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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

		2016	2015
Revenue	*HK$'000*	**562,474**	561,028
Gross profit	*HK$'000*	**320,527**	347,494
Loss before taxation	*HK$'000*	**(37,312)**	(16,360)
Loss attributable to owners of the Company	*HK$'000*	**(34,607)**	(16,373)
Gross profit margin	*%*	**57.0**	61.9
Loss margin attributable to owners of the Company	*%*	**(6.2)**	(2.9)
Loss per share — basic	*HK$*	**(0.17)**	(0.08)

The board of directors (the "Board") of S. Culture International Holdings Limited (the "Company" or "S. Culture") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016, together with the comparative figures for the year 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	3	**562,474**	561,028
Cost of goods sold		**(241,947)**	(213,534)
Gross profit		**320,527**	347,494
Other income		**1,344**	1,698
Other gains and losses		**(971)**	(1,846)
Selling and distribution costs		**(218,398)**	(220,848)
Administrative expenses		**(136,101)**	(139,798)
Finance costs		**(3,713)**	(3,060)
Loss before taxation	4	**(37,312)**	(16,360)
Taxation	5	**2,705**	(13)
Loss for the year		**(34,607)**	(16,373)
Other comprehensive income (expense) for the year			
Item that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation		**1,098**	(805)
Total comprehensive expense for the year		**(33,509)**	(17,178)
Loss for the year attributable to owners of the Company		**(34,607)**	(16,373)
Total comprehensive expense attributable to owners of the Company		**(33,509)**	(17,178)
Loss per share — basic (HK$)	7	**(0.17)**	(0.08)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Non-current assets			
Property, plant and equipment		**46,929**	52,066
Investment properties		**751**	764
Deferred tax assets		**10,155**	6,773
Deposit and prepayment for a life insurance policy		**1,862**	—
Deposits paid for acquisition of property, plant and equipment		**—**	349
Rental deposits		**10,940**	19,216
		70,637	79,168
Current assets			
Inventories		**227,121**	251,713
Trade and other receivables	8	**87,038**	87,719
Derivative financial instruments		**—**	141
Taxation recoverable		**2,795**	2,896
Bank balances and cash		**26,233**	32,647
		343,187	375,116
Current liabilities			
Trade and other payables	9	**24,469**	26,992
Taxation payable		**211**	268
Obligation under a finance lease — due within one year		**—**	155
Bank borrowings — due within one year		**195,867**	199,103
		220,547	226,518
Net current assets		**122,640**	148,598
Total assets less current liabilities		**193,277**	227,766
Non-current liabilities			
Bank borrowings — due after one year		**9,209**	10,189
Net assets		**184,068**	217,577
Capital and reserves			
Share capital		**2,000**	2,000
Reserves		**182,068**	215,577
Total equity		**184,068**	217,577

NOTES

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 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 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. 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 also 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 and the application of the expected credit loss model of HKFRS 9 may result in earlier recognition of credit losses for the respective items and are currently assessing the potential impact. The application of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to operating segments focusing on retail sales and wholesale of footwear products. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies 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**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE					
External sales	**518,807**	**43,667**	**562,474**	**—**	**562,474**
Inter-segment sales	**—**	**252,934**	**252,934**	**(252,934)**	**—**
Segment revenue	**518,807**	**296,601**	**815,408**	**(252,934)**	**562,474**
Segment results	**(31,980)**	**3,089**	**(28,891)**	**(2,466)**	**(31,357)**
Unallocated income					**1,015**
Unallocated expenses					**(3,257)**
Finance costs					**(3,713)**
Loss before taxation					**(37,312)**

For the year ended 31 December 2015

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

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the (loss) profit 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.

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
	HK$'000	*HK$'000*
Hong Kong	**445,340**	436,960
Taiwan	**98,910**	105,057
Macau	**12,309**	13,184
Mainland China	**5,915**	5,827
	562,474	561,028

4. LOSS BEFORE TAXATION

	2016	2015
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	**108,698**	108,922
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	**21**	—
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**5,194**	4,864
— retail stores (including in selling and distribution costs)		
— minimum lease payments	**110,799**	105,465
— contingent rent *(note)*	**4,224**	4,406
	115,023	109,871
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	**31,600**	39,530
— contingent rent *(note)*	**28,129**	25,714
	59,729	65,244
	179,946	179,979
Interest income	**(73)**	(577)
Imputed interest income from deposit and prepayment for a life insurance policy	**(26)**	—
Net exchange loss	**797**	1,875

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

5. TAXATION

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

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

6. DIVIDENDS

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

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

7. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31 December 2016 is based on the loss for 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.

8. TRADE AND OTHER RECEIVABLES

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

	2016	2015
	HK$'000	*HK$'000*
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	**2,242**	2,747
	57,301	63,144

9. TRADE AND OTHER PAYABLES

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

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

The average credit period of trade payables is 30 days.

CHAIRMAN'S STATEMENT

I present to you the annual results of S. Culture and its subsidiaries for the year ended 31 December 2016.

Retail sector of Hong Kong was still suffering from the worst secular decline since 2002, as the negative factors such as a general decline in high-spending tourists from the Mainland China and weak consumer sentiments were still deprecating the sector in 2016. Allow me to quote from the recent "2016 Economic Background and 2017 Prospects" released in February 2017 by Economic Analysis Division, Economic Analysis and Business Facilitation Unit of Financial Secretary's Office of the Government of the Hong Kong Special Administrative Region (the "Report"), "…Inbound tourism remained in a consolidation mode during most of 2016. Overall visitor arrivals reverted to a marginal year-on-year increase in the fourth quarter, though for 2016 as a whole they still fell by 4.5% to 56.7 million, representing the second consecutive year of annual decline". The Report further states that "…Among the major services sectors, net output of wholesale and retail trades was the worst performer, falling distinctly in the first three quarters of 2016 combined amid the slowdown in inbound tourism".

Against the above background, our retail segment in Hong Kong was much affected, and thus the Group as a whole had recorded a same store sales decline of approximately 3.4% and a net loss of approximately HK$34.6 million for the year.

OUTLOOK

There is no doubt that the world is full of uncertainties and we are closely monitoring them as they could significantly alter the global economic outlook in the near term, thus affecting Hong Kong. The most notable ones are the economic policy directions of the new US administration and their impacts on the US economic and interest rate outlook; risks related to Brexit; and the increase in protectionist and anti-trade sentiments due to elevated geopolitical tensions. At this juncture of time, Hong Kong is bracing for its own uncertainties in terms of the impending leadership change and the disappointing political deadlock with respect to its governance.

Looking ahead, the near-term outlook for retail sales will still be constrained by the weak performance of inbound tourism and slow growth of local consumption. Operating margins will continue to be under pressure as the price-setting power of the retailers is still constrained.

Under these difficult economic and market conditions, the Group continued its strategy in rationalizing the extant mix and network of our retail outlets against the high costs of operations. In the meantime, we noted the decline in general rental levels of street outlets and continued to negotiate for better rental terms with landlords upon expiry of leases. In addition, the management had also committed to relentless measures of overhead cost containment. The Group would monitor the impact of the above-mentioned operating factors on an on-going basis so as to remain competitive in the market. Accordingly, the management had embarked on certain initiatives to push for higher market shares. We continued to take advantage of the tamer rental market by taking up short-term lease outlets in strategic locations to serve a wider base of customers and thus grab additional market shares and reduce the level of inventory. Again, we will continue to monitor the relevant economic conditions and the ever changing retail landscape to strive for the most efficient and effective operational setting and scale.

Last but not least, the Board is highly aware of the value of good corporate governance. The Board follows closely the latest and expected standards of corporate ethics and governance. In addition, we also honour our corporate social responsibilities by addressing the needs of our staff and contributing to the community. Both the management and employees had enjoyed very much the charitable and other community contributing events during the year. To our delight, we were also awarded recently the designation of "Caring Company". This recognition has certainly earmarked our efforts towards society in general as a socially responsible corporate player.

In view of the Group's operating results, the Board did not recommend the payment of a final dividend in respect of the year ended 31 December 2016. Despite of the above, we will strive to further enhance the Company's performance and optimise the return for our shareholders.

Finally, I would like to extend, on S. Culture's behalf, my heartfelt gratitude to the shareholders of the Company, members of the Board, management and staff of the Group and business associates for their continuing support to our Company.

Chong Hot Hoi
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

Retail Operations

Revenue of the Group's retail business for the year ended 31 December 2016 (the "Year") was HK$518.8 million, representing a 1.1% increase from HK$513.1 million of the even year of 2015. Despite the slight increase in our overall revenue, we had recorded a same store sales decline of approximately 3.4% during the Year (2015: 6.6%). This was mainly due to the prolonged sluggishness of the retail market in Hong Kong, resulting from the continued disappointment of performance of inbound tourism and the ever more cautious local consumer sentiment amid the uncertain economic conditions in the region and the world.

Hong Kong

Hong Kong was still contributing a majority of sales as we had 61 (2015: 69) retail outlets under normal lease terms and 11 (2015: 10) retail outlets under short-term lease in the locality as of the Year end. In view of the weak retail climate and challenging operating environment as mentioned above, we had experienced a same store sales decline of approximately 2.8% for our Hong Kong retail operations. As revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, the total retail sales of footwear, allied products and other clothing accessories fell by 3.0% in volume for the Year as compared to the even year of 2015. During the Year, we had offered greater discounts and more promotions for more customer purchase and maintaining our market share. Unfortunately, the intensive discount-driven retail dynamic environment in the current year had dampened the effectiveness of our traditional promotion campaign. The major operating costs in Hong Kong, including but not limited to staff costs and rental expenses, had eroded our operating margins. To enhance our efficiency and remain competitive in the market, we continued to time our salary increment plan in 2016 until there is a clear signal of rebound in the retail market. We also continued to assess and fine-tune our retail network in Hong Kong such that we were terminating non-performing outlets by closely monitoring the productivity of each individual retail outlet on a regular basis, strategically relocated certain retail outlets to other prime shopping locations with lower rentals and opened new short-term lease promotion outlets. As at 31 December 2016, we had operated 11 short-term lease promotion outlets in Hong Kong. The purposes of these short-term retail outlets were mainly to inject flexibility into our sales platform to better reach our target customers and to alleviate the inventory pressure under the current challenging operating environment.

Taiwan

Taiwan retail market stayed stagnant and the purchasing power of general consumers remained weak. The Group reduced the number of its retail outlets in Taiwan to 48 (2015: 50) during the Year and recorded a year-on-year decline of approximately 5.9% in revenue for the Year. Our channel strategy in Taiwan was identifying and locating our retail outlets in selected department stores and outlet parks, while gradually eliminating certain ineffective and under-performing retail outlets to enhance our operating margins. At the same time, the Group had explored more short-term promotion outlets to increase our sales volume in a cost-efficient manner and maintain our presence in the Taiwan market. The management continued with its flexible operating tactics and applied appropriate financial and cost control measures to further enhance operational efficiency and cost management for our operations in Taiwan.

Macau

The Group had maintained a comparable scale of its retail networks in Macau to reap the highest return amid the current level of economic conditions experienced in Macau. As at 31 December 2016, there were two retail outlets in Macau.

Mainland China

Mainland China's economy continued to slow down, which was mainly attributable to the volatility of global economy and domestic economic constraints. Together with the ever-changing customer shopping habits via internet or mobile devices, these created a challenging and competitive business environment to general retailers in Mainland China. In light of this, we applied cautious steps towards our operation in the Mainland market. We kept on collaborating with our local and experienced business partners to explore opportunities to sell our footwear products of "Josef Seibel", "The Flexx" and "Petite Jolie" in the Mainland. As at 31 December 2016, the Group had three (2015: four) retail outlets and 17 (2015: 10) points of sales of our products under the brands of "Clarks", "Josef Seibel", "Petite Jolie" and "The Flexx" in the cities of Shanghai, Qinhuangdao, Haikou, Qingdao, Songyuan, Zhengzhou, Harbin, Luoyang, Dandong, Tangshan, Panjin, Nanning, Taiyuan, Changsha and Beijing.

Wholesale Operations

The Group's wholesale operations continued to be the other main segment of our overall operations. It complemented our retail operations as our wholesale customers enabled the Group to reach diverse segments of customers to sell our footwear products. The management expected this segment to continue to contribute to the Group as we would continue to put in a reasonable level of operating resources to maintain the current scale of operations.

Prospects

Looking forward, the global economy was clouded under uncertain economic and political outlooks. At this juncture, we are still cautious about our operating scale and costs. We will do our utmost to contain those costs to a reasonable level and rebalance our retail outlet mix. We will continue to negotiate for better rental terms with landlords upon expiry of leases and take up short-term lease outlets in strategic locations to serve a wider base of customers and reduce our level of inventory. As part of our holistic plan, we will monitor the economic indicators and the ever-changing retail landscape, revisit our existing business strategies to enhance our operation efficiency and to remain competitive in the market.

FINANCIAL REVIEW

Revenue

Revenue of the Group's business for the Year was HK$562.5 million, representing a 0.3% increase from HK$561.0 million for the even year of 2015.

With regard to the sales of the major brands under exclusive distribution agreements for the Year compared with the even year of 2015, sales of "Clarks" footwear products had increased by 4.9%. Sales of "Josef Seibel", "The Flexx" and "Petite Jolie" footwear products had decreased by 20.5%, 2.1% and 2.9% respectively. The growth in sales of "Clarks" is an encouraging performance indicator that reaffirms our major product brand value in our target market.

As at 31 December 2016, the Group operated 72 retail outlets in Hong Kong, two retail outlets in Macau, three retail outlets in Mainland China, and 48 retail outlets in Taiwan. As at the even date of 2015, the Group operated 79 retail outlets in Hong Kong, two retail outlets in Macau, four retail outlets in Mainland China and 50 retail outlets in Taiwan.

Cost of Goods Sold

Our cost of goods sold amounted to HK$241.9 million for the Year, representing 43.0% of revenue (2015: HK$213.5 million, representing 38.1% of revenue). The increase in cost of goods sold was mainly due to the increase in sales activities of the Group.

Gross Profit

Gross profit (gross profit equals to revenue minus cost of goods sold) of the Group for the Year was HK$320.5 million, representing a decrease of 7.8% from HK$347.5 million of 2015. Gross profit margin of the Group for the Year was 57.0% (2015: 61.9%). There was a drop of the gross profit margin as we had offered promotions and discounts to maintain market shares. The increase in opening of short-term promotion outlets during the Year had also driven down our gross profit margin.

Depreciation

Depreciation accounted for 1.9% of revenue for the Year (2015: 2.3%).

Staff Costs

Staff costs for the Year were HK$108.7 million, representing 19.3% of revenue (2015: HK$108.9 million, representing 19.4% of revenue). The slight decrease in staff costs to revenue ratio was mainly due to the decrease in number of staff of the Group as compared to the even year of 2015 and the suspension of salary increment plan in 2016. Due to the shortage of talented retail sales staff in the market, the Group had made use of effective incentive commission scheme to motivate the sales staff for better sales productivity and efficiency. In addition, the commissions, as part of salaries, increased with sales targets determined and made during the Year.

Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Year amounted to HK$179.9 million, representing 32.0% of revenue (2015: HK$180.0 million, representing 32.1% of revenue). The slight decrease in the retail outlet rentals and related expenses was mainly due to the rebalance of our retail outlet mix, as indicated by the decrease in the number of our retail outlets with normal lease terms and the increase in the number of short-term promotion outlets during the Year. Our concession fees for the Year amounted to HK$59.7 million (2015: HK$65.2 million). Such decrease was mainly due to the decrease in the number of concession counters and the corresponding decrease in the sales made through these concessions, based on which part of the fees were charged.

Finance Costs

Our finance costs for the Year amounted to HK$3.7 million (2015: HK$3.1 million). The finance costs were mainly interest expenses incurred on the mortgage facilities for our office premises in Taiwan and trade-related financing facilities with banks. The effective interest rates on the Group's borrowings ranged from 1.9% to 2.8% (2015: 1.5% to 2.5%).

Loss Before Tax

As a result of the foregoing, our loss before tax for the Year was HK$37.3 million, representing a 127.4% increase from the loss before tax of HK$16.4 million for the even year of 2015.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 31 December 2016, the Group had bank deposits and cash amounting to HK$26.2 million (2015: HK$32.6 million), representing a decrease of 19.6% from 31 December 2015. Most bank deposits and cash were denominated in Hong Kong dollars. As at 31 December 2016, the Group had short-term bank borrowings amounting to HK$195.9 million (2015: HK$199.1 million), representing a decrease of 1.6% from 31 December 2015. As at 31 December 2016, the Group had long-term bank borrowings, comprising mainly mortgage for our office premises in Taiwan, amounting to HK$9.2 million (2015: HK$10.2 million), representing a decrease of 9.8% from 31 December 2015.

Foreign Currency Risk

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

Human Resources

As at 31 December 2016, the Group employed approximately 440 employees (2015: 481). Remuneration packages are generally structured by reference to market terms and individual qualifications and experience. During the Year, various training activities, such as training of product and service knowledge, management skills as well as local consumer laws, have been conducted to improve the quality of sales services.

Share Information

The average closing price of the Company's shares during the Year was HK$2.01, with the highest closing price of HK$3.80 achieved on 23 December 2016 and the lowest closing price of HK$1.52 recorded on 21 January 2016.

Dividends

The Board has resolved not to recommend the payment of a final dividend for the Year.

Total Shareholder Return

Total shareholder return ("TSR") is calculated based on capital gains and dividends of the shares. The Company had a TSR of approximately 87.6% for the Year (2015: 17.7%).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company compiled with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Year.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' dealings in the Company's securities. Following specific enquiry made to the directors, each of them has confirmed their compliance with the required standard set out in the Model Code throughout the Year.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

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

The audit committee has reviewed with management the principal accounting policies adopted by the Group and discussed the risk management, internal controls and financial reporting matters including a review of the annual financial statements for the Year.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

APPRECIATION

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

By order of the Board
S. Culture International Holdings Limited
Chong Hot Hoi
Chairman

Hong Kong, 16 March 2017

As at the date of this announcement, the Board comprises 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.