S.Culture
INTERNATIONAL HOLDINGS LIMITED

S. CULTURE INTERNATIONAL HOLDINGS LIMITED
港大零售國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1255)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

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

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 2018, together with the comparative figures for the year 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Revenue	3	**358,006**	483,722
Cost of sales		**(137,499)**	(230,880)
Gross profit		**220,507**	252,842
Other income		**1,497**	1,350
Other gains and losses		**7,558**	5,184
Selling and distribution costs		**(147,370)**	(212,963)
Administrative expenses		**(72,758)**	(82,145)
Other expenses		**(1,207)**	(4,022)
Share of results of an associate		**(1)**	—
Finance costs		**(1,643)**	(3,177)
Profit (loss) before taxation	5	**6,583**	(42,931)
Taxation	6	**(498)**	(511)
Profit (loss) for the year		**6,085**	(43,442)
Other comprehensive income for the year			
Item that may be subsequently reclassified to profit or loss			
Exchange differences arising on translation of foreign operations		**716**	1,852
Total comprehensive income (expense) for the year		**6,801**	(41,590)

	Note	**2018** **HK$'000**	2017 *HK$'000*
Profit (loss) for the year attributable to:			
Owners of the Company		**(1,749)**	(43,442)
Non-controlling interests		**7,834**	—
		6,085	(43,442)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**(1,033)**	(41,590)
Non-controlling interests		**7,834**	—
		6,801	(41,590)
Loss per share — basic *(HK$)*	8	**(0.01)**	(0.22)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
Non-current assets			
Property, plant and equipment		**13,861**	38,425
Investment properties		**—**	29,000
Goodwill	9	**31,027**	—
Intangible assets	10	**22,224**	—
Interest in an associate		**—**	—
Loan to an associate		**568**	—
Deferred tax assets		**10,063**	10,116
Deposit and prepayment for a life insurance policy		**1,900**	1,868
Rental deposits		**5,949**	6,136
		85,592	85,545
Current assets			
Inventories		**139,940**	153,293
Trade and other receivables	11	**63,289**	72,163
Taxation recoverable		**408**	313
Bank balances and cash		**28,835**	24,287
		232,472	250,056
Assets classified as held for sale		**29,700**	—
		262,172	250,056
Current liabilities			
Trade and other payables	12	**46,507**	26,032
Amount due to immediate holding company		**12,610**	—
Amount due to a director		**—**	3,800
Taxation payable		**630**	485
Bank borrowings — due within one year		**47,434**	130,215
		107,181	160,532
Net current assets		**154,991**	89,524
Total assets less current liabilities		**240,583**	175,069

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Bank borrowings — due after one year	**—**	8,842
Deferred tax liabilities	**3,667**	—
	3,667	8,842
Net assets	**236,916**	166,227
Capital and reserves		
Share capital	**2,140**	2,000
Reserves	**217,552**	164,227
Equity attributable to owners of the Company	**219,692**	166,227
Non-controlling interests	**17,224**	—
Total equity	**236,916**	166,227

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 and healthcare products, and provision of financial services.

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

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

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

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

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 "Revenue from Contracts with Customers"

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

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

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

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

2.2 HKFRS 9 "Financial Instruments"

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

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

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

Classification and measurement of financial assets

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

Impairment under ECL model

The Group has applied HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables. To measure the ECL, trade receivables have been assessed individually, and there had been no significant increase in credit risk since initial recognition.

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

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

Except for the above, the HKICPA has issued a number of new standards, interpretations and amendments to standards which are not effective for accounting period beginning 1 January 2018 and have not been early adopted by the Group.

3. REVENUE

For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

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

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

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

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

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

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

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

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

For the year ended 31 December 2017

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

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

4. SEGMENT INFORMATION

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

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

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

1. Trading of footwear products

2. Trading of healthcare products

3. Financial services

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

Segment revenue and results

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

For the year ended 31 December 2018

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

For the year ended 31 December 2017 (Restated)

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

Inter-segment sales are charged at prevailing market rates.

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

Other segment information

For the year ended 31 December 2018

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

For the year ended 31 December 2017 (Restated)

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

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

Geographical information

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

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

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

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

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

5. PROFIT (LOSS) BEFORE TAXATION

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

Notes:

(a) Taking into account the continuous decrease in revenue attributable to, and the loss-making position of, the Group's operations in Taiwan, the Group had downscaled its operations in Taiwan by terminating the retail business during the year ended 31 December 2017. The Group would continue the wholesale business in the future. As a result of the downscale of operations in Taiwan, severance payments of HK$4,022,000 was charged to profit or loss during the year ended 31 December 2017 (2018: nil).

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

6. TAXATION

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

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.

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

No provision for Hong Kong Profits Tax was made in the consolidated financial statements for the year ended 31 December 2017 as the subsidiaries operating in Hong Kong have no assessable profits for the year ended 31 December 2017.

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

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

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

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

7. DIVIDENDS

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

8. LOSS PER SHARE

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

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

9. GOODWILL

	HK$'000
COST	
At 1 January 2018	—
Acquisition of subsidiaries *(note 13)*	31,027
At 31 December 2018	31,027

10. INTANGIBLE ASSETS

	HK$'000
COST	
At 1 January 2018	—
Acquisition of subsidiaries *(note 13)*	22,224
At 31 December 2018	22,224

Intangible assets represent the Type 1 (Dealing in Securities), Type 4 (Advising on Securities), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management) licences issued by the Securities and Futures Commission which were acquired through acquisition of subsidiaries. These licences are renewable annually at minimal costs. In the opinion of the directors, the intangible assets have an indefinite useful life because they are expected to contribute net cash inflows indefinitely.

11. TRADE AND OTHER RECEIVABLES

Retail sales of footwear products are made at retail shops and concession counters in department stores. The department stores collect payments from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores range from 30 to 60 days. Sales made at retail shops are settled by cash or credit cards. For wholesale of footwear products, trading of healthcare products and provision of financial services, the Group allows a credit period range from 30 to 90 days to its trade customers. The following is an aging analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of each reporting period:

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

12. TRADE PAYABLES

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

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

The average credit period of trade payables is 30 days.

13. ACQUISITION OF SUBSIDIARIES

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

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

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the Group's annual results for the year ended 31 December 2018 (the "Year").

In 2018, according to the statistics from the Immigration Department of the Government of Hong Kong (the "Immigration Department"), visitor arrivals increased by 14.8% as compared with the even year of 2017. Meanwhile, as revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, the value of retail sales for footwear, allied products and other clothing accessories raised by 10.5% as the compared with the even year of 2017. Taking advantage of the recovering tendency of the retail market, we adjusted our brand portfolio and product mix and controlled discounts and promotional initiatives to improve our gross profit margin. Furthermore, we fine-tuned our retail outlet mix by closing under-performing retail outlets and downscaled our investment and loss-making operations in Taiwan, in order to improve efficiency and effectiveness in retail operation.

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

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

I, together with other members of the Board, will continue to contribute our intelligence and effort to achieve sustainable and optimal returns to our shareholders.

By Order of the Board

S. Culture International Holdings Limited
Yang Jun
Chairman

28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW AND FUTURE DEVELOPMENT

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

Footwear Business

Revenue of the Group's footwear business for the Year was HK$337.9 million, representing a 30.1% decrease from HK$483.7 million of the even year of 2017. We had recorded a same store sales decline of approximately 2.0% during the Year (2017: 10.6%). Despite the decrease in revenue of the Group's footwear business, we had achieved a turnaround with a segment profit of HK$1.6 million during the Year. This was mainly due to the improvement in operating results for (i) the retail business operations in Hong Kong and Macau attributable to the meticulous execution of both retail outlet mix optimisation and cost reduction strategies in the past year; and (ii) the downsizing of our investment and operational exposure in Taiwan which had been in a loss-making position in the previous years.

Healthcare Business

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

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

Financial Services

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

Prospects

In 2018, according to the statistics from the Immigration Department, visitor arrivals increased by 14.8% as compared with the even year of 2017. Meanwhile, as revealed in the Report on Monthly Survey of Retail Sales issued by the Census and Statistics Department of Hong Kong, the value of retail sales for footwear, allied products and other clothing accessories raised by 10.5% as compared with the even year of 2017. It is our opinion that the retail market is under a recovering tendency. However, the Sino-US trade conflict has brought the global economy with great uncertainty. The Group will face operation pressure from traditional footwear business, and will cautiously run this business.

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

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

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

FINANCIAL REVIEW

Revenue

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

Revenue from footwear business

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

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

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

Revenue from the provision of financial services

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

Revenue from healthcare business

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

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

Cost of Goods Sold

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

Gross Profit

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

Depreciation

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

Staff Costs

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

Retail Outlet Rentals and Related Expenses

Our retail outlet rentals and related expenses for the Year amounted to HK$93.5 million, representing 26.1% of the Group's revenue (2017: HK$142.0 million, representing 29.4% of the Group's revenue). The decrease in the retail outlet rentals and related expenses was mainly due to the decrease in the number of our retail outlets during the Year. Our concession fees for the Year amounted to HK$30.7 million (2017: HK$49.7 million). Such decrease was mainly due to the decrease in the number of concession counters and the corresponding decrease in the sales made through these concessions, based on which part of the fees were charged.

Finance Costs

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

Profit (Loss) Before Tax

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

Liquidity and Financial Resources

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

Pledge of Asset

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

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

Assets Classified as Held for Sale and Investment Properties

On 30 November 2018, the Group (as the vendor) entered into sale and purchase agreements with independent third parties to dispose of the investment properties with completion expected to take place on or before 1 September 2019. Therefore, the investment properties were classified as held for sale. The fair value of the Group's investment properties classified as held for sale as at 31 December 2018 was HK$29.7 million. The fair value of the Group's investment properties as at 31 December 2017 was HK$29.0 million. The fair value as at 31 December 2018 was arrived based on a valuation carried out on that date by ROMA Appraisals Limited (a member of Hong Kong Institute of Surveyors), an independent valuer not connected with the Group.

Future Plans for Material Investments or Capital Assets

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

Treasury Policy

The Group adopts a treasury policy that aims to better control its treasury operations and lower borrowing costs. As such, the Group endeavours to maintain an adequate level of cash and cash equivalents to address short-term funding needs. The Board will also consider various funding sources depending on the Group's funding needs to ensure that the financial resources have been used in the most cost-effective and efficient way to meet the Group's financial obligations. The Board reviews and evaluates the Group's treasury policy from time to time to ensure its adequacy and effectiveness.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Ventures

On 19 January 2018, Shang Ying Capital Limited (a direct wholly-owned subsidiary of the Company) entered into a sale and purchase agreement with independent third parties to acquire 51% equity interests in the DSG Group at a total cash consideration of HK$40,800,000, which was subject to adjustment based on acquirees' aggregated net profits as shown in their audited consolidated financial statements for the Year (the "DSG Transaction"). DSG Cayman is an investment fund manager and engaged in the provision of financial services and DSG Finance Group is principally engaged in the provision of financial services. The DSG Transaction was completed on 27 July 2018. Details of the DSG Transaction were disclosed in the announcements of the Company dated 19 January 2018 and 27 July 2018, respectively.

Foreign Currency Risk

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

Human Resources

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

Dividends

The Board has resolved not to recommend the payment of a final dividend for the Year (2017: Nil).

Total Shareholder Return

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

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 complied 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.

AUDIT COMMITTEE

The audit committee, comprising all the three independent non-executive Directors, has reviewed with management the principal accounting policies adopted by the Group and discussed the risk management and internal control systems and financial reporting matters, including a review of the audited consolidated financial statements, for the Year.

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 as set out in this 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 this 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
Yang Jun
Chairman

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Yang Jun, Mr. Lin Zheming and Mr. Zhu Fangming, three non-executive Directors, namely, Mr. Law Fei Shing, Mr. Lin Jun and Mr. Chu Chun Ho, Dominic and three independent non-executive Directors, namely, Mr. Xie Rongxing, Mr. Chen Huigang and Mr. Lum Pak Sum.