULARS OF SUBSIDIARIES (Continued)

### DSG Cayman

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Current assets | **9,850** | N/A |
| Non-current assets | **—** | N/A |
| Current liabilities | **(5,574)** | N/A |
| Equity attributable to owners of the Company | **2,181** | N/A |
| Non-controlling interests | **2,095** | N/A |
| Revenue | **11,623** | N/A |
| Expenses | **(3,208)** | N/A |
| Profit and total comprehensive income for the year | **8,415** | N/A |
| Profit and total comprehensive income for the year attributable to: | | |
| — owners of the Company | **4,291** | N/A |
| — non-controlling interests | **4,124** | N/A |
| | **8,415** | N/A |
| Dividends paid to non-controlling interests | **—** | N/A |
| Net cash inflow from operating activities | **1,095** | N/A |
| Net cash outflow from investing activities | **(103)** | N/A |
| Net cash outflow from financing activities | **(1,348)** | N/A |
| Net cash outflow | **(356)** | N/A |

# SCHEDULE OF PRINCIPAL PROPERTIES

Details of the principal properties classified as held for sale of the Group as at 31 December 2018 are as follows:

| Location | Approximate area (sq.ft.) | Lease | Group's attributable interest |
|---|---|---|---|
| Hong Ming Building, Nos. 227, 229, 231 and 233 Des Voeux Road West, Hong Kong | | | |
| —Flat A on 2nd Floor | 1,330 | leased to Independent Third Parties for commercial purpose | 100% |
| —Flat A on 3rd Floor | 1,330 | | 100% |
| —Flat B on 3rd Floor | 1,336 | | 100% |

# 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 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 (Note) |
| Revenue | **358,006** | 483,722 | 562,474 | 561,028 | 590,539 |
| Profit (loss) before tax | **6,583** | (42,931) | (36,379) | (16,048) | 12,121 |
| Income tax expense | **(498)** | (511) | 2,705 | (13) | (3,086) |
| Profit (loss) after tax | **6,085** | (43,442) | (33,674) | (16,061) | 9,035 |

## Assets and Liabilities

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 (Note) |
| Total assets | **347,764** | 335,601 | 437,573 | 477,100 | 407,301 |
| Total liabilities | **(110,848)** | (169,374) | (229,756) | (236,707) | (167,946) |
| Total equity | **236,916** | 166,227 | 207,817 | 240,393 | 239,355 |

Note: Restatement in respect of the change in accounting policy of investment properties has not been made for the year ended 31 December 2014.