
THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in S. Culture International Holdings Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the Offer contained herein.

The Stock Exchange of Hong Kong Limited and Hong Kong Exchanges and Clearing Limited take no responsibility for the contents of this Composite Document and the Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the Form of Acceptance.

**Shang Ying Financial Holding
Co., Limited**

*(Incorporated in Hong Kong
with limited liability)*


**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)

**COMPOSITE DOCUMENT IN RELATION TO
MANDATORY UNCONDITIONAL CASH OFFER BY**



ON BEHALF OF

**SHANG YING FINANCIAL HOLDING CO., LIMITED
FOR ALL THE ISSUED SHARES IN
S. CULTURE INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
SHANG YING FINANCIAL HOLDING CO., LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

Financial Adviser to Shang Ying Financial Holding Co., Limited



Financial Adviser to S. Culture International Holdings Limited



**Independent Financial Adviser to the Code Independent Board Committee
and the Independent Shareholders**



BAOQIAO PARTNERS CAPITAL LIMITED

Capitalised terms used in this cover page have the same meanings as those defined in the section headed "Definitions" of this Composite Document.

A letter from Octal Capital containing, among other things, details of the terms of the Offer is set out on pages 9 to 17 of this Composite Document.

A letter from the Board is set out on pages 18 to 23 of this Composite Document.

A letter from the Code Independent Board Committee containing its recommendation to the Independent Shareholders in relation to the Offer is set out on pages 24 to 25 of this Composite Document.

A letter from BaoQiao Partners containing its advice on the Offer to the Code Independent Board Committee and the Independent Shareholders is set out on pages 26 to 44 of this Composite Document.

The procedures for acceptance and settlement of the Offer and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptance of the Offer should be received by the Registrar no later than 4:00 p.m. on 10 July 2017 or such later time and/or date as the Offeror may determine and announce with the consent of the Executive, in accordance with the Takeovers Code.

17 June 2017

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made as and when appropriate.

2017

Despatch date of this Composite Document and the accompanying Form of Acceptance and the commencement date of the Offer (<i>Note 1</i>)	17 June
Offer opens for acceptance (<i>Note 1</i>)	17 June
Closing Date (<i>Note 2</i>)	10 July
Latest time and date for acceptance of the Offer (<i>Note 2</i>)	by 4:00 p.m. on 10 July
Announcement of the results of the Offer to be published on the website of the Stock Exchange (<i>Note 2</i>)	by 7:00 p.m. on 10 July
Latest date of posting of remittances in respect of valid acceptances received under the Offer (<i>Note 3</i>)	19 July

Notes:

1. The Offer, which is unconditional in all respects, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until 4:00 p.m. on the Closing Date.
2. The Offer, which is unconditional, will be closed on the Closing Date. The latest time for acceptance is at 4:00 p.m. on 10 July 2017 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. An announcement will be issued on the website of the Stock Exchange by 7:00 p.m. on 10 July 2017 stating whether the Offer has been revised or extended or has expired. In the event that the Offeror decides that the Offer will remain open until further notice, a notice by way of an announcement will be given not less than 14 days before the Offer is closed to those Shareholders who have not accepted the Offer.
3. Remittances in respect of the cash consideration payable for the Shares tendered under the Offer will be made as soon as possible, but in any event within seven (7) Business Days following the date of receipt by the Registrar from the Shareholders accepting the Offer of all documents to render the acceptance valid in accordance with the Takeovers Code.
4. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed “Further terms of the Offer — Right of withdrawal” in Appendix I to this Composite Document.
5. If there is a tropical cyclone warning signal number 8 or above, or a black rainstorm warning:
 - (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offer, and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer and the posting of remittances will remain at 4:00 p.m. on the same Business Day; or

EXPECTED TIMETABLE

- (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer, and the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer and the posting of remittances will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

Save as mentioned above, if the latest time for the acceptance of the Offer and posting of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror and the Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

All times and dates in this Composite Document and the Form of Acceptance shall refer to Hong Kong dates and times.

DEFINITIONS

In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors from time to time
“Business Day(s)”	a day on which licensed banks are generally open for business in Hong Kong (other than a Saturday, Sunday or a public holiday or a day on which a tropical cyclone warning signal number 8 or above or a “black rainstorm warning signal” is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Circular”	the circular dated 27 April 2017 issued by the Company in relation to the Special Deals
“Closing Date”	10 July 2017, the closing date of the Offer, which is 21 days after the date on which this Composite Document is posted, or if the Offer is extended, any subsequent closing date of the Offer as extended and announced by the Offeror in accordance with the Takeovers Code
“Code Independent Board Committee”	the independent board committee comprising all non-executive Directors (excluding Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles), namely, Mr. Yu Fuk Lun and all independent non-executive Directors, namely, Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin, established for the purpose of advising the Independent Shareholders in respect of the Offer
“Company”	S. Culture International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares are listed on the Stock Exchange (Stock Code: 1255)
“Completion”	completion of the Sale and Purchase Agreement
“Completion Date”	15 June 2017, the date on which Completion took place in accordance with the Sale and Purchase Agreement

DEFINITIONS

“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company to all the Independent Shareholders in accordance with the Takeovers Code containing, among other things, the detailed terms of the Offer
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Continuation of the Subsidiary Service Agreements”	the (i) entering into of the Supplemental Subsidiary Service Agreements; and (ii) continuation of the Subsidiary Employment Agreements
“controlling shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company from time to time
“EGM”	the extraordinary general meeting convened on 16 May 2017 by the Company approving the Special Deals
“Encumbrance(s)”	any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), equities, hypothecation or other encumbrance, priority or security interest, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback arrangement whatsoever over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same
“Excel Precise”	Excel Precise International Limited, a company incorporated in Hong Kong and a holder of a money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), as amended from time to time, which is owned as to 25% by Mr. Law and as to 73.5% by True Promise Investments Limited, a company incorporated in BVI and wholly owned by Mr. Law. Mr. Law is also a director of Excel Precise and the Offeror
“Executive”	the Executive Director of the Corporate Finance Division of the SFC, or any delegate of the Executive Director
“First Joint Announcement”	the joint announcement issued by the Company and the Offeror dated 19 January 2017 in relation to, among other things, the Sale and Purchase Agreement and the Offer
“Form of Acceptance”	the accompanying form of acceptance in respect of the Offer
“Group”	the Company and its subsidiaries as at the Latest Practicable Date

DEFINITIONS

“HK\$”	Hong Kong dollar(s)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser” or “BaoQiao Partners”	BaoQiao Partners Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Code Independent Board Committee to advise the Code Independent Board Committee and the Independent Shareholders in relation to the Offer and the Special Deals
“Independent Shareholders”	the Shareholders other than (i) the Vendors and parties acting in concert with them; (ii) the Offeror and parties acting in concert with it; and (iii) those who are involved in or interested in the Sale and Purchase Agreement and the Special Deals
“Initial Announcement”	the initial announcement of the Company dated 9 December 2016 pursuant to Rule 3.7 of the Takeovers Code on which the Offer Period commenced
“Irrevocable Undertakings”	the irrevocable undertakings given by certain Shareholders in favour of the Offeror in respect of an aggregate of 15,649,719 Offer Shares
“Joint Announcements”	the Initial Announcement, the First Joint Announcement and the Other Joint Announcements
“KTSG”	Kong Tai Sundry Goods Company Limited, a wholly-owned subsidiary of the Company
“Last Trading Day”	12 January 2017, being the last trading day of the Shares immediately prior to the suspension of trading in the Shares on the Stock Exchange pending the release of the First Joint Announcement
“Latest Practicable Date”	15 June 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	a loan facility granted by Excel Precise as lender to the Offeror as borrower in an amount of HK\$330 million for the financing of the Offer in accordance with the Loan Agreement

DEFINITIONS

“Loan Agreement”	the loan agreement entered into between the Offeror and Excel Precise on 12 January 2017 in respect of the Loan
“Management Agreement”	the management agreement dated 15 June 2017 entered into by the Company, S. Culture (BVI) and the SPV relating to the management of the S. Culture (BVI) Group, details (including principal terms and conditions) of which are further disclosed in the Circular
“Mr. Law”	Mr. Law Fei Shing, a director of the Offeror and Excel Precise and beneficially owns 98.5% of the entire issued share capital of Excel Precise
“Mr. Yang”	Mr. Yang Jun, a director of the Offeror and the sole ultimate beneficial shareholder of the Offeror
“Octal Capital”	Octal Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in respect of the Offer
“Offer”	the mandatory unconditional cash offer made by Octal Capital on behalf of the Offeror, for all the issued Shares not already owned and/or agreed to be acquired by the Offeror and/or parties acting in concert with it in accordance with the Takeovers Code
“Offer Period”	has the meaning ascribed thereto in the Takeovers Code, being the period commencing on the date of the Initial Announcement and ending on the Closing Date
“Offer Price”	the cash amount of HK\$4.00 per Offer Share payable by the Offeror to the Independent Shareholders for each Offer Share accepted under the Offer
“Offer Shares”	all the Shares in issue, other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it
“Offeror”	Shang Ying Financial Holding Co., Limited (商贏金融控股有限公司), a company incorporated under the laws of Hong Kong with limited liability. As at the Latest Practicable Date, it was ultimately solely owned by Mr. Yang
“Other Joint Announcements”	the joint announcements issued by the Company and the Offeror dated 7 April 2017, 28 April 2017 and 15 June 2017 in relation to the Supplemental Agreements and the Completion

DEFINITIONS

“Overseas Shareholders”	Independent Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong
“PRC”	the People’s Republic of China excluding, for the purpose of this Composite Document, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company
“Relevant Period”	the period commencing on the date falling six months preceding 9 December 2016, being the date of the Initial Announcement, and ending on the Latest Practicable Date
“relevant securities”	as defined in Note 4 to Rule 22 of the Takeovers Code
“RHB”	RHB Capital Hong Kong Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Company in respect of the Offer
“S. Culture (BVI)”	S. Culture Holdings (BVI) Limited, a company incorporated in the BVI and as at the Latest Practicable Date, a wholly-owned subsidiary of the Company
“S. Culture (BVI) Group”	S. Culture (BVI) and its subsidiaries
“Sale and Purchase Agreement”	the sale and purchase agreement dated 12 January 2017 entered into among the Vendors and the Offeror in relation to the sale and purchase of the Sale Shares which has been revised and supplemented by the Supplemental Agreements
“Sale Share(s)”	a total of 116,814,797 Shares acquired by the Offeror from the Vendors pursuant to the Sale and Purchase Agreement, representing approximately 58.41% of the total issued share capital of the Company as at the Latest Practicable Date, and “Sale Share” means any of them
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“Share Charge”	the share charge dated 15 June 2017 executed by the Offeror in favour of Excel Precise in respect of the Loan
“Special Deals”	the (i) entering into of the Management Agreement; and (ii) Continuation of the Subsidiary Service Agreements, which constitute special deals for the Company under Rule 25 of the Takeovers Code
“Special Deals Announcement”	the announcement issued by the Company dated 7 April 2017 in relation to, among other things, the Special Deals
“SPV”	Ample Faith Ventures Limited, a company incorporated in the BVI whose shares are held by the Vendors
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary Employment Agreements”	the existing employment agreements entered into between each of Ms. Chu Yuen Fan, Peggie, Ms. Chan Mei Yin and KTSG
“Subsidiary Service Agreements”	the existing subsidiary service agreements entered into between each of the executive Directors, KTSG and Grand Asian Limited
“Supplemental Agreements”	the supplemental agreements dated 7 April 2017 and 28 April 2017 entered into among the Vendors and the Offeror, pursuant to which certain terms of the Sale and Purchase Agreement have been amended
“Supplemental Subsidiary Service Agreements”	the supplemental service agreements all dated 15 June 2017 entered into between each of the executive Directors to continue the Subsidiary Service Agreements, details (including principal terms and conditions) of which are further disclosed in the Circular
“Takeovers Code”	the Code on Takeovers and Mergers
“Vendors”	collectively, Chong Hok Hei, Charles, Chong Hok Shan, Chong Hot Hoi, Chu Chun Ho, Dominic, Chu Chun Wah, Haeta, Chu Yuen Fan, Peggie, Wong May Heung, Wu Se and Come Good Investment (BVI) Limited
“%”	per cent.



17 June 2017

To the Independent Shareholders

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
OCTAL CAPITAL LIMITED
ON BEHALF OF
SHANG YING FINANCIAL HOLDING CO., LIMITED
FOR ALL THE ISSUED SHARES IN
S. CULTURE INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
SHANG YING FINANCIAL HOLDING CO., LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcements in relation to, among other matters, the Sale and Purchase Agreement and the Supplemental Agreements, the Special Deals Announcement and the Circular in relation to the Special Deals. The Special Deals have been approved by the Independent Shareholders at the EGM.

On 12 January 2017, the Vendors and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendors have conditionally agreed to sell and procure the sale of, and the Offeror has conditionally agreed to purchase, the Sale Shares, being 116,814,797 Shares at an aggregate consideration of HK\$467,259,188, representing HK\$4.00 per Sale Share. Immediately upon the Completion which took place on 15 June 2017, the Offeror and parties acting in concert with it owned 116,814,797 Shares, representing approximately 58.41% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Offeror is required to make the Offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). The Offer is unconditional in all respects.

This letter sets out, among other things, the details of the Offer, information on the Offeror and the intention of the Offeror regarding the Group. The terms of the Offer and the procedures for acceptances are set out in this letter, Appendix I to this Composite Document and the Form of Acceptance.

LETTER FROM OCTAL CAPITAL

The Independent Shareholders are strongly advised to carefully consider the information contained in the “Letter from the Board”, the “Letter from the Code Independent Board Committee” and the “Letter from BaoQiao Partners” as set out in this Composite Document.

THE OFFER

Principal terms of the Offer

Octal Capital, on behalf of the Offeror, hereby makes the Offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and the parties acting in concert with it), which is unconditional in all respects, on the following basis:

For each Offer Share HK\$4.00 in cash

The Offer Price is the same as the purchase price per Sale Share under the Sale and Purchase Agreement which was determined after arm’s length negotiations between the Offeror and the Vendors.

As at the Latest Practicable Date, the Company had a total of 200,000,000 Shares in issue and the Company had no outstanding securities, options, derivatives or warrants which are convertible or exchangeable into the Shares and had not entered into any agreement for the issue of such securities, options, derivatives or warrants of the Company.

The Shares to be acquired under the Offer shall be fully paid and free from any Encumbrances and together with all rights and benefits attached and accrued thereto as at the date on which the Offer is made, including the rights to receive in full all dividends and distributions that may be declared, made or paid by the Company on or after the date on which the Offer is made.

Comparison of value

The Offer Price of HK\$4.00 per Offer Share represents:

- (a) a premium of approximately 2.83% over the closing price of HK\$3.89 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 33.33% over the closing price of HK\$3.00 per Share as quoted on the Stock Exchange on 8 December 2016, being the last trading day prior to the commencement of the Offer Period;
- (c) a premium of approximately 11.73% over the closing price of HK\$3.58 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (d) a premium of approximately 14.61% over the average closing price of approximately HK\$3.49 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to and including the Last Trading Day;

LETTER FROM OCTAL CAPITAL

- (e) a premium of approximately 14.29% over the average closing price of approximately HK\$3.50 per Share as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Last Trading Day;
- (f) a premium of approximately 23.84% over the average closing price of approximately HK\$3.23 per Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Day; and
- (g) a premium of approximately 334.78% over the audited consolidated net asset value of the Group as at 31 December 2016 of approximately HK\$0.92 calculated based on audited consolidated net asset value of the Group attributable to the Shareholders as at 31 December 2016 of approximately HK\$184.07 million and 200,000,000 Shares in issue as at the Latest Practicable Date.

Highest and lowest trading prices

During the six-month period immediately preceding the commencement of the offer period (i.e. 9 December 2016) and up to and including the Latest Practicable Date, the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$1.79 per Share on 24 June 2016 and the highest closing price of the Shares as quoted on the Stock Exchange was HK\$3.95 per Share on 20 January 2017.

Value of the Offer

Based on the Offer Price of HK\$4.00 per Offer Share and 200,000,000 issued Shares as at the Latest Practicable Date, the entire issued share capital of the Company was valued at HK\$800,000,000.

Assuming that there is no change in the issued share capital of the Company, as the Offeror and parties acting in concert with it held in aggregate 116,814,797 Shares immediately after Completion, a total of 83,185,203 Shares are subject to the Offer. Based on the Offer Price of HK\$4.00 per Offer Share, the total consideration for the Offer would be HK\$332,740,812 (assuming full acceptance of the Offer).

Financial resources available to the Offeror

The Offeror shall finance and satisfy the consideration payable under the Offer (i.e. HK\$332,740,812) with its internal resources and the Loan of HK\$330 million.

The Offeror entered into the Loan Agreement with Excel Precise, a holder of money lenders licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), on 12 January 2017, pursuant to which Excel Precise agreed to grant to the Offeror the Loan of HK\$330 million for financing the Offer. Pursuant to the provisions of the Loan Agreement, among other things, (a) the Offeror will charge the Sale Shares acquired under the Sale and Purchase Agreement and the Offer Shares to be and/or possibly to be acquired under the Offer in favour of Excel Precise to secure the repayment obligations of the Offeror; and (b) the Offeror will repay the Loan in full on the date falling on the last day of the period of six months following the close of the Offer. The Loan has been drawn down by

LETTER FROM OCTAL CAPITAL

the Offeror in full on the date of the Loan Agreement and deposited into its bank account for financing the Offer. The Offeror confirms that the payment of interests on, repayment of and security for the Loan will not depend on the business of the Company.

Octal Capital has been appointed as the financial adviser to the Offeror in respect of the Offer. Octal Capital is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy the consideration payable upon full acceptance of the Offer.

Effect of accepting the Offer

By accepting the Offer, Independent Shareholders will sell their Shares to the Offeror free from all Encumbrances and together with all rights attaching to them, including but not limited to all rights to any dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

Acceptance of the Offer by any Independent Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all Encumbrances whatsoever together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made.

Acceptance of the Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Payment

Payment in cash in respect of an acceptance of the Offer will be made as soon as possible but in any event within seven (7) Business Days (as defined under the Takeovers Code) of the date of the receipt of the duly completed acceptance of the Offer. Relevant documents evidencing title of the Shares must be received by or on behalf of the Offeror to render such acceptance of the Offer complete and valid.

Stamp duty

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Offer payable by relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such Independent Shareholder on acceptance of the Offer (where the stamp duty calculated includes a fraction of HK\$1, the stamp duty would be rounded-up to the nearest HK\$1). The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

LETTER FROM OCTAL CAPITAL

Taxation advice

The Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, Octal Capital and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

Overseas Shareholders

As the Offer to persons not residing in Hong Kong might be affected by the laws of the relevant jurisdiction in which they are resident, Overseas Shareholders whose addresses as shown in the register of members of the Company are outside Hong Kong and beneficial owners of the Shares who are citizens, residents or nationals of a jurisdiction outside Hong Kong should obtain information about and observe any applicable legal or regulatory requirements and, where necessary, seek legal advice in respect of the Offer. It is the responsibility of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdictions).

Any acceptance by any Overseas Shareholders will be deemed to constitute a representation and warranty from such Overseas Shareholders to the Offeror that the local laws and requirements have been complied with. The Overseas Shareholders should consult their professional advisers if in doubt.

Irrevocable Undertakings

The Offeror has procured the Irrevocable Undertakings from six Shareholders that they shall accept or procure the acceptance of, the Offer in respect of their respective Offer Shares (with an aggregate of 15,649,719 Offer Shares, representing approximately 7.82% of issued share capital of the Company as at the Latest Practicable Date) beneficially held by them not later than five (5) Business Days after this Composite Document has been despatched.

The Irrevocable Undertakings shall lapse and be terminated on the earlier to occur of (i) the date on which the Offer lapses or is withdrawn; or (ii) the date which is five (5) months after the date of the First Joint Announcement. As the Offer only opens for acceptance on 17 June 2017, the Offeror has been liaising with the said Shareholders on extension so that the Irrevocable Undertakings shall lapse and be terminated on the earlier to occur of (i) the date on which the Offer lapses or is withdrawn; or (ii) 31 August 2017. As at the Latest Practicable Date, two out of the above six Shareholders (with an aggregate of 5,403,572 Offer Shares) had provided supplemental irrevocable undertakings indicating their agreements to such an extension.

LETTER FROM OCTAL CAPITAL

INFORMATION OF THE GROUP

Details of the information on the Group are set out in the “Letter from the Board” in this Composite Document.

INFORMATION AND INTENTION OF THE OFFEROR

The Offeror is an investment holding company incorporated in Hong Kong on 10 August 2016 with limited liability. As at the Latest Practicable Date, (i) the Offeror was ultimately solely owned by Mr. Yang Jun (楊軍); (ii) Mr. Yang and Mr. Law are the directors of the Offeror; and (iii) the Offeror had not conducted any business since its incorporation and did not have any material assets, save for the Completion.

Mr. Yang, aged 37, graduated from Nanjing Army Command College (南京陸軍指揮學院). Mr. Yang is an entrepreneur with extensive experience in corporate management of enterprises engaged in a variety of industries. He is an executive director and the Chairman of 旭森國際控股(集團)有限公司 (transliterated as Xu Sen International Holding Company Limited*) (“**Xu Sen International**”), 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, namely 商贏環球股份有限公司 (transliterated as Shang Ying Global Holding Company Limited*) (stock code: 600146.SH) and 上海易同科技股份有限公司 (transliterated as Shanghai Yi Tong Technology Holding Company Limited*) (stock code: 430258.OC), are listed on the Shanghai Stock Exchange and the New Third Board (新三板) in the PRC, respectively.

Prior to joining Xu Sen International, Mr. Yang was the Chairman of 上海泓澤世紀投資發展有限公司 (transliterated as Shanghai Hong Ze Century Investment Development Company Limited*) 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 上海好美園藝有限公司 (transliterated as Shanghai Hao Mei Gardening Limited Company*), which was mainly engaged in greening works and cabling works.

Following the close of the Offer, it is the intention of the Offeror that the Group will continue to focus on the development and operations of its existing business, and does not intend to introduce any major changes to the existing operations and business of the Company immediately after the Completion and the close of the Offer. The Offeror intends to conduct a detailed review of the operations and business activities of the Group and formulate business strategies for the Group’s long term development and will explore other business opportunities for the Group, including the feasibility of diversifying the income stream of the Group by exploring business and investment opportunities in different business areas such as, without limitation to, medical and healthcare industry, which may or may not include any assets and/or business acquisitions or disposals, fund raising, restructuring of the business and/or business diversification, which will be appropriate in order to enhance its growth. Subject to further investigation into the business opportunities in the related areas, the Offeror will present suitable propositions to the Company in due course. The Offeror has no intention to discontinue the employment of the employees (save for a change in the composition of the Board and the company secretary of the Company)

LETTER FROM OCTAL CAPITAL

or to dispose of, or re-deploy, the assets of the Group other than those in its ordinary course of business. The Offeror had not identified any investment or business opportunities nor had the Offeror entered into any agreement, arrangements, understandings or negotiation and no plan on any injection of any assets or businesses into the Group as at the Latest Practicable Date.

Dealing and interests in the Company's securities

As at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in 116,814,797 Shares as a result of the acquisition pursuant to the Sale and Purchase Agreement. Save and except (i) the acquisition pursuant to the Sale and Purchase Agreement; (ii) the Loan Agreement; (iii) the Share Charge; and (iv) the obtaining of the Irrevocable Undertakings, during the six-month period immediately preceding the commencement of the Offer Period (i.e. 9 December 2016) and up to and including the Latest Practicable Date, the Offeror or the parties acting in concert with it did not hold any relevant securities nor have dealt for value in any relevant securities of the Company.

PROPOSED CHANGE OF BOARD COMPOSITION

The Board is currently made up of nine members, comprising three executive Directors, namely Mr. Chu Siu Ming, Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta, three non-executive Directors, namely Mr. Chong Hot Hoi, Mr. Chong Hok Hei, Charles and Mr. Yu Fuk Lun, and three independent non-executive Directors, namely Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin.

Pursuant to the terms of the Sale and Purchase Agreement, each of Mr. Chu Siu Ming, Mr. Chu Chun Wah, Haeta, Mr. Chong Hot Hoi, Mr. Chong Hok Hei, Charles, Mr. Yu Fuk Lun, Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin had, at the request of the Offeror, delivered written resignations as a Director to the Offeror at Completion and such resignation shall be effective from the earliest time permitted under the Takeovers Code, the Listing Rules or other applicable rules or regulations or such later date as the Offeror may determine. For the avoidance of doubt, each of Mr. Chu Siu Ming, Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta, Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles shall remain as a director of the subsidiaries of the Company pursuant to the Management Agreement.

In addition, pursuant to the terms of the Sale and Purchase Agreement, the Vendors shall, if so required by the Offeror, cause such persons as the Offeror may nominate to be validly appointed as the Directors and such appointment(s) shall be effective from such date as the Offeror may determine, provided that such date shall not be earlier than the earliest date as may be permitted under the Takeovers Code or the Executive. The Offeror intends to nominate Mr. Yang as an executive Director and other new Directors to the Board with effect from the earliest time permitted under the Takeovers Code. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made accordingly.

LETTER FROM OCTAL CAPITAL

COMPULSORY ACQUISITION

The Offeror does not intend to avail itself of any power of compulsory acquisition of any Shares after the close of the Offer.

MAINTENANCE OF LISTING AND SUFFICIENT PUBLIC FLOAT OF THE COMPANY

The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror and the proposed new Directors to be nominated by the Offeror and appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and acceptance period as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

GENERAL

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold the Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

Attention of the Overseas Shareholders is drawn to the paragraph headed "Overseas Shareholders" in this letter.

All documents and remittances to be sent to the Independent Shareholders will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the register of members of the Company or in the case of joint Independent Shareholders, to such Independent Shareholder whose name appears first in the register of members of the Company. The Offeror, its beneficial owner and parties acting in concert with any of them, the Company, Octal Capital, BaoQiao Partners, the Registrar or the company secretary of the Company or any of their respective directors or professional advisers or any other parties involved in the Offer will not be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof or in connection therewith.

LETTER FROM OCTAL CAPITAL

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document which form part of this Composite Document. You are reminded to carefully read the “Letter from the Board”, the advice of the Code Independent Board Committee, the recommendation of BaoQiao Partners and other information about the Group which are set out in this Composite Document before deciding whether or not to accept the Offer.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung
Managing Director



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)

Executive Directors:

Mr. Chu Siu Ming (*Vice-Chairman*)

Mr. Chu Chun Ho, Dominic
(*Co-Chief Executive Officer*)

Mr. Chu Chun Wah, Haeta
(*Co-Chief Executive Officer*)

Registered office:

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

Non-executive Directors:

Mr. Chong Hot Hoi (*Chairman*)

Mr. Chong Hok Hei, Charles

Mr. Yu Fuk Lun

*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

Independent Non-executive Directors:

Mr. Wan Kam To

Mr. Yau Tat Wang, Dennis

Mr. Lam Man Tin

17 June 2017

To the Independent Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
OCTAL CAPITAL LIMITED
ON BEHALF OF
SHANG YING FINANCIAL HOLDING CO., LIMITED
FOR ALL THE ISSUED SHARES IN
S. CULTURE INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
SHANG YING FINANCIAL HOLDING CO., LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

LETTER FROM THE BOARD

INTRODUCTION

Reference is made to the Joint Announcements in relation to, among other matters, the Sale and Purchase Agreement and the Supplemental Agreements, the Special Deals Announcement and the Circular. The Special Deals have been approved by the Independent Shareholders at the EGM.

As mentioned in the First Joint Announcement, on 12 January 2017, the Vendors and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendors have conditionally agreed to sell and procure the sale of, and the Offeror has conditionally agreed to purchase, the Sale Shares, being 116,814,797 Shares at an aggregate consideration of HK\$467,259,188, representing HK\$4.00 per Sale Share. Immediately upon the Completion which took place on 15 June 2017, the Offeror and parties acting in concert with it owned 116,814,797 Shares, representing approximately 58.41% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Offeror is required to make the Offer to acquire all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). The Offer is unconditional in all respects.

Details of the Offer are set out in the “Letter from Octal Capital” and Appendix I to this Composite Document and the Form of Acceptance.

The primary purpose of this letter is to provide you with information relating to, among other matters, information relating to the Group and the Offer.

CODE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Rule 2.8 of the Takeovers Code requires the Company to establish an independent committee of the Board to give a recommendation to the Independent Shareholders on the Offer and that such independent committee should comprise all the non-executive Directors who have no direct or indirect interest in the Offer other than as a Shareholder. The Code Independent Board Committee, comprising of all non-executive Directors (other than Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles), namely Mr. Yu Fuk Lun and all independent non-executive Directors, namely Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin, has been established to make recommendations to the Independent Shareholders on whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, who will be two of the shareholders of the SPV and the Vendors, are considered to be materially interested in the Special Deals and are therefore excluded from the Code Independent Board Committee.

The Independent Financial Adviser has been approved by the Code Independent Board Committee to act as the independent financial adviser to advise the Code Independent Board Committee as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to acceptance in respect of the Offer. The full text of the letter of advice from the Independent Financial Adviser addressed to the Code Independent Board Committee is set out in this Composite Document.

LETTER FROM THE BOARD

THE OFFER

As mentioned in the “Letter from Octal Capital” as set out in this Composite Document, Octal Capital, on behalf of the Offeror, is making the Offer on the following basis:

For each Offer Share HK\$4.00 in cash

The Offer Price of HK\$4.00 per Offer Share under the Offer is the same as the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement. The Offer Shares to be acquired under the Offer will be fully paid and free from all Encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

Based on the Offer Price of HK\$4.00 per Offer Share and 200,000,000 issued Shares as at the Latest Practicable Date, the entire issued share capital of the Company is valued at HK\$800,000,000.

Assuming that there is no change in the issued share capital of the Company, as the Offeror and parties acting in concert with it will hold in aggregate 116,814,797 Shares, representing approximately 58.41% of the entire issued share capital of the Company, immediately after Completion, a total of 83,185,203 Shares will be subject to the Offer. Based on the Offer Price of HK\$4.00 per Offer Share, the total consideration for the Offer would be HK\$332,740,812 (assuming full acceptance of the Offer).

Further details of the Offer

Further details of the Offer including, among other things, its extension to the Overseas Shareholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period are set out in the “Letter from Octal Capital” and Appendix I to this Composite Document and the Form of Acceptance.

GENERAL

Information on the Offeror and its intention regarding the Company

Your attention is drawn to the section headed “Information about the Offeror” and “The Offeror’s intention in respect of the Group” in the “Letter from Octal Capital” set out in this Composite Document. The Board is aware of the intention of the Offeror in respect of the Group and its employees and is willing to co-operate with the Offeror further which is in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Information on the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and the Shares have been listed on the Stock Exchange since 11 July 2013. The principal activity of the Company is investment holding, whilst its major operating subsidiaries are engaged in trading of footwear products.

The following table sets out the shareholding structure of the Company (i) immediately before the Completion; and (ii) immediately after Completion and as at the Latest Practicable Date:

	Immediately before Completion		Immediately after Completion and as at the Latest Practicable Date	
	No. of Shares	Approx. %	No. of Shares	Approx. %
Vendors and parties acting in concert with them				
Mr. Chong Hok Shan (<i>Notes 1 & 4</i>)	28,566,162	14.28	—	—
Mr. Chong Hot Hoi (<i>Note 2</i>)	28,566,163	14.28	—	—
Mr. Chong Hok Hei, Charles (<i>Note 3</i>)	28,566,164	14.28	—	—
Ms. Wu Se (<i>Note 4</i>)	187,764	0.09	—	—
Come Good Investment (BVI) Limited (<i>Note 5</i>)	24,261,153	12.13	—	—
Mr. Chu Chun Ho, Dominic (<i>Notes 5 & 8</i>)	1,713,091	0.86	—	—
Ms. Wong May Heung (<i>Note 6</i>)	1,670,000	0.84	—	—
Ms. Chu Yuen Fan, Peggie (<i>Notes 5 & 7</i>)	1,653,011	0.83	—	—
Mr. Chu Chun Wah, Haeta (<i>Notes 5 & 9</i>)	1,631,289	0.82	—	—
Sub-total	116,814,797	58.41	—	—
The Offeror and parties acting in concert with it	—	—	116,814,797	58.41
Public Shareholders	83,185,203	41.59	83,185,203	41.59
Total	200,000,000	100.00	200,000,000	100.00

Notes:

- Mr. Chong Hok Shan is the brother of Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles.
- Mr. Chong Hot Hoi is a non-executive Director and chairman of the Board.
- Mr. Chong Hok Hei, Charles is a non-executive Director.
- Ms. Wu Se is the spouse of Mr. Chong Hok Shan.
- Come Good Investment (BVI) Limited is wholly-owned by Mr. Chu Siu Ming (“**Mr. Chu**”), an executive Director and the vice-chairman of the Board. Mr. Chu is the father of Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta and Ms. Chu Yuen Fan, Peggie.

LETTER FROM THE BOARD

6. Ms. Wong May Heung is the spouse of Mr. Chu.
7. Ms. Chu Yuen Fan, Peggie is a director of business relations of the Company.
8. Mr. Chu Chun Ho, Dominic is an executive Director and co-chief executive officer of the Company.
9. Mr. Chu Chun Wah, Haeta is an executive Director and co-chief executive officer of the Company.

Set out below is a summary of the audited consolidated financial information of the Group for each of the two years ended 31 December 2015 and 2016, as extracted from the Company's annual report for the year ended 31 December 2016:

	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2016 HK\$'000
Revenue	561,028	562,474
Loss before tax	(16,360)	(37,312)
Loss for the year	<u>(16,373)</u>	<u>(34,607)</u>
	As at 31 December 2015 HK\$'000	As at 31 December 2016 HK\$'000
Consolidated net asset value attributable to owners of the Company	<u>217,577</u>	<u>184,068</u>

The consolidated net asset value of the Group attributable to the Shareholders as at 31 December 2016 was approximately HK\$184.07 million, which is equivalent to approximately HK\$0.92 per Share based on 200,000,000 Shares in issue as at 31 December 2016.

Your attention is drawn to the financial information of the Group as set out in Appendix II to this Composite Document.

Save for the aggregate consideration for the Sale Shares of HK\$467,259,188 paid by the Offeror, the Offeror and parties acting in concert with it had not paid and will not pay any other consideration in whatever form to the Vendors and parties acting in concert with them in connection with the Sale Shares or otherwise.

MAINTENANCE OF LISTING AND SUFFICIENT PUBLIC FLOAT OF THE COMPANY

The Offeror intends the Company to remain listed on the Stock Exchange. The directors of the Offeror and the proposed new Directors to be nominated by the Offeror and appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

LETTER FROM THE BOARD

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

The Board noted the Offeror's intention to maintain the listing of the Shares on the Stock Exchange. Each of the Offeror and the proposed new Director(s) to be appointed to the Board have jointly and severally undertaken to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that sufficient public float exists in the Shares.

SPECIAL DEALS

Save for the Special Deals as disclosed in the Circular, there are no other agreements entered into or to be entered into between the Offeror and parties acting in concert with it on one hand and each of the Vendors and parties acting in concert with them on the other hand which will constitute special deals under Rule 25 of the Takeovers Code.

RECOMMENDATIONS

Your attention is drawn to the "Letter from the Code Independent Board Committee" of this Composite Document which sets out its recommendation to the Independent Shareholders in respect of the Offer. Your attention is also drawn to the "Letter from BaoQiao Partners" of this Composite Document which contains, among other things, the Independent Financial Adviser's advice to the Code Independent Board Committee in relation to the Offer.

The Independent Shareholders are urged to read those letters carefully before taking any action in respect of the Offer.

ADDITIONAL INFORMATION

Your attention is drawn to the "Letter from Octal Capital" of this Composite Document which contains further details of the Offer and the information set out in the appendices to this Composite Document.

In considering what action to take in connection with the Offer, you should also consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

Yours faithfully,
For and on behalf of the board of
S. Culture International Holdings Limited
Chong Hot Hoi
Chairman

LETTER FROM THE CODE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter of recommendation from the Code Independent Board Committee to the Independent Shareholders prepared for the purpose of inclusion in this Composite Document.



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)

17 June 2017

To the Independent Shareholders

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY



ON BEHALF OF

**SHANG YING FINANCIAL HOLDING CO., LIMITED
FOR ALL THE ISSUED SHARES IN
S. CULTURE INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
SHANG YING FINANCIAL HOLDING CO., LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the Composite Document dated 17 June 2017 jointly issued by the Company and the Offeror, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

We have been appointed as members of the Code Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to acceptance thereof.

LETTER FROM THE CODE INDEPENDENT BOARD COMMITTEE

BaoQiao Partners has been appointed as the Independent Financial Adviser to the Code Independent Board Committee to advise the Code Independent Board Committee in respect of the terms of the Offer and as to acceptance thereof. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the “Letter from BaoQiao Partners” of the Composite Document.

We also wish to draw your attention to the letter from the Board, the letter from Octal Capital and the additional information set out in the appendices to the Composite Document.

RECOMMENDATION

Having taken into account the terms of the Offer and the advice from the Independent Financial Adviser and the principal factors taken into account in arriving at its recommendation, we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to accept the Offer.

However, Independent Shareholders are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Offer. In addition, the Independent Shareholders who wish to realise their investments in the Company in the open market should also consider and monitor the trading volume of the Shares during the Offer Period as they may experience difficulty in disposing of the Shares in the open market without creating downward pressure on the price of the Shares.

In any case, the Independent Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Independent Shareholders should consult their own professional advisers for professional advice. Furthermore, the Independent Shareholders who wish to accept the Offer are recommended to read carefully the procedures for accepting the Offer as detailed in the Composite Document.

Yours faithfully,
For and on behalf of the
Code Independent Board Committee

Mr. Yu Fuk Lun

Non-executive Director

Mr. Wan Kam To Mr. Yau Tat Wang, Dennis Mr. Lam Man Tin
Independent non-executive Directors

LETTER FROM BAOQIAO PARTNERS

The following is the letter of advice from BaoQiao Partners Capital Limited to the Code Independent Board Committee and the Independent Shareholders in relation to the Offer, which has been prepared for the purpose of inclusion in this Composite Document.



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 501, 5/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

17 June 2017

*To the Code Independent Board Committee and the Independent Shareholders
of S. Culture International Holdings Limited*

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
OCTAL CAPITAL LIMITED ON BEHALF OF
SHANG YING FINANCIAL HOLDINGS CO., LIMITED
FOR ALL THE ISSUED SHARES IN
S. CULTURE INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY
SHANG YING FINANCIAL HOLDINGS CO., LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Code Independent Board Committee and the Independent Shareholders in respect of the Offer, details of which are set out in the composite offer and response document dated 17 June 2017 (the “**Composite Document**”) jointly issued by the Offeror and the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the Joint Announcements and the Circular in relation to, among other things, the Sale and Purchase Agreement, the Supplemental Agreement and the Special Deals. The Special Deals have been approved by the Independent Shareholders at the EGM as disclosed in the announcement of the Company dated 16 May 2017.

As disclosed in the Joint Announcements, the Vendors and the Offeror entered into the Sale and Purchase Agreement and the Supplemental Agreement, pursuant to which the Offeror has conditionally agreed to purchase and the respective Vendors have conditionally

LETTER FROM BAOQIAO PARTNERS

agreed to sell the Sale Shares, being 116,814,797 Shares for an aggregate cash consideration of HK\$467,259,188, representing HK\$4.00 per Sale Share. Completion took place on 15 June 2017 and the Offeror and parties acting in concert with it owned 116,814,797 Shares, representing approximately 58.41% of the entire issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

CODE INDEPENDENT BOARD COMMITTEE

The Code Independent Board Committee comprising all the non-executive Directors (other than Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles), namely, Mr. Yu Fuk Lun and all the independent non-executive Directors, namely Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin, has been established to make recommendations to (i) the Independent Shareholders on the Special Deals; and (ii) the Shareholders other than the Offeror and parties acting in concert with them in respect of the Offer as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer. Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, being two of the shareholders of the SPV and the Vendors, are considered to be materially interested in the Special Deals and are therefore excluded from the Code Independent Board Committee.

We, BaoQiao Partners Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Code Independent Board Committee and the Independent Shareholders on the Special Deals and the Offer, and such appointment has been approved by the Code Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Company or any other parties that could be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser in relation to the Offer and the Special Deals, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Code Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Joint Announcements, the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were

LETTER FROM BAOQIAO PARTNERS

made and continue to be so as at the Latest Practicable Date. Should there be any subsequent material changes in such information, the Company should inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided in the Circular and our opinion as soon as possible after the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Management in the Composite Document were reasonably made after due enquiries and careful consideration. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading.

As stated in Appendix III to the Composite Document, the directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than the information relating to the Vendors and the Group), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than opinions expressed by the Vendors and the Group) in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

As further stated in Appendix III to the Composite Document, the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than those relating to the Offeror and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed (other than opinions expressed by the Offeror and parties acting in concert with it) in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Code Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Offer, and this letter, except for its inclusion in the Composite Document and for inspection as required under the Listing Rules and the Takeovers Code, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM BAOQIAO PARTNERS

THE OFFER

Principal terms of the offer

Octal Capital, on behalf of the Offeror, makes the Offer to all the Independent Shareholders for all issued Shares (other than those Shares already owned by the Offeror and parties acting in concert with it) in compliance with Rule 26.1 of the Takeovers Code on the following basis:

For each Offer Share HK\$4.00 in cash

The Offer Price is the same as the purchase price per Sale Share under the Sale and Purchase Agreement (as supplemented by the Supplemental Agreement).

As at the Latest Practicable Date, there are 200,000,000 Shares in issue and the Company does not have any outstanding securities, options, warrants or derivatives convertible into or which confer rights to require the issue of Shares and the Company has not entered into any agreement for the issue of such securities, options, warrants or derivatives of the company.

Assuming there is no change in the issued share capital of the Company, as the Offeror and parties acting in concert with it held in aggregate 116,814,797 Shares immediately after Completion, a total of 83,185,203 Shares are subject to the Offer.

The Shares to be acquired under the Offer shall be fully paid and free from any Encumbrances and together with all rights and benefits attached and accrued thereto as at the date on which the Offer is made, including but not limited to any rights to dividends or other distributions declared, made or paid by any on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Offer, we have taken into account the following principal factors and reasons:

1. Background Information of the Group

1.1 Information on the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and the Shares have been listed on the Stock Exchange since 11 July 2013. The Company is an investment holding company and its subsidiaries (i.e. the S. Culture (BVI) Group) are engaged in distributing and retailing of lifestyle comfort footwear products. The S. Culture (BVI) Group is the sole operating arm of the Group. Other than the members of the S. Culture (BVI) Group, the Company has no other subsidiaries.

LETTER FROM BAOQIAO PARTNERS

1.2 Historical financial performance of the Group

Set out below is the audited consolidated financial information of the Group for the two years ended 31 December 2015 (“FY2015”) and 2016 (“FY2016”) as extracted from the annual report of the Company for the year ended 31 December 2016 (the “2016 Annual Report”):

The Group

	FY2015 <i>HK\$'000</i> (audited)	FY2016 <i>HK\$'000</i> (audited)
Revenue	561,028	562,474
Loss before taxation	(16,360)	(37,312)
Loss for the year	(16,373)	(34,607)

	As at 31 December	
	2015 <i>HK\$'000</i> (audited)	2016 <i>HK\$'000</i> (audited)
Total assets	454,284	413,824
Total liabilities	236,707	229,756
Net assets	217,577	184,068

As advised by the Management and based on our review of the 2016 Annual Report and the consolidated management accounts of the Company for FY2015 and FY2016, the Group has historically derived all of its revenue from the footwear distribution and retail operations of the S. Culture (BVI) Group and the financial results, assets and liabilities of the Group are principally contributed by the S. Culture (BVI) Group. The Company has no revenue, material assets and liabilities as at each of 31 December 2015 and 31 December 2016.

Financial Performance of the Group

For FY2016, the Group recorded revenue of approximately HK\$562.5 million, representing an increase of approximately HK\$1.5 million or approximately 0.3% from approximately HK\$561.0 million for FY2015 as disclosed in the 2016 Annual Report.

The Group has two major segments of operations which consist of i) retail operation and ii) wholesale operation. The retail operation and wholesale operation have accounted for approximately 92.2% and 7.8% respectively for FY2016 and approximately 91.5% and 8.5% respectively for FY2015 of the Group's total revenue. In FY2016, the revenue from retail operation of the Group has amounted to approximately HK\$518.8 million,

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representing an increase of approximately HK\$5.7 million or approximately 1.1% from that of approximately HK\$513.1 million for FY2015. The revenue from wholesale operation of the Group decreased from approximately HK\$47.9 million in FY2015 to approximately HK\$43.7 million in FY2016, representing a decrease of approximately HK\$4.2 million or 8.8%.

The Group operates in four major geographical areas which include i) Hong Kong; ii) Taiwan; iii) Macau; and iv) the PRC, which accounted for approximately 79.2%, 17.6%, 2.2% and 1.0% respectively for FY2016 and approximately 77.9%, 18.7%, 2.4% and 1.0% respectively for FY2015 of the Group's total revenue.

Of the four major areas where the Group operates in, Hong Kong is the largest market which accounted for the majority of the total revenue of Group. As disclosed in the 2016 Annual Report, revenue from Hong Kong region increased slightly from approximately HK\$437.0 million in FY2015 to approximately HK\$445.3 million in FY2016, mainly driven by the increasing sales from the newly added short-term lease promotion outlets which enhanced better reach to target consumers.

In respect of the Taiwan region, the Group recorded a decrease in revenue from approximately HK\$105.1 million for FY2015 to approximately HK\$98.9 million for FY2016, representing a year-on-year decline of approximately HK\$6.2 million or 5.9%. The sales in the PRC remained steady at approximately HK\$5.9 million for FY2016 and approximately HK\$5.8 million for FY2015. The sales in Macau decreased from approximately HK\$13.2 million in FY2015 to approximately HK\$12.3 million in FY2016.

Retail Operation

According to the 2016 Annual Report, despite the increase in sales in the Hong Kong market, the same store sales in Hong Kong (i.e. year-on-year sales comparison of existing retail stores) for FY2016 declined by approximately 2.8% as compared to FY2015 due to the weak retail climate in Hong Kong.

The Group recorded a same store sales decline in Taiwan (i.e. year-on-year sales comparison of existing retail stores) of approximately 5.9% for FY2016 as compared to FY2015 due to the stagnant retail market in Taiwan while the sales in PRC and Macau has maintained roughly the same in FY2016 as compared to FY2015.

As at 31 December 2016, the Group operated 72 (2015: 79) retail outlets (including 11 short-term lease promotion outlets) in Hong Kong, 2 (2015: 2) retail outlets in Macau, 3 (2015: 4) retail outlets in Mainland China, and 48 (2015: 50) retail outlets in Taiwan as disclosed in the 2016 Annual Report.

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Wholesale Operation

In addition to retail sales, the Group sells its products to wholesale customers, such as footwear retail chain stores and department stores in Hong Kong, the PRC and Taiwan in order to enhance the public awareness of its products and complement its retail sales network as advised by the Management. The wholesale operation accounted for approximately 7.8% and 8.5% of the total revenue of S. Culture (BVI) Group for FY2016 and FY2015 respectively. As advised by the Management, the Group will continue to maintain the current scale of the wholesale operation.

Major Brands

The S. Culture (BVI) Group has entered into distribution agreements (the “**Distribution Agreements**”) with certain major brands such as “Clarks”, “Josef Seibel”, “The Flexx”, and “Petite Jolie” respectively (together, the “**Major Brands**”). The S. Culture (BVI) Group is the exclusive distributor for Clarks in Hong Kong, Taiwan, Macau and a specific location in the PRC. Its exclusive distributorships are also extended to Hong Kong, Taiwan, Macau and the entire PRC for several licensed footwear brands, including Josef Seibel, The Flexx and Petite Jolie. As advised by the Management, the revenue generated by the Major Brands accounted for approximately 95.8% of the Group’s total revenue for both FY2016 and FY2015.

Of the four Major Brands, “Clarks” contributed to the majority of the total revenue of the Group, accounting for approximately 77.0% and 73.6% for FY2016 and FY2015 respectively and has recorded a year-on-year increase in revenue from approximately HK\$412.9 million in FY2015 to approximately HK\$433.1 million in FY2016 which the Company considered it as an encouraging performance indicator that reaffirmed the brand value in the Group’s target market as disclosed in the 2016 Annual Report. The other Major Brands such as “Josef Seibel”, “The Flexx”, and “Petite Jolie” had all recorded a decrease in revenue by approximately 20.5%, 2.1% and 2.9% respectively from FY2015 to FY2016, mainly due to the sluggishness in the Hong Kong retail market as per our discussion with the Management.

As disclosed in the 2016 Annual Report, the Group reported net loss of approximately HK\$34.6 million for FY2016 as compared to approximately HK\$16.4 million for FY2015. Despite the increase in sales for FY2016, such unsatisfying financial performance and increase in loss were mainly resulted from the drop in gross profit margin as greater promotions and sales discounts were offered to customers in order to maintain the Group’s market shares.

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Financial position of the Group

The financial position of the Group has been deteriorating with net assets of the Group decreased from approximately HK\$217.6 million as at 31 December 2015 to approximately HK\$184.1 million as at 31 December 2016, primarily due to the unsatisfactory financial performance for FY2016.

As at 31 December 2016, the total assets of the Group were approximately HK\$413.8 million, which mainly comprised property, plant and equipment of approximately HK\$46.9 million and inventories of approximately HK\$227.1 million. The cash and bank balances of the Group were approximately HK\$26.2 million and the trade and other receivables were approximately HK\$87.0 million as at 31 December 2016.

As at 31 December 2016, the total liabilities of the Group were approximately HK\$229.8 million, which mainly comprised trade and other payables of approximately HK\$24.5 million and bank borrowings of approximately HK\$205.1 million. As advised by the Management, bank borrowings bore interests at rates between 1.9% to 2.8% per annum as at 31 December 2016.

Outlook of the Group

As disclosed in the 2016 Annual Report, it is expected by the Management that the near term outlook for retail sales will still be constrained by the weak performance of inbound tourism and slow growth of local consumption. As the Group principally operates its retail/distribution footwear business in Hong Kong, we have reviewed the performance of Hong Kong retails sector as below.

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Set out below is the statistics of Business Receipts Indices for Service Industry, which is intended to measure the sales receipts of goods sold by local retail sector from 2014 to 2016, published by the Census and Statistics Department of Hong Kong:

Retail Sales

Year	Value		Volume (Note 1)		
	HK\$ (million)	Index (Average monthly index from Oct 2014 to Sep 2015 = 100)	Year-on-year % change	Index (Average monthly index from Oct 2014 to Sep 2015 = 100)	Year-on-year % change
2014	493,236	102.0	-0.2	100.4	-0.2
2015	475,156	98.3	-3.7	98.9	-1.5
2016	436,623	90.3	-8.1	91.9	-7.1

Source: Census and Statistics Department of Hong Kong

Note:

1. The value index measures the changes in value terms, while the volume index is derived from the value index of retail sales by adjusting for price changes.

Challenges in the Hong Kong retail sector remain amid the continuous drop in tourist arrival. As illustrated in the above table, the value of retail sales has been in decline for the past three years since 2014. The downturn seen in visitor arrivals and spending among inbound tourists led to severe contractions in sales receipts in retailing. Based on the data from the Hong Kong Tourism Board, the numbers of tourist arrivals dropped by 4.5% year-on-year in 2016, in which those from the Mainland saw a steeper deterioration of 6.7%.

Based on the above and as stated in the 2016 Annual Report, we concur with the Management's view that there are certain risks and uncertainties related to the operating environment of Hong Kong retail sector, which could have an effect on overall operation of the Group.

2. Information on and intention of the Offeror in relation to the Group

2.1 Information on the Offeror

As disclosed in the “Letter from Octal Capital” in this Composite Document, the Offeror is an investment holding company incorporated in Hong Kong on 10 August 2016 with limited liability. The Offeror was ultimately solely owned by Mr. Yang Jun (楊軍); (ii) Mr. Yang and Mr. Law are the directors of the Offeror; (iii) the Offeror had not conducted any business since its incorporation and does not have any material assets, save for the Completion.

Mr. Yang, aged 37, graduated from Nanjing Army Command College (南京陸軍指揮學院). Mr. Yang is an entrepreneur with extensive experience in corporate management of enterprises engaged in a variety of industries. He is an executive director and the Chairman of 旭森國際控股(集團)有限公司 (transliterated as Xu Sen International Holding Company Limited*), 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, namely 商贏環球股份有限公司 (transliterated as Shang Ying Global Holding Company Limited*) (stock code: 600146.SH) and 上海易同科技股份有限公司 (transliterated as Shanghai Yi Tong Technology Holding Company Limited*) (stock code: 430258.OC), are listed on the Shanghai Stock Exchange and the New Third Board (新三板) in the PRC, respectively.

Prior to joining Xu Sen International, Mr. Yang was the Chairman of 上海泓澤世紀投資發展有限公司 (transliterated as Shanghai Hong Ze Century Investment Development Company Limited*) 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 上海好美園藝有限公司 (transliterated as Shanghai Hao Mei Gardening Limited Company*), which was mainly engaged in greening works and cabling works.

2.2 Intention of the Offeror in relation to the Company

As disclosed in the “Letter from Octal Capital” in this Composite Document, following the close of the Offer, it is the intention of the Offeror that the Group will continue to focus on the development and operations of its existing business, and does not intend to introduce any major changes to the existing operations and business of the company immediately after the Completion and the close of the Offers. The Offeror intends to conduct a detailed review of the operations and business activities of the Group and formulate business strategies for the Group’s long term development and will explore other business opportunities for the Group, including the feasibility of diversifying the income stream of the Group by exploring business and investment opportunities in different business areas such as, without limitation to, medical and healthcare industry, which may or may not include any assets and/or business acquisitions or disposals, fund raising, restructuring of the business and/or business diversification, which will be

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appropriate in order to enhance its growth. Subject to further investigation into the business opportunities in the related areas, the Offeror will present suitable propositions to the Company in due course. However, as at the Latest Practicable Date, no such investment or business opportunities has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group. Further, the Offeror has no intention to discontinue the employment of the employees (save for a change in the composition of the Board) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

2.3 Proposed change of Board composition

As disclosed in the “Letter from Octal Capital” in this Composite Document, each of Mr. Chu Siu Ming, Mr. Chu Chun Wah, Haeta, Mr. Chong Hot Hoi, Mr. Chong Hok Hei, Charles, Mr. Yu Fuk Lun, Mr. Wan Kam To, Mr. Yau Tat Wang, Dennis and Mr. Lam Man Tin had, at the request of the Offeror, delivered written resignation as a Director from the Board to the Offeror at Completion and such resignation shall be effective from the earliest time permitted under the Takeovers Code, the Listing Rules or other applicable rules or regulations or such later date as the Offeror may determine. For the avoidance of doubt, each of Mr. Chu Siu Ming, Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta, Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles shall remain as a director of the subsidiaries of the Company pursuant to the Management Agreement.

In addition, the Offeror intends to nominate Mr. Yang as an executive Director and other new Directors to the Board with effect from the earliest time permitted under the Takeovers Code. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement will be made accordingly.

Based on our review of the biographical information of Mr. Yang, we note that Mr. Yang has working track record and experience in managing companies from different sectors (e.g. equity investment, project investment, real estate investment, electronic commerce and internet financing). Having considered that the Company has entered into a three-year Management Agreement with the SPV, which is owned by the Vendors, on 15 June 2017, for the day-to-day management of the business operations of the S. Culture (BVI) Group (i.e. the principal operating arm of the Group’s footwear business) and to ensure management continuity as all directors and senior management of the S. Culture (BVI) Group will remain unchanged as part of the arrangement under the Management Agreement, we believe that the existing management team has the experience in running the business of the Group following the Offer.

2.4 Maintaining the listing status of the Company

As disclosed in the “Letter from Octal Capital” in this Composite Document, the Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offer. The Offeror and the proposed new Directors who would be nominated by the Offeror and appointed as Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offer to ensure that a sufficient public float exists for the Shares.

3. Offer Price Comparison

3.1 The Offer Price

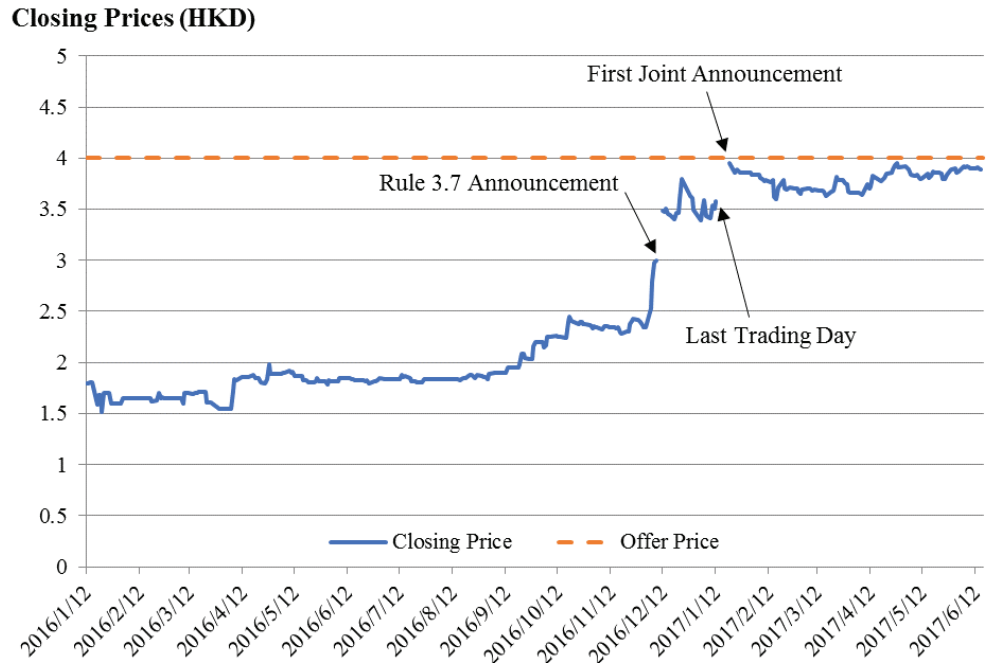
The Offer Price of HK\$4.00 per Offer Share represents:

- (a) (i) a premium of approximately 2.83% over the closing price of HK\$3.89 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 11.73% over the closing price of HK\$3.58 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 14.61% over the average closing price of approximately HK\$3.49 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 14.29% over the average closing price of approximately HK\$3.50 per Share as quoted on the Stock Exchange for the last 10 trading days immediately prior to and including the Last Trading Day;
- (e) a premium of approximately 23.84% over the average closing price of approximately HK\$3.23 per Share as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Day; and
- (f) a premium of approximately 334.78% over the audited consolidated net assets of the Group of approximately HK\$0.92 per Share as at 31 December 2016 (the “NAV Per Share”), calculated based on the Group’s audited consolidated net assets attributable to owners of the Company of approximately HK\$184.07 million as at 31 December 2016 and 200,000,000 Shares in issue as at the Latest Practicable Date.

3.2 Historical Share price performance

In order to assess the fairness and reasonableness of the Offer Price, we have reviewed the movement in closing prices of the Shares for the period commencing from 12 January 2016 to 12 January 2017, being the 12-month period prior to the Last Trading Day, and up to the Latest Practicable Date (the “Review Period”).

The chart below shows the daily closing prices of the Shares during the Review Period and the Offer Price.



Source: the website of the Stock Exchange

Notes:

1. The trading of Shares was suspended on 9 December 2016 pending the release of an announcement pursuant to Rule 3.7 of the Takeovers Code and resumed trading on 12 December 2016.
2. The trading of Shares was suspended from 13 January 2017 to 19 January 2017 pending the release of the First Joint Announcement.

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Pre-announcement Review Period

The Shares were traded in a generally upward trend during the commencement of the Review Period until the Last Trading Day (the “**Pre-announcement Review Period**”) with an average closing price of approximately HK\$2.06 per Share. During the Pre-announcement Review Period, the highest closing price was HK\$3.80 per Share on 23 December 2016 and the lowest closing price was HK\$1.52 per Share on 21 January 2016. The Offer Price represents a premium of approximately 5.26% and 163.16%, respectively, over the highest and lowest closing prices of the Shares during the Pre-announcement Review Period. The Offer Price also represents a premium of approximately 94.17% over the average closing price of the Shares during the Pre-announcement Review Period.

As shown in the chart above, the closing price of the Shares surged from HK\$3.00 on 8 December 2016, being the last trading day of the Shares prior to the trading halt on 9 December 2016 pending the release of the Rule 3.7 Announcement, to HK\$3.48 on 12 December 2016, the first trading day of the Shares since the release of the announcement pursuant to Rule 3.7 of the Takeovers Code dated 9 December 2016 and maintained to fluctuate between HK\$3.40 to HK\$3.63 afterwards.

Post-announcement Review Period

The Shares were traded slightly below the Offer Price (i.e. HK\$4.00 per Offer Share) from the first trading day of the Shares after the date of the First Joint Announcement to the Latest Practicable Date (the “**Post-announcement Review Period**”) with an average closing price of approximately HK\$3.79 per Share. During the Post-announcement Review Period, the highest closing price was HK\$3.95 per Share on 20 January 2017 and 27 April 2017 and the lowest closing price was HK\$3.60 per Share on 16 February 2017. The Offer Price represents a premium of approximately 1.27% and 11.11%, respectively, over the highest and lowest closing prices of the Shares during the Post-announcement Review Period. The Offer Price also represents a premium of approximately 5.54% to the average closing price of the Shares during the Post-announcement Review Period.

We consider the relatively high closing prices of Shares during the Post-announcement Review Period reflected the market reaction to the Offer. After taking into account the historical Share prices, there is no assurance that the Share prices will continue to maintain at the current level after the Offer closes.

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3.3 Historical liquidity of the Shares

We have also reviewed the historical trading volume of the Shares during the Review Period. The average daily trading volume of the Shares and the percentage of daily trading volume of the Shares as compared to the total number of issued Shares and as compared to the number of issued Shares held by the public Shareholders during the Review Period are shown in below table.

	Total monthly trading volume of Shares	Average daily trading volume of Shares	Approximate % of average daily trading volume to the total issued Shares (Note 1)	Approximate % of average daily trading volume to the number of Shares held by public shareholders (Note 2)
2016				
12 January–29 January	500,000	35,714	0.018	0.043
February	142,000	7,889	0.004	0.009
March	116,000	5,524	0.003	0.007
April	4,200,000	210,000	0.105	0.252
May	1,096,000	52,190	0.026	0.063
June	818,000	38,952	0.019	0.047
July	774,000	38,700	0.019	0.047
August	1,356,000	34,909	0.017	0.042
September	2,190,000	109,500	0.055	0.132
October	3,482,000	174,100	0.087	0.209
November	4,994,000	227,000	0.114	0.273
December (Note 3)	23,924,450	1,259,182	0.630	1.514
2017				
January (Note 3)	13,570,000	969,286	0.485	1.165
February	8,524,000	426,200	0.213	0.512
March	4,410,000	191,739	0.096	0.230
April	5,087,875	299,287	0.150	0.360
May	4,048,000	202,400	0.101	0.243
1 June to LPD (Note 4)	3,879,000	352,636	0.176	0.424

Source: the website of Stock Exchange

Notes:

1. The calculation is based on the number of Shares in issue as at the end of each month.
2. The calculation is based on the number of Shares held by public Shareholders, (i.e. 83,185,203 Shares) as at the Latest Practicable date.
3. The trading of the Shares on the Stock Exchange was suspended on 9 December 2016 pending the release of the Rule 3.7 Announcement and from 13 January 2017 to 19 January 2017 pending the release of the First Joint Announcement.
4. The data of June 2017 represents the trading volume for the period from 1 June 2017 to the Latest Practicable Date.

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As illustrated in the table above, the average daily trading volume of the Shares has been thin in general prior to the release of the Rule 3.7 Announcement (i.e. 9 December 2016). The monthly/periodic average trading volume of the Shares during the period from January 2016 to November 2016 as a percentage of the total number of the Shares in issue as at the Latest Practicable Date ranging from approximately 0.003% to 0.114% and as a percentage of the total number of the Shares held by public Shareholders as at the Latest Practicable Date ranging from approximately 0.007% to 0.273%.

In December 2016 and January 2017, the monthly average daily trading volume of the Shares as a percentage of the total number of the Shares in issue and as a percentage of the total number of the Shares held by public Shareholders has increased materially and we consider such increase was most likely due to the market reaction towards the Offer as announced in the Rule 3.7 Announcement (i.e. 9 December 2016) and the First Joint Announcement (i.e. 19 January 2017) as observed above. However, the average daily trading volume for each of February and March 2017 and the period from 1 April 2017 up to the Latest Practicable Date as a percentage of the total number of the Shares in issue and as a percentage of the total number of the Shares held by public Shareholders has dropped as compared to that of December 2016 and January 2017. We consider that the high average daily trading volume of the Shares in December 2016 and January 2017 was most likely due to the market reaction to the Offer and it is uncertain whether such trading momentum could be sustained in the absence of the Offer.

The Independent Shareholders, especially those with significant shareholdings in the Company, should note that if they wish to realise their investments in the Shares, they might not be able to dispose of the Shares in the market without exerting a downward pressure on the market price of the Shares which may be lower than the Offer Price. The Offer represents an alternative exit for the Independent Shareholders to realise their investments in the Shares at the Offer Price.

3.4 Comparison with comparable companies

In further assessing the fairness and reasonableness of the Offer Price, we have carried out a comparable analysis (“**Comparable Analysis**”), which we have considered using the commonly adopted trading multiple including price-to-earnings ratio (the “**P/E Ratio(s)**”) and the price-to-book ratios (the “**P/B Ratio(s)**”) of companies which are listed on the Main Board of the Stock Exchange which are comparable to the Company in terms of size and business (the “**Comparable Companies**”) with the implied P/E Ratio and implied P/B Ratio of the Offer using the Offer Price.

Based on the Offer Price of HK\$4.00 per Offer Share and the total number of issued Shares of 200,000,000 Shares as at the Latest Practicable Date, the Company is valued at approximately HK\$800,000,000.

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The Group recorded a loss attributable to owners of the Company of approximately HK\$34.6 million for FY2016 in which we consider that it is not applicable to assess the Offer Price using the implied P/E Ratio.

The implied P/B Ratio of the Company is approximately 4.23 times based on the Group's latest audited net assets attributable to owners of the Company of approximately HK\$184.1 million as at 31 December 2016.

We have attempted to identify the comparable companies which are (i) listed on the Stock Exchange; and (ii) principally engaged in the same or similar business as the Group (i.e. distribution and retailing of lifestyle comfort footwear products). However, based on the above stated criteria, on a best effort basis, we have not identified enough companies which represent comparable companies to the Group for assessment. For the Independent Shareholder's information purposes, we have expanded our scope to include companies which have retailing business of lifestyle footwear products and have recorded over 50% of its revenue from the retailing of lifestyle footwear products based on their latest published annual reports.

In this regard, 5 Comparable Companies are identified based on our research on the website of the Stock Exchange in accordance with the above criteria which we consider to be exhaustive. We consider that the comparable companies are fair and representative samples to serve as a general reference to the valuation of the Group's business. Details of our analysis are listed below:

Company Name	Principal business	Latest Audited	Latest Audited	Market	P/E Ratios (Note 1)	P/B Ratios (Note 2)
		Annual Profit/ (Loss) (HK\$ million)	Net Assets Value (HK\$ million)	Capitalisation as at 15 June 2017 (HK\$ million)		
Daphne International Holdings Ltd. (210.HK)	Manufacturing, distribution and retailing of footwear and accessories in Mainland China	(819.1)	3,371.4	1,319.3	NA	0.39
Belle International Holdings Ltd. (1880.HK)	Manufacturing, distribution and retailing of shoes and footwear products; and the sales of sportswear and apparel products	3,286.2	28,085.2	51,195.8	15.58	1.82
Le Saunda Holdings Ltd. (738.HK)	Manufacturing and sales of shoes	136.7	1,456.9	1,200.0	8.78	0.82
Sino Energy International Holdings Group Ltd. (1096.HK) (Note 3)	Manufacturing and sales of casual footwear, apparel and related accessories in the PRC	(363.1)	30.3	578.3	NA	19.09
Vestate Group Holdings Ltd. (1386.HK) (Note 4)	Retailing of footwear in Hong Kong, Mainland China and Taiwan	(146.0)	220.7	888.1	NA	4.02
				Minimum	8.78	0.39
				Maximum	15.58	19.09
				Median	12.18	1.82
				Average	12.18	5.23
The Company (1255.HK)	Distribution and retailing of lifestyle footwear products	(34.6)	184.1	778.0	NA	4.23

Source: the Stock Exchange

LETTER FROM BAOQIAO PARTNERS

Notes:

1. The P/E Ratios of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the net profit attributable to the owners of the respective Comparable Companies as extracted from their respective latest audited annual results.
2. The P/B Ratios of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the net assets value attributable to the owners of the respective Comparable Companies as extracted from their respective latest audited annual results.
3. Formerly known as Active Group Holdings Limited.
4. Formerly known as Walker Group Holdings Limited.
5. The exchange rate of RMB1.00 = HK\$1.12 has been used, where applicable, for illustration purposes only and do not constitute representations that any amount has been, could have been or may be exchanged at such rates or any other rates or at all on the date or dates in question or any other date.

As illustrated in the table above, the P/B Ratios of the Comparable Companies ranged from approximately 0.39 times to approximately 19.09 times, with an average of approximately 5.23 times and a median of approximately 1.82 times. The implied P/B Ratio of the Company of approximately 4.23 times is higher than the median but within the range of the P/B Ratios of the Comparable Companies.

CONCLUSION AND RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- (i) the Group's future financial performance is uncertain given its loss making condition for the two years ended 31 December 2016 and the risks and uncertainties related to environment of Hong Kong retail sector as set out under the paragraph headed "Outlook of the Group";
- (ii) the Offer Price of HK\$4.00 is higher than closing prices of the Shares quoted on the Stock Exchange during the Review Period;
- (iii) given the trend of the historical closing prices of the Shares during the Pre-announcement Review Period, there is no guarantee that the Share prices will sustain at a level above or close to the Offer Price after the Offer closes; and
- (iv) despite of the surge in the average daily trading volume of the Shares in December 2016 and January 2017, it is noted that the average daily trading volume of the Shares for each of February and March 2017 and the period from 1 April 2017 up to the Latest Practicable Date had dropped and it is uncertain whether such trading momentum of December 2016 and January 2017 could be sustained in the

LETTER FROM BAOQIAO PARTNERS

absence of the Offer, and thus the Independent Shareholders might not be able to dispose of a significant shareholding in the Company in the market without exerting a downward pressure on the market price of the Shares while the Offer represents an alternative exit for the Independent Shareholders to realise their investments in the Shares at the Offer Price,

we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Code Independent Board Committee to advise the Independent Shareholders to accept the Offer.

The Independent Shareholders who wish to realise their investment in the Shares are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market exceed the net amount receivable under the Offer.

For those Independent Shareholders who wish to retain part or all of their investments in the Shares should consider carefully the information on and the intention of the Offeror in relation to the Group after the close of the Offer (with details set out in the section above headed “2. Information on and the Intention of the Offeror in relation to the Group” of this letter and the relevant information in the letter from Octal Capital as set out in the Composite Document).

The Independent Shareholders should read carefully the procedures for accepting the Offer with details set out in the Composite Document.

Yours faithfully,
For and on behalf of
BaoQiao Partners Capital Limited
Monica Lin
Managing Director

PROCEDURES FOR ACCEPTANCE OF THE OFFER

To accept the Offer, you should complete and sign the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Share(s) is/are in your name, and you wish to accept the Offer in respect of your Shares (whether in full or in part), you must send the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of the Shares in respect of which you intend to accept the Offer by post or by hand to the Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, marked "S. Culture Offer" on the envelope as soon as possible but in any event so as to reach the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce as a result of a revision or an extension of the Offer in accordance with the Takeovers Code, if any.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares (whether in full or in part), you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, and with instructions authorising it to accept the Offer on your behalf and request it to deliver the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar by no later than 4:00 p.m. on the Closing Date; or
 - (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian

bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (c) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your Shares, the Form of Acceptance should nevertheless be completed and signed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Octal Capital and/or the Offeror or their respective agent(s) to collect from the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

- (e) Acceptance of the Offer will be treated as valid only if the duly completed and signed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine in compliance with the requirements of the Takeovers Code and announce, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other document(s) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered Independent Shareholders, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (f) No acknowledgement of receipt of any Form of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (g) The address of the Registrar, Tricor Investor Services Limited, is at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

ACCEPTANCE PERIOD AND REVISIONS

Unless the Offer has previously been revised with the consent of the Executive, all Form of Acceptance must be received by the Registrar by 4:00 p.m. on the Closing Date in accordance with the instructions printed thereon.

If the Offer is extended or revised, the announcement of such extension or revision will state the next Closing Date and the Offer will remain open for acceptance for a period of not less than 14 days from the posting of the written notification and/or announcement of the extension or revision to the Independent Shareholders and, unless previously extended or revised, shall close on the subsequent Closing Date. If the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms.

If the Closing Date is extended, any reference in the Composite Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date of the Offer as so extended.

ANNOUNCEMENTS

- (a) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement in accordance with the Takeovers Code on the Stock Exchange's website no later than 7:00 p.m. on the Closing Date stating whether the Offer has been revised or extended or has expired. The announcement will state the following:
- (i) the total number of Shares and rights over Shares (if any) for which acceptances of the Offer have been received;
 - (ii) the total number of Shares and rights over Shares (if any) held, controlled or directed by the Offeror or parties acting in concert with it before the Offer Period; and
 - (iii) the total number of Shares and rights over Shares (if any) acquired or agreed to be acquired during the Offer Period by the Offeror or parties acting in concert with it.

The announcement must include details of any relevant securities in the Company which the Offeror or any person acting in concert with it has borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

The announcement must also specify the percentages of the relevant classes of share capital of the Company and the percentages of voting rights of the Company represented by these numbers.

- (b) In computing the total number of Shares represented by acceptances, only valid acceptances which are in all respects complete and in good order, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.
- (c) As required under the Takeovers Code, all announcements in respect of the listed companies must be made in accordance with the requirements of the Listing Rules.

RIGHT OF WITHDRAWAL

- (a) Acceptance of the Offer tendered by the Independent Shareholders or by their agent(s) on their behalves shall be irrevocable and cannot be withdrawn, except in the circumstances set out in sub-paragraph (b) below.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph headed "Announcements" above, the Executive may require that the Independent Shareholders who have tendered acceptances of the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

SETTLEMENT

Provided that the Form of Acceptance and/or the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar by no later than 4:00 p.m. on the Closing Date for the acceptance of the Offer, a cheque for the amount representing the cash consideration due to each accepting Independent Shareholder in respect of the Shares tendered by him/her or his/her agent(s) under the Offer, less seller's ad valorem stamp duty payable by him/her in the case for tendered Shares, will be despatched to each accepting Independent Shareholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) Business Days following the date of receipt of duly completed acceptances by the Registrar.

Save for payment of stamp duty set out above, settlement of the consideration to which any accepting Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Independent Shareholder.

If the Offer is withdrawn with the consent of the Executive in accordance with the Takeovers Code, the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares lodged with the Form of Acceptance to the relevant Independent Shareholders who have tendered acceptances to the Offer.

No fraction of a cent will be payable and the amount of the consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

OVERSEAS SHAREHOLDERS

The making of the Offer to or the acceptance thereof by a person with a registered address in a jurisdiction outside Hong Kong may be affected by the applicable laws of the relevant jurisdiction. The Overseas Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should inform themselves about and observe any applicable legal or regulatory requirements in their own jurisdictions and, where necessary, seek legal advice. It is the responsibility of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of all relevant jurisdictions in connection with the acceptance of the Offer (including but not limited to the obtaining of any governmental, exchange control or other consent and any registration or filing which may be required or the compliance with other necessary formalities, regulatory and/or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdictions). The Overseas Shareholders shall be fully responsible for the payment of any transfer or other taxes and duties by whomsoever payable in respect of all relevant jurisdictions.

Acceptances of the Offer by any Overseas Shareholders will be deemed to constitute a warranty by such persons that such persons are permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and such acceptances shall be valid and binding in accordance with all applicable laws. The Overseas Shareholders are recommended to seek professional advice on deciding whether to accept the Offer.

GENERAL

- (a) All communications, notices, Form of Acceptance, share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents through post at their own risk, and none of the Company, the Offeror, Octal Capital, the Registrar or any of their respective directors or agents or other parties involved in the Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the Form of Acceptance form part of the terms of the Offer.
- (c) The accidental omission to despatch this Composite Document and/or the Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (d) The Offer and all acceptances under the Offer will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form of Acceptance will constitute an authority to any director of the Offeror, Octal Capital or such person or persons as any of them may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, Octal Capital or such person or persons as it may direct the Shares, in respect of which such person has accepted the Offer.
- (f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror and Octal Capital that the Shares held by such person or persons to be acquired under the Offer are sold by any such person or persons free from all third party rights, liens, charges, equities, options, claims, adverse interests and Encumbrances and together with all rights attaching thereto as at the date on which the Offer is made including the right to receive in full all dividends or other distributions that may be declared, made or paid by the Company on or after the date on which the Offer is made.
- (g) References to the Offer in this Composite Document and in the Form of Acceptance shall include any extension and, or revision thereof.

- (h) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares in respect of which it is indicated in the relevant Form of Acceptance is the aggregate number of Shares held by such nominee for such beneficial owners who are accepting the Offer.
- (i) The English text of this Composite Document and the accompanying Form of Acceptance shall prevail over their respective Chinese texts in case of inconsistency.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following financial information has been extracted from the audited financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016.

The auditors of the Company for each of the three years ended 31 December 2014, 2015 and 2016, Deloitte Touche Tohmatsu, did not issue any qualified or modified opinion (including emphasis of matter, adverse opinion and disclaimer of opinion) on the consolidated financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016.

There were no exceptional items because of size, nature or incidence in respect of the consolidated statement of comprehensive income of the Group for each of the aforesaid years.

	For the year ended 31 December		
	2016	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	562,474	561,028	590,539
(Loss) profit before tax	(37,312)	(16,360)	12,121
Income tax expense	<u>2,705</u>	<u>(13)</u>	<u>(3,086)</u>
 (Loss) profit for the year attributable to owners of the Company	 <u><u>(34,607)</u></u>	 <u><u>(16,373)</u></u>	 <u><u>9,035</u></u>
 Basic (loss) earnings per share (<i>HK\$</i>)	 <u><u>(0.17)</u></u>	 <u><u>(0.08)</u></u>	 <u><u>0.05</u></u>
 Dividend per share (<i>HK cents per share</i>)	 <u><u>—</u></u>	 <u><u>—</u></u>	 <u><u>2.3</u></u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

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

Notes:

- (a) The special reserve of the Group represents the difference between the nominal amount of the share capital and share premium of Kong Tai Sundry Goods Company Limited (“Kong Tai Sundry Goods”) and Grand Asian Limited (“Grand Asian”), subsidiaries of the Company, and the nominal amount of share capital of the Company pursuant to the group reorganisation.
- (b) As stipulated by the relevant laws and regulations in the Macao Administrative Region of the People’s Republic of China (“Macao”), a subsidiary of the Company is required to set aside 25% of its profit for the year to a legal reserve until the legal reserve has reached 50% of its registered capital.

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2016*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2016***1. GENERAL**

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

The Company acts as an investment holding company while its subsidiaries are principally engaged in the trading of footwear products. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants

The application of the above amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

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

- ¹ Effective for annual periods beginning on or after 1 January 2018.
- ² Effective for annual periods beginning on or after 1 January 2019.
- ³ Effective for annual periods beginning on or after a date to be determined.
- ⁴ Effective for annual periods beginning on or after 1 January 2017.

HKFRS 9 “Financial instruments”

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

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

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

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

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

HKFRS 15 “Revenue from contracts with customers”

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

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

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

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

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

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

HKFRS 16 “Leases”

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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

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

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment including building, leasehold land (classified as finance leases) and freehold land held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method or reducing balance method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the investment property is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an

operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

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

Inventories

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposit and prepayment for a life insurance policy, trade and other receivables, deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

Financial liabilities at amortised cost

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

Derivative financial instruments

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statement of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is

neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated allowance for inventories

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

Income taxes

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

5. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to operating segments focusing on retail sales and wholesale of footwear products. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conforming to HKFRSs, that are regularly reviewed by the chief operating decision makers, the executive directors of the Company. The executive directors of the Company regularly review revenue and results analysis by (i) retail sales and (ii) wholesale. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company.

- Retail sales: Retail sales channel refers to sales at the self-operated concession counters in department stores and self-operated retail stores.
- Wholesale: Wholesale refers to the sales to wholesale customers who resell the products to end-user consumers, typically at retail stores operated by wholesale customers.

The information of operating and reportable segments is as follows:

Segment revenue and results

For the year ended 31 December 2016

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

For the year ended 31 December 2015

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

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the (loss) profit earned from each segment without allocation of central administration costs, fair value (loss) gain on derivative financial instruments, rental income, interest income, imputed interest income from deposit and prepayment for a life insurance policy, premium charges on a life insurance policy and finance costs. This is the measure reported to the executive directors of the Company for the purpose of resource allocation and performance assessment.

Other segment information

For the year ended 31 December 2016

	Retail sales <i>HK\$'000</i>	Wholesale <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in measure of segment results:				
Depreciation	<u>8,817</u>	<u>1,889</u>	<u>146</u>	<u>10,852</u>

For the year ended 31 December 2015

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

Geographical information

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

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

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

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

Information about major customers

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

6. OTHER INCOME

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

7. OTHER GAINS AND LOSSES

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

8. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank borrowings	3,711	3,042
Interest on finance lease	<u>2</u>	<u>18</u>
	<u>3,713</u>	<u>3,060</u>

9. LOSS BEFORE TAXATION

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

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

10. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executives' emoluments

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefit schemes contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 December 2016				
Executive directors:				
Mr. Chu Siu Ming	120	3,540	108	3,768
Mr. Chu Chun Ho, Dominic	120	2,266	104	2,490
Mr. Chu Chun Wah, Haeta	120	2,266	75	2,461
Non-executive directors:				
Mr. Chong Hot Hoi	1	—	—	1
Mr. Chong Hok Hei, Charles	1	—	—	1
Mr. Yu Fuk Lun	120	—	—	120
Independent non-executive directors:				
Mr. Wan Kam To	150	—	—	150
Mr. Yau Tat Wang, Dennis	120	—	—	120
Mr. Lam Man Tin	120	—	—	120
	<u>872</u>	<u>8,072</u>	<u>287</u>	<u>9,231</u>

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

Mr. Chu Chun Ho, Dominic and Mr. Chu Chun Wah, Haeta are also the chief executives of the Company and their emoluments disclosed above include those for services rendered by them as the chief executives.

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

(b) Employees' emoluments

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Employees		
— salaries and allowance	3,042	3,042
— retirement benefits scheme contributions	<u>36</u>	<u>36</u>
	<u><u>3,078</u></u>	<u><u>3,078</u></u>

Their emoluments were within the following bands:

	Number of employees	
	2016	2015
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>1</u>
	<u><u>2</u></u>	<u><u>2</u></u>

11. TAXATION

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

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

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

Taiwan income tax is calculated at 17% (2015: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods in Taiwan for the year. No provision for Taiwan income tax has been made in the consolidated financial statements as the branch operating in Taiwan has no assessable profits for both years.

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

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

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

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

12. DIVIDENDS

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

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

13. LOSS PER SHARE

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1 January 2015	39,402	49,274	9,320	3,418	101,414
Exchange adjustments	—	(728)	(100)	(9)	(837)
Additions	6,900	7,029	1,291	—	15,220
Disposals	—	(3,170)	(8)	—	(3,178)
At 31 December 2015	46,302	52,405	10,503	3,409	112,619
Exchange adjustments	—	241	15	4	260
Additions	—	4,675	958	—	5,633
Write off	—	(6,460)	(445)	—	(6,905)
At 31 December 2016	<u>46,302</u>	<u>50,861</u>	<u>11,031</u>	<u>3,413</u>	<u>111,607</u>
DEPRECIATION					
At 1 January 2015	8,364	33,647	6,681	2,371	51,063
Exchange adjustments	—	(511)	(68)	(7)	(586)
Provided for the year	1,064	10,002	1,742	329	13,137
Eliminated on disposals	—	(3,061)	—	—	(3,061)
At 31 December 2015	9,428	40,077	8,355	2,693	60,553
Exchange adjustments	—	173	15	3	191
Provided for the year	843	8,226	1,529	241	10,839
Eliminated on write off	—	(6,460)	(445)	—	(6,905)
At 31 December 2016	<u>10,271</u>	<u>42,016</u>	<u>9,454</u>	<u>2,937</u>	<u>64,678</u>
CARRYING VALUES					
At 31 December 2016	<u>36,031</u>	<u>8,845</u>	<u>1,577</u>	<u>476</u>	<u>46,929</u>
At 31 December 2015	<u>36,874</u>	<u>12,328</u>	<u>2,148</u>	<u>716</u>	<u>52,066</u>

The Group's leasehold land and buildings are situated:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
In Hong Kong	16,806	17,302
In Taiwan	<u>19,225</u>	<u>19,572</u>
	<u>36,031</u>	<u>36,874</u>

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method or reducing balance method at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the term of the lease on straight-line method
Buildings	Over the shorter of the term of lease or 2% on straight-line method
Leasehold improvements	Over the shorter of the term of the lease or 25%–33 ¹ / ₃ % on straight-line method
Furniture, fixtures and equipment	33 ¹ / ₃ %–50% on straight-line method
Motor vehicles	30% on reducing balance method

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

15. INVESTMENT PROPERTIES

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

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

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

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

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

	Level 3 <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
At 31 December 2016		
Commercial property units located in Hong Kong	<u>24,500</u>	<u>24,500</u>
At 31 December 2015		
Commercial property units located in Hong Kong	<u>23,580</u>	<u>23,580</u>

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

16. DEFERRED TAXATION

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

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

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

As at 31 December 2016, the aggregate amount of temporary difference associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised was HK\$155,000 (2015: Nil). No liability has been recognised in respect of those differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

17. DEPOSIT AND PREPAYMENT FOR A LIFE INSURANCE POLICY

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

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

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

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

18. INVENTORIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Finished goods	<u>227,121</u>	<u>251,713</u>

19. TRADE AND OTHER RECEIVABLES

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

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

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

For sales by wholesale, before accepting any new customer, the Group will check the historical default records of these customers through external source.

The management of the Group closely monitors the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK\$4,374,000 (2015: HK\$5,508,000) which were past due as at the reporting date for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
61 to 90 days	2,132	2,761
Over 90 days	<u>2,242</u>	<u>2,747</u>
	<u><u>4,374</u></u>	<u><u>5,508</u></u>

Receivables that were neither past due nor impaired relate to a number of customers for whom there were no history of default.

Based on the historical experience of the Group, trade receivables that were past due but not impaired were generally recoverable.

Movement in the allowance for doubtful debts

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

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

	Bills receivables discounted to banks with full recourse	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Carrying amount of bills receivables	21,677	27,796
Carrying amount of associated liabilities	<u>21,677</u>	<u>27,796</u>
Net position	<u><u>—</u></u>	<u><u>—</u></u>

Under the above arrangements, the Group transferred the contractual rights to receive cash flows from the bills receivables to the respective banks by discounting the bills receivables for cash on a full recourse basis. As the Group had not transferred the significant risks and rewards relating to these bills receivables, it continued to recognise the full carrying amount of the bills receivables. These receivables were carried at amortised cost in the consolidated financial statements and associated liabilities had been recognised and included in liabilities as bank loans related to bills discounted with recourse.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2016	2015
Foreign currency forward contracts	<u>—</u>	<u>141</u>

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

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

At 31 December 2015

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

21. BANK BALANCES AND CASH

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

22. TRADE AND OTHER PAYABLES

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

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:

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

23. OBLIGATION UNDER A FINANCE LEASE

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

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

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

24. BANK BORROWINGS

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

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

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

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Effective interest rates:		
Variable-rate borrowings	<u>1.9%–2.8%</u>	<u>1.5%–2.5%</u>

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

25. SHARE CAPITAL

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

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

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

26. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "HK MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong and Mandatory Provident Fund Scheme under the Labour Standards Law (as amended) in Taiwan (the "TW MPF Scheme") for employees employed in Taiwan. The HK MPF Scheme and the TW MPF Scheme are defined contribution retirement schemes administered by independent trustees. Under the HK MPF Scheme and TW MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% and 6%, respectively, of the employees' relevant income, subject to a maximum amount of HK\$1,500 per month for each employee to the HK MPF Scheme while there is no cap to monthly income under the TW MPF Scheme. Contributions to the schemes vest immediately.

The employees employed by a subsidiary in Macau are members of the government-managed social benefits schemes operated by the Macau government. The subsidiary is required to pay a monthly fixed contribution to the social benefits schemes to fund the benefits. The only obligation of the Group with respect to the social benefits schemes operated by the Macau government is to make the required contributions under the schemes. The assets of the schemes are held separately from those of the Group in funds under the control of an independent trustee.

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

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

27. SHARE OPTION SCHEME

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

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

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

No options were granted or exercised during both years and no share options were outstanding as at 31 December 2016 and 31 December 2015.

28. OPERATING LEASE COMMITMENTS**As lessee**

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

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

Operating lease payments represent rentals payable by the Group for the warehouses, rental stores and department store counters. Leases are negotiated for terms ranging from one to five (2015: one to seven) years.

Certain retail stores and department store counters include payment obligations with rental varied with gross revenue. The contingent rents are determined generally by applying pre-determined percentages to realised sales less the basic rentals of the respective leases.

Included in above, the Group had future minimum lease payments under non-cancellable operating leases with related parties which are Becking Investment Limited ("Becking Investment"), which is wholly-owned by Mr. Chong Hok Shan, Mr. Chong Hot Hoi, and Mr. Chong Hok Hei, Charles, the shareholders of the Company and Mr. Chong Hok Shan, respectively.

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

As lessor

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

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

29. CAPITAL COMMITMENTS

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

30. PLEDGE OF ASSETS

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

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

31. RELATED PARTY TRANSACTIONS

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

Name of related companies	Nature of transactions	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Becking Investment	Rental expense	525	470
Mr. Chong Hok Shan	Rental expense	513	513

Compensation of key management personnel

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Salaries and allowances	8,944	8,944
Retirement benefit schemes contributions	<u>287</u>	<u>287</u>
	<u>9,231</u>	<u>9,231</u>

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

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 24, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

Financial risk management objectives and policies

The Group's major financial instruments include deposit and prepayment for a life insurance policy, trade and other receivables, deposits, bank balances and cash, derivative financial instruments, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

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

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

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

Sensitivity analysis

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

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
HK\$	1,055	1,247
RMB	<u>(1)</u>	<u>(1)</u>

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 21) and bank borrowings (see note 24). The Group's exposure to cash flow interest rate risk is mainly concentrated on the fluctuation of prime lending rate, benchmark interest rate of Central Bank of Taiwan and Hong Kong Interbank Offered Rate. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

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

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

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure do not reflect the exposures during the year.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The credit risk for bank deposits is considered minimal as such amounts are placed in banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, the Group closely monitors the pace of the Group's expansion and inventory level of each retail outlet and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity date for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

Liquidity and interest risk tables

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

Bank loan with a repayment on demand clause was included in the “on demand or less than 1 year” time band in the above maturity analysis. As at 31 December 2016, the principal amount of this bank loan amounted to HK\$26,389,000 (2015: HK\$20,633,000). Taking into account the Group’s financial position, the directors of the Company did not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors of the Company believes that such bank loan will be repaid in accordance with the scheduled repayment date set out in the loan agreement and the principal and interest cash outflows according to the scheduled repayment date are set out as follows:

	Weighted average interest rate %	On demand or less than 1 year HK\$'000	1–2 years HK\$'000	2–5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2016						
Bank borrowing — variable rate	1.88	<u>17,112</u>	<u>8,483</u>	<u>1,393</u>	<u>26,988</u>	<u>26,389</u>
At 31 December 2015						
Bank borrowing — variable rate	2.21	<u>12,622</u>	<u>8,419</u>	<u>—</u>	<u>21,041</u>	<u>20,633</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value measurement of financial instruments

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

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

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

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

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

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

34. FINANCIAL INFORMATION OF THE COMPANY

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

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

Movement in the Company's reserves:

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

35. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group		Principal activities
			2016	2015	
Advertisers' Media Agency Limited	Hong Kong	HK\$10,000	100%	100%	Marketing and advertising of footwear products
Cobblers Limited	Hong Kong	HK\$10,000	100%	100%	Trading of footwear products
Cobblers (Hong Kong) Trading Company Limited	Hong Kong	HK\$10,000	100%	100%	Investment holding
Grand Asian	Hong Kong	HK\$1,000,000	100%	100%	Trading of footwear products
Grandasian Retail (BVI) Holdings Limited	BVI	US\$1	100%	100%	Investment holding
Kong Tai Sundry Goods	Hong Kong	HK\$5,000,000	100%	100%	Trading of footwear products
Kong Tai Sundry Goods (BVI) Company Limited	BVI	US\$1	100%	100%	Investment holding
KTS Properties Holdings Limited	BVI	US\$1	100%	100%	Property holding
Shoe Mart Company Limited	Hong Kong	HK\$10,000	100%	100%	Trading of footwear products
Shoes Culture Company Limited	Macau	MOP25,000	100%	100%	Trading of footwear products
Shoes Culture (Hong Kong) Trading Company Limited	Hong Kong	HK\$10,000	100%	100%	Investment holding
S. Culture Holdings (BVI) Limited*	BVI	US\$2,001	100%	100%	Investment holding
西寶(上海)商貿有限公司***^	PRC	RMB5,000,000	100%	100%	Trading of footwear products
鞋舍(上海)商貿有限公司***@	PRC	RMB5,000,000	100%	100%	Trading of footwear products

* Directly held by the Company

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

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

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

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

3. INDEBTEDNESS

As at 31 March 2017, being the latest practicable date for the purpose of this indebtedness statement prior to printing of this Composite Document, the Group had outstanding borrowings of approximately HK\$164.7 million.

Charge on Assets

As at 31 March 2017, land and buildings, investment properties and deposit and prepayment for a life insurance policy amounting to approximately HK\$29.2 million, HK\$0.7 million and HK\$1.9 million, respectively, were pledged to secure the bank borrowings and banking facilities granted to the Group.

Bills receivables amounting to HK\$8.1 million were pledged to secure the loans related to bills discounted with recourse.

Contingent liabilities

As at 31 March 2017, the Company has given guarantees in favour of certain banks to the extent of approximately HK\$367.3 million in respect of banking facilities granted by those banks to certain subsidiaries of the Company, of which approximately HK\$132.9 million was utilised.

Save as aforesaid, and apart from intra-group liabilities, neither the Group nor any of the companies comprising the Group had, at the close of business on 31 March 2017, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, term loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

The Directors confirm there has not been any material adverse change in the Group's indebtedness position and contingent liabilities since 31 March 2017 and up to the Latest Practicable Date.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirmed that there is no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

The Directors (and in the case of Mr. Chu Siu Ming, Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta, Mr. Chong Hot Hoi and Mr. Chong Hok Hei, Charles, in their respective capacity as the Vendors or the ultimate beneficial shareholder of one of the Vendors) jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The directors of the Offeror, namely Mr. Yang and Mr. Law, accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Vendors and the Group) and confirms, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Vendors and the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Shares	<i>HK\$</i>
<i>Authorised:</i>	
500,000,000	5,000,000
Authorised share capital of HK\$5,000,000 divided into 500,000,000 Shares	
<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>
<i>Issued and fully paid:</i>	
200,000,000	2,000,000
Issued and paid up share capital of HK\$2,000,000 divided into 200,000,000 Shares	
<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

Since 31 December 2016 (being the date to which the Company's latest published audited accounts were prepared) and up to the Latest Practicable Date, no new Shares had been issued by the Company.

All of the Shares currently in issue are fully paid up and rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting and capital.

The Company did not have any outstanding securities, options, derivatives, warrants or other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS IN THE COMPANY

- (a) As at the Latest Practicable Date, details of interests in the Shares, underlying Shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company held or controlled or deemed to be held or controlled by the Offeror and parties acting in concert with it pursuant to the SFO it were as follows:

Name	Number of Shares held	% of interest
The Offeror (<i>Note</i>)	132,464,516	66.23

Note: The Offeror is ultimately solely owned by Mr. Yang, who is also one of the directors of the Offeror.

Save as disclosed above, as at the Latest Practicable Date, none of the Offeror and parties acting in concert with it had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

- (b) As at the Latest Practicable Date, none of the Directors had any interest in the Shares, underlying Shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

4. DISCLOSURE OF OTHER INTERESTS AND DEALINGS IN SECURITIES

The Company

Other Interests

As at the Latest Practicable Date,

- (i) none of the Directors had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company or of the Offeror;
- (ii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code in relation to the shareholdings in the Company;

- (iii) there were no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives in respect of Shares or other securities of the Company carrying voting rights which the Company or any Directors had borrowed or lent;
- (iv) the Company had no interest in the equity share capital or any convertible securities, warrants, options or derivatives in respect of the equity share capital of the Offeror;
- (v) no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of Shares or other securities of the Company carrying voting rights was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser); and
- (vi) no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights were managed on a discretionary basis by non-exempt discretionary fund managers or principal traders connected with the Company.

Dealing in securities

During the Relevant Period,

- (i) none of the Directors nor the Company had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror;
- (ii) save for the sale of the Sale Shares by Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi, Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta and Come Good Investment (BVI) Limited (a company wholly owned by Mr. Chu Siu Ming) under the Sale and Purchase Agreement, none of the Directors had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (iii) none of the subsidiaries of the Company or a pension fund (if any) of any member of the Group or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser) had dealt for value in any Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights;

- (iv) save as disclosed in sub-paragraph (ii) of this paragraph 4, no person, with whom the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, had dealt for value in any Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights; and
- (v) no fund managers connected with the Company had dealt for value in any Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives in respect of the Shares or other securities of the Company carrying voting rights.

The Offeror

As at the Latest Practicable Date:

- (i) save for 116,814,797 Shares (representing approximately 58.41% of the entire issued share capital of the Company) owned by the Offeror and the Irrevocable Undertakings for an aggregate of 15,649,719 Offer Shares from certain Shareholders procured by the Offeror, the Offeror and parties acting concert with it did not hold other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- (ii) the board of directors of the Offeror comprises two directors, namely Mr. Yang and Mr. Law. Mr. Yang is deemed to be interested in 132,464,516 Shares (representing approximately 66.23% of the entire issued share capital of the Company) interested by the Offeror, a company ultimately solely owned by Mr. Yang. Mr. Law is deemed to be interested in 116,814,797 Shares (representing approximately 58.41% of the entire issued share capital of the Company) charged by the Offeror in favor of Excel Precise, a company beneficially owned as to 98.5% by Mr. Law;
- (iii) save for the Sale Shares acquired under the Sale and Purchase Agreement and the Offer Shares to be acquired through the Offer shall be pledged to Excel Precise pursuant to the Loan Agreement, there was no agreement, arrangement or understanding that any securities acquired in pursuance of the Offer would be transferred, charged or pledged to any other persons. If the Offeror elects to substitute the escrow money under the Sale and Purchase Agreement by issuing to Mr. Chong Hot Hoi and Mr. Chu Chun Ho, Dominic promissory notes in the aggregate principal amount of HK\$150,000,000, 30,000,000 Shares will be required to be charged, and a personal guarantee will be provided by Mr. Yang, in favour of Mr. Chong Hot Hoi and Mr. Chu Chun Ho, Dominic to secure the payment of the promissory notes;

- (iv) save for the Irrevocable Undertakings for an aggregate of 15,649,719 Offer Shares procured from the following Shareholders on the following dates by the Offeror, none of the Offeror, its ultimate beneficial owner and parties acting in concert with any of them had received any irrevocable commitment to accept the Offer,

Name of Shareholder	Date of Irrevocable Undertakings	Number of Offer Shares undertaken to accept pursuant to the Irrevocable Undertaking given
Mr. Chan Hwang Kiat	16 January 2017	1,510,642 Offer Shares
Mr. Chan Kheng Kang	16 January 2017	4,911,910 Offer Shares
Ms. Chan Meng Hua	16 January 2017	1,510,643 Offer Shares
Mr. Teo Yew Hua	15 January 2017	2,312,952 Offer Shares
Mr. Wong Kai Cho	16 January 2017	4,058,284 Offer Shares
	(as extended on 15 June 2017)	
Ms. Chan Pheck Hong	17 January 2017	1,345,288 Offer Shares
	(as extended on 15 June 2017)	

- (v) no benefit (other than statutory compensation) was or would be given to any Director as compensation for his loss of office or otherwise in connection with the Offer;
- (vi) there is no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer;
- (vii) save for the arrangement set out under the section headed “Proposed Change of Board Composition” in the “Letter from Octal Capital” of this Composite Document, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any party acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or dependence upon the Offer; and
- (viii) save for the charge over the Sale Shares and the Offer Shares to be and/or possibly to be acquired under the Offer in favor of Excel Precise pursuant to the Share Charge and the Irrevocable Undertaking, there was no other arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Shares and which might be material to the Offer.

During the Relevant Period and as at the Latest Practicable Date, none of the Offeror, its ultimate beneficial owner and parties acting in concert with any of them had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

During the Relevant Period, save for purchasing the Sale Shares, creating a charge of the Sale Shares pursuant to the Share Charge and procuring for the Irrevocable Undertakings, none of the Offeror, its directors, persons acting in concert with the Offeror, the Shareholders who have committed themselves to the Irrevocable Undertakings and any person, with whom the Offeror or person acting in concert with the Offeror has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

5. DIRECTORS' SERVICE CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors had entered into any existing or proposed service contract with the Company or any subsidiaries and associated companies of the Company which: (i) (including both continuous and fixed term contracts) had been entered into or amended within six months before the commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period. Further, none of the contracts below is a replacement of, or amendment to, any of the existing contracts.

Name of Directors	Commencement date of service agreement/letter of appointment	Expiry date of service agreement/letter of appointment	Fee per annum (HK\$)
Mr. Chu Siu Ming	1 May 2016	a term of three years commencing on 1 May 2016	120,000
Mr. Chu Chun Ho, Dominic	1 May 2016	a term of three years commencing on 1 May 2016	120,000
Mr. Chu Chun Wah, Heata	1 May 2016	a term of three years commencing on 1 May 2016	120,000
Mr. Chong Hot Hoi	1 May 2016	a term of three years commencing on 1 May 2016	1,000
Mr. Chong Hok Hei, Charles	1 May 2016	a term of three years commencing on 1 May 2016	1,000
Mr. Yu Fuk Lun	1 May 2016	a term of three years commencing on 1 May 2016	120,000
Mr. Wan Kam To	1 May 2016	a term of three years commencing on 1 May 2016	150,000

Name of Directors	Commencement date of service agreement/letter of appointment	Expiry date of service agreement/letter of appointment	Fee per annum (HK\$)
Mr. Yau Tat Wang, Dennis	1 May 2016	a term of three years commencing on 1 May 2016	120,000
Mr. Lam Man Tin	1 May 2016	a term of three years commencing on 1 May 2016	120,000

The following Directors have entered into service agreements with the following subsidiaries:

Name of Directors	Name of Subsidiary(ies)	Commencement date of service agreement	Expiry date of service agreement	Fee per annum (HK\$)
Mr. Chu Siu Ming	Kong Tai Sundry Goods Company Limited	1 May 2016	a term of 3 years commencing on 1 May 2016	3,540,000 (Notes 1 and 2)
Mr. Chu Chun Ho, Dominic	Kong Tai Sundry Goods Company Limited	1 May 2016	a term of 3 years commencing on 1 May 2016	2,265,900 (Note 1)
Mr. Chu Chun Wah, Haeta	Kong Tai Sundry Goods Company Limited	1 May 2016	a term of 3 years commencing on 1 May 2016	1,228,500 (Note 1)
Mr. Chu Chun Wah, Haeta	Grand Asian Limited	1 May 2016	a term of 3 years commencing on 1 May 2016	1,037,400 (Note 1)

Note 1: An annual bonus equal to one month's salary shall be paid.

Note 2: Mr. Chu Siu Ming is entitled to a monthly housing allowance of HK\$100,000.

As at the Latest Practicable Date,

- (i) no benefit (other than statutory compensation) would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;
- (ii) save for the arrangement set out under the section headed "Proposed Change of Board Composition" in the "Letter from Octal Capital" of this Composite Document, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or dependence upon the Offer; and

- (iii) save for the sale of the Sale Shares by Mr. Chong Hok Hei, Charles, Mr. Chong Hot Hoi, Mr. Chu Chun Ho, Dominic, Mr. Chu Chun Wah, Haeta and Come Good Investment (BVI) Limited (a company wholly-owned by Mr. Chu Siu Ming) under the Sale and Purchase Agreement, there was no material contract entered into by the Offeror in which any Director had a material personal interest.

6. MATERIAL CONTRACTS

Save as disclosed below, no material contract (being contracts not entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by member(s) of the Group within the two years immediately preceding the commencement of the Offer Period and up to the Latest Practicable Date.

- (i) the Management Agreement; and
- (ii) Supplemental Subsidiary Service Agreements.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. MARKET PRICES

The table below sets out the closing prices of the Shares as quoted on the Stock Exchange on the last trading day of each of the calendar months during the Relevant Period on which trading of the Shares took place:

	Closing prices of Shares (HK\$)
30 June 2016	1.85
29 July 2016	1.84
26 August 2016	1.88
29 September 2016	2.20
31 October 2016	2.37
30 November 2016	2.37
8 December 2016 (being the last Business Day prior to the commencement of the Offer Period, being the date of the Initial Announcement)	3.00
30 December 2016	3.49
12 January 2017 (being the last Business Day prior to the date of the First Joint Announcement)	3.58
27 January 2017	3.86
28 February 2017	3.70
31 March 2017	3.66
28 April 2017	3.91
31 May 2017	3.90
15 June 2017 (Latest Practicable Date)	3.89

During the Relevant Period, the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$1.79 per Share on 24 June 2016 and the highest closing price of the Shares as quoted on the Stock Exchange was HK\$3.95 per Share on 20 January 2017 and 27 April 2017, respectively.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice contained in this Composite Document.

Name	Qualification
Octal Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in respect of the Offer
RHB	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Company in respect of the Offer
BaoQiao Partners	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the Independent Financial Adviser to the Code Independent Board Committee in respect of the Offer

As at the Latest Practicable Date, neither Octal Capital, RHB nor BaoQiao Partners had any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Octal Capital, RHB and BaoQiao Partners has given and has not withdrawn their respective written consents to the issue of this Composite Document with the inclusion of their respective letter and references to their respective name in the form and context in which they appear, respectively.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the principal place of business of the Company in Hong Kong from 9:00 a.m. to 6:00 p.m. on any Business Day; and (ii) on the websites of the SFC (www.sfc.hk) and the Company (www.s-culture.com) from the date of this Composite Document up to and including the Closing Date:

- (i) the memorandum and articles of association of the Offeror valid as at the Latest Practicable Date;
- (ii) the memorandum and articles of association of the Company valid as at the Latest Practicable Date;

- (iii) the annual reports of the Company for each of the two years ended 31 December 2015 and 2016;
- (iv) the letter from Octal Capital, the text of which is set out on pages 9 to 17 of this Composite Document;
- (v) the letter from the Board, the text of which is set out on pages 18 to 23 of this Composite Document;
- (vi) the letter from the Code Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 24 to 25 of this Composite Document;
- (vii) the letter of advice from BaoQiao Partners to the Code Independent Board Committee, the text of which is set out on pages 26 to 44 of this Composite Document;
- (viii) the written consents referred to in the paragraph headed “Expert and consents” in this Appendix;
- (ix) the irrevocable undertakings referred to in the paragraph headed “Irrevocable Undertakings” in the “Letter from Octal Capital” of this Composite Document;
- (x) the service contracts referred to in the paragraph headed “Directors’ Service Contracts and Other Interests” in this Appendix;
- (xi) the Loan Agreement and the Share Charge; and
- (xii) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix.

11. GENERAL

As at the Latest Practicable Date:

- (i) the registered office of the Offeror was situated at Room 1501, 15/F., SPA Centre, 53–55 Lockhart Road, Wanchai, Hong Kong;
- (ii) the registered address of Octal Capital was situated at 802–805, 8th Floor, Nan Fung Tower, 88 Connaught Road Central, Hong Kong;
- (iii) the registered office of RHB was situated at 12/F., World-Wide House, 19 Des Voeux Road Central, Hong Kong; and
- (iv) the registered office of BaoQiao Partners was situated at Unit 501, 5/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

In the event of inconsistency, the English texts of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese texts.