**LIFESTYLE INTERNATIONAL HOLDINGS LIMITED**
**利福國際集團有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 1212)**

# ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

## HIGHLIGHTS

| | 2019 | 2018 | Change |
|---|---|---|---|
| Turnover (*HK$ millions*) | 3,542.0 | 4,358.0 | -18.7% |
| Profit attributable to owners of the Company (*HK$ millions*) | 1,890.7 | 1,690.1 | 11.9% |
| Earnings per share *(HK$)* | 1.26 | 1.08 | 16.7% |

## FINAL RESULTS

The board of directors ("Board") of Lifestyle International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019, together with comparative figures for the previous year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Turnover | 3 | **3,542,032** | 4,358,010 |
| Cost of sales | | **(888,869)** | (1,142,748) |
| Gross profit | | **2,653,163** | 3,215,262 |
| Other income, gains and losses | | **147,165** | 108,507 |
| Selling and distribution costs | | **(697,344)** | (721,950) |
| Administrative expenses | | **(137,787)** | (137,485) |
| Interest and investment gains/(losses) | 5 | **740,176** | (270,971) |
| Fair value changes on investment property | | **(173,959)** | 251,200 |
| Finance costs | 6 | **(365,238)** | (282,187) |
| Profit before taxation | | **2,166,176** | 2,162,376 |
| Taxation | 7 | **(275,500)** | (472,306) |
| Profit for the year attributable to owners of the Company | 8 | **1,890,676** | 1,690,070 |
| Other comprehensive income | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Fair value change on financial assets at fair value through other comprehensive income | | **25,528** | - |
| Other comprehensive income for the year (net of tax) | | **25,528** | - |
| Total comprehensive income for the year attributable to owners of the Company | | **1,916,204** | 1,690,070 |
| Earnings per share for profit attributable to owners of the Company – Basic and diluted | 10 | **HK$1.26** | HK$1.08 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2019

| | *Notes* | **31 December 2019 *HK$'000*** | 31 December 2018 *HK$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Investment property | | **5,420,000** | 5,132,000 |
| Property, plant and equipment | | **6,291,532** | 5,876,308 |
| Financial assets at fair value through other comprehensive income | *12* | **633,121** | - |
| Financial assets at fair value through profit or loss | *12* | **15,871** | 19,137 |
| Deposits | | **72,248** | 63,503 |
| | | **12,432,772** | 11,090,948 |
| Current assets | | | |
| Inventories | | **38,615** | 44,783 |
| Trade and other receivables | *11* | **102,811** | 154,781 |
| Financial assets at fair value through profit or loss | *12* | **3,306,082** | 3,080,999 |
| Time deposits | | **1,508,698** | 4,782,877 |
| Cash and cash equivalents | | **7,112,561** | 1,413,115 |
| | | **12,068,767** | 9,476,555 |
| Current liabilities | | | |
| Trade and other payables | *13* | **826,275** | 1,046,371 |
| Contract liabilities | *14* | **138,294** | 153,496 |
| Lease liabilities | | **76,144** | - |
| Tax payable | | **490,926** | 290,459 |
| Bank borrowings – due within one year | | **4,070,966** | 3,099,958 |
| Financial liabilities at fair value through profit or loss | *12* | **12** | 3,773 |
| | | **5,602,617** | 4,594,057 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)**
**AS AT 31 DECEMBER 2019**

| | 31 December 2019 *HK$'000* | 31 December 2018 *HK$'000* |
|---|---|---|
| Non-current liabilities | | |
| Bank borrowings – due after one year | **7,641,212** | 8,114,291 |
| Bonds – due after one year | **6,962,233** | 4,656,499 |
| Lease liabilities | **210,876** | - |
| Deferred tax liabilities | **243,297** | 271,272 |
| | **15,057,618** | 13,042,062 |
| | **3,841,304** | 2,931,384 |
| Capital and reserves | | |
| Share capital | **7,510** | 7,510 |
| Reserves | **3,833,794** | 2,923,874 |
| Equity attributable to owners of the Company | **3,841,304** | 2,931,384 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2019

### 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 (the “Stock Exchange”) and by the Hong Kong Companies Ordinance.

### 2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

<u>New and Amendments to HKFRSs that are mandatorily effective for the current year</u>

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the HKICPA for the first time in the current year:

| | |
|---|---|
| HKAS 19 (Amendment) | Plan amendment, curtailment or settlement |
| HKAS 28 (Amendment) | Long-term investments in associates and joint ventures |
| HKFRS 9 (Amendment) | Prepayment features with negative compensation |
| HKFRS 16 | Leases |
| HK (IFRIC) - Int 23 | Uncertainty over income tax treatments |
| Annual improvement project | Annual improvement 2015-2017 cycle |

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs - *continued*

**HKFRS 16 "Leases" – Impact of adoption**

The Group has adopted HKFRS 16 from 1 January 2019, resulting in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 16, the Group has adopted the simplified approach for transition to the new lease standard. The reclassification and the adjustments arising from the new rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2018, but are recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.5%.

| | HK$'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 390,807 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 356,203 |
| Less: low-value leases not recognised as a liability | (3,195) |
| Lease liability recognised as at 1 January 2019 | 353,008 |

The adjustments on the consolidated statement of financial position as at 1 January 2019 are summarised below:

| **Consolidated Statement of Financial Position (extract)** | 31 December 2018 (as originally presented) HK$'000 | Effect of adoption of HKFRS 16 HK$'000 | 1 January 2019 (restated) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 5,876,308 | 353,008 | 6,229,316 |
| **Non-current liabilities** | | | |
| Lease liabilities | - | (287,019) | (287,019) |
| **Current liabilities** | | | |
| Lease liabilities | - | (65,989) | (65,989) |
| | 5,876,308 | - | 5,876,308 |

## 3. TURNOVER

Turnover represents the amount received and receivable for goods sold by the Group to the customers (net of discounts), income from concessionaire sales, income from "After Purchase Order" ("APO") sales, service income and rental income during the year in Hong Kong, and is analysed as follows:

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| **Recognised at a point in time** | | |
| Sales of goods – direct sales | **1,212,022** | 1,562,484 |
| **Recognised over time** | | |
| Income from concessionaire sales | **1,698,204** | 2,095,041 |
| Income from APO sales | **461,455** | 535,326 |
| Service income | **129,404** | 125,470 |
| Revenue from contracts with customers | **3,501,085** | 4,318,321 |
| Rental income | **40,947** | 39,689 |
| Total turnover | **3,542,032** | 4,358,010 |

## 4. SEGMENT INFORMATION

The Group's operating activities are attributable to a single operating segment under HKFRS 8 "Operating Segments" which focuses on the operation of department stores, property development and investment in Hong Kong. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies that conform to HKFRSs, that are regularly reviewed by the chief operating decision makers ("CODM") (i.e. the executive directors of the Company). The CODM regularly reviews revenue analysis and profit for the year of the Group as a whole to make decisions about resource allocation. Accordingly, no separate segment information other than entity level information is prepared.

The Group's operations are located in Hong Kong. The Group's non-current assets are all based in Hong Kong. The Group has no customers that contributed over 10% of the total revenue of the Group for current year. (2018: Same)

## 5. INTEREST AND INVESTMENT GAINS/(LOSSES)

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Interest income on bank deposits | **201,670** | 159,022 |
| Dividend income from financial assets at fair value through profit or loss ("FVPL") | **59,650** | 74,934 |
| Dividend income from financial assets at fair value through other comprehensive income ("FVOCI") | **2,919** | - |
| Fair value change of financial assets/liabilities at FVPL | **475,937** | (504,927) |
| | **740,176** | (270,971) |

## 6. FINANCE COSTS

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Interest expenses on: | | |
| Bank borrowings | **340,011** | 281,896 |
| Bonds | **266,956** | 212,676 |
| Lease liabilities | **12,355** | - |
| | **619,322** | 494,572 |
| Less: Amounts capitalised in construction in progress and investment property under development | **(254,084)** | (212,385) |
| | **365,238** | 282,187 |

Borrowing costs capitalised are interest expenses incurred for financing the development of qualifying assets. The capitalization rate used to determine the amounts of borrowing costs eligible for the capitalization is 3.5% (2018: 2.7%) per annum.

## 7. TAXATION

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Hong Kong Profits Tax: | | |
| Current tax | **334,021** | 423,874 |
| Overprovision in prior years | **(30,546)** | (454) |
| | **303,475** | 423,420 |
| Deferred tax (credit)/charge | **(27,975)** | 48,886 |
| | **275,500** | 472,306 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

## 8. PROFIT FOR THE YEAR

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year has been arrived at after charging/(crediting): | | |
| Directors' remuneration: | | |
| Fees | **2,600** | 2,600 |
| Salaries and allowances | **8,400** | 7,500 |
| Bonus | **-** | 15,000 |
| Retirement benefits scheme contributions | **36** | 36 |
| | **11,036** | 25,136 |
| Staff costs, excluding directors' remuneration | | |
| Salaries and wages | **211,949** | 229,036 |
| Retirement benefits scheme contributions, net of forfeited contributions for staff | **8,725** | 8,888 |
| Total staff costs | **231,710** | 263,060 |
| Auditor's remuneration | **2,376** | 2,364 |
| Depreciation of property, plant and equipment | **271,384** | 185,078 |
| Rental expenses relating to variable lease payments | **62,811** | - |
| Rental payments paid under operating lease in respect of leasehold land and buildings | **-** | 171,739 |
| (Gain)/loss on disposal /write-off of property, plant and equipment | **(168)** | 2,922 |
| Cost of inventories recognised as expense | **888,869** | 1,142,748 |
| (Reversal of provision)/provision for trade and other receivables, net | **(11)** | 18 |
| Provision/(reversal of provision) for obsolete inventories, net (included in cost of sales) | **22** | (26) |

## 9. DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend paid in cash and recognised as distributions during the year: | | |
| Final dividend for the prior year: | | |
| HK cents 37.0 per share (2018: HK cents 34.3 per share) | **555,709** | 549,687 |
| Interim dividend for the current year: | | |
| HK cents 30.0 per share (2018: HK cents 29.5 per share) | **450,575** | 456,501 |
| | **1,006,284** | 1,006,188 |

Note: Subsequent to the end of the reporting period, the directors of the Company resolved not to recommend payment of a final dividend (2018: HK cents 37.0 per share).

## 10. EARNINGS PER SHARE

Calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Earnings are calculated as follows: | | |
| Earnings for the year attributable to owners of the Company | **1,890,676** | 1,690,070 |

| | 2019<br>*'000* | 2018<br>*'000* |
|---|---|---|
| Number of shares | | |
| Weighted average number of ordinary shares | **1,501,916** | 1,567,701 |

| | 2019 | 2018 |
|---|---|---|
| Basic and diluted earnings per share | **HK$1.26** | HK$1.08 |

The diluted earnings per share for the year ended 31 December 2019 equals to the basic earnings per share as there are no potential dilutive ordinary shares to issue during the year (2018: Same).

## 11. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade receivables net of expected credit loss presented based on the invoice date:

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| 0 – 30 days | **27,989** | 86,079 |
| 31 – 60 days | **4,335** | 3,276 |
| 61 – 90 days | **1,703** | 59 |
| Over 90 days | **1,094** | 7 |
| | **35,121** | 89,421 |

The Group's retail sales to customers are mainly made in cash, through debit card or credit card payments. Its major trade receivables arising from credit card sales are normally settled in one to two business days in arrears and the rental income receivables are normally settled 30 days in arrears.

## 12. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | |
| Financial assets at FVOCI: | | |
| - Equity securities listed overseas | **243,621** | - |
| - Unlisted equity securities | **389,500** | - |
| | **633,121** | - |
| Financial assets at FVPL: | | |
| - Club debentures | **15,871** | 19,137 |
| **Current assets** | | |
| Financial assets at FVPL: | | |
| - Equity securities listed in Hong Kong | **756,990** | 814,245 |
| - Equity securities listed overseas | **750,450** | 922,514 |
| - Listed debt securities | **1,203,759** | 434,833 |
| - Listed investment funds | **111,960** | 455,275 |
| - Unlisted hedge funds | **18,666** | 161,017 |
| - Unlisted investment fund | **146,721** | 280,082 |
| - Unlisted debt securities | **234,583** | - |
| - Cross currency and interest rate swap | **51,738** | 153 |
| - Unlisted equity-linked notes | **31,215** | - |
| - Written put options | **-** | 12,880 |
| | **3,306,082** | 3,080,999 |
| **Current liabilities** | | |
| Financial liabilities at FVPL: | | |
| - Written put options | **12** | - |
| - Cross currency and interest rate swap | **-** | 3,773 |
| | **12** | 3,773 |

## 13. TRADE AND OTHER PAYABLES

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **16,128** | 46,376 |
| 31 – 60 days | **23,996** | 23,114 |
| 61 – 90 days | **2** | 777 |
| Over 90 days | **3,548** | 1,815 |
| | **43,674** | 72,082 |

The average credit period of trade payables and concessionaire sales payable is within 45 days from the invoice date. The Group has financial risk management policies in place to ensure that most payables are settled within the credit timeframe.

## 14. CONTRACT LIABILITIES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gift certificates | **134,181** | 137,071 |
| Deferred advertising income | **2,524** | 13,123 |
| Reward points under customer loyalty program | **1,589** | 3,302 |
| | **138,294** | 153,496 |

## 15. SUBSEQUENT EVENTS

Since early 2020, the coronavirus epidemic ("the COVID-19 outbreak") has spread across China and other countries, and it has affected retail business in Hong Kong and economic activities of the Group to some extent. As an operator of department stores in Hong Kong, the Group's revenue, cash flows and profit from the operation are expected to decrease as compared to the same period in 2019 due to the impact from the COVID-19 outbreak.

In preparing the consolidated financial statements, the Group applies fair value model to measure its investment property, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. In 2020, fair value of the Group's investment property and financial assets at fair value may be subject to fluctuations due to the COVID-19 outbreak.

Up to the date on which these consolidated financial statements are issued, the Group is still in the process of assessing the impacts of the COVID-19 outbreak on the financial performance and position of the Group and is currently unable to estimate the quantitative impacts to the Group. The management of the Group will pay close attention to the development of the COVID-19 outbreak and perform further assessment of its financial impact.

The COVID-19 outbreak is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Overview

The world economy grew at its slowest pace in a decade as prolonged trade tensions and the associated uncertainties weighed on business sentiment and economic activities globally. China reported in 2019 its lowest annual growth rate in 29 years amid lingering trade disputes with the US. The world's second largest economy saw its gross domestic product expand 6.1% last year, down from 6.6% in 2018. Total retail sales of consumer goods in China rose 8% in 2019, shrinking from 9% growth in 2018.

The Group's home market Hong Kong saw the first annual contraction since the global financial crisis a decade ago as local social incidents dealt a severe blow to an economy already weakened by a synchronized global economic slowdown and China- US trade war. The city's GDP contracted by 1.2% in 2019, compared with a 3% growth in 2018. Hong Kong's retail sales also plunged in 2019 as tourism and local spending were hit hard by the months-long social unrests began in June alongside the external headwinds. Visitor arrivals to Hong Kong turned from a positive growth of 13.9% in the first half of the year to a negative growth of 14.2% for the full year, with an aggregate of 55.9 million visitors. Visitations from mainland China reported a 14.2% decline for the full year, again turning from a positive growth of 16.4% in the first half of the year. For the whole year, retail sales in Hong Kong sank 11.1% year-on-year, compared with 8.8% growth in 2018. Sales of luxury goods categories, including jewelry and watches, dropped 22.4% whereas department store sales decreased 13% year-on-year.

## Financial Review 2019

Notwithstanding the challenging operating environment, the Group persistently enhanced its operational efficiency and reinforced customer loyalty to fortify its footing in the Hong Kong retail market. While the Group proved its mettle in the first half of the year by repeatedly outperforming the broader industry when the retail market showed weakening momentum, the drastic deterioration in consumer sentiment caused by local social incidents and the associated disruptions to the city's economy in the second half of the year took a heavy toll on the retailing market and significantly affected the Group's operations. The sudden deterioration of the retailing environment in the second half of the year saw an accelerating decline in the Group's sales, from a negative growth of 2.4% recorded in the first half of the year to a negative growth of 19.3% for the full 2019, as comparing to 2018.

**Turnover and Sales Proceeds**

For the year ended 31 December 2019, the Group's department store operations saw its turnover decreased by 18.7% over the previous year to HK$3,542.0 million, while total gross sales proceeds, derived from direct, After Purchase Order ("APO") and concessionaire sales transactions, were down by 19.3% to approximately HK$9.4 billion. The decline in turnover of the Group was caused by a decrease in direct sales of approximately 22.4% while commission income derived from APO and concessionaire sales saw a relatively mild drop of approximately 17.9%.

**Gross Profit and Concessionaire Rates**

The Group's gross profit margin as a percentage of turnover increased to 74.9% from 73.8% in 2018 as the drop in concessionaire commission, which gross margin is theoretically 100%, was less than the decline in direct sales. Gross profit amounted to HK$2,653.2 million, down 17.5% from HK$3,215.3 million in 2018 as sales tumbled. The blended average concessionaire rate for the Group proved to be relatively stable and remained at last year's level of approximately 24.8%.

**Net Profit Attributable to Shareholders**

Net profit attributable to owners of the Company for the year amounted to HK$1,890.7 million, up 11.9% from HK$1,690.1 million recorded in 2018. The unexpected profit increase amid sales decline was primarily attributable to the fact that while the operating profit has suffered as a result of a drop in sales revenue amidst sluggish traffic footfall and consumer spending, the profit was lifted by a fair value gain of approximately HK$403.9 million this year as comparing to a fair value loss of HK$516.0 million last year on the Group's financial investment portfolio. On the other hand, the Group's profit was weighed down by a fair value loss of HK$174.0 million on the Group's investment property under development in Kai Tak whereas it was a fair value gain of HK$251.2 million in 2018, due mainly to a correction in the property market following the months-long social unrest last year. Without counting the above-mentioned non-cash fair value changes, the Group's operating profit for the year would have shrunk 18.2% to HK$1,632.1 million from HK$1,996.3 million recorded in the previous year, with HK$642.4 million being recorded in the second half of 2019, plummeted 35.1% from the HK$989.7 million recorded in the first half of the year as sales fell.

**Selling and Distribution Costs**

The aggregate selling and distribution costs of the Group decreased 3.4% over the previous year and represented 7.4% (2018: 6.2%) of the Group's gross sales proceeds as the fall in sales proceeds was relatively larger. The decrease in absolute amount was mainly attributable to a drop in rental equivalent expenses for the TST store as well as a lower staff compensation costs.

**Administrative Expenses**

The Group's general administrative expenses remained at a level similar to last year of approximately HK$137.8 million as most of the Group's general administrative expenses are relatively fixed.

**Staff Costs**

Staff costs (excluding those of the directors) of the Group decreased 7.2% to approximately HK$220.7 million during the year under review. While the annual general increment of salaries and wages for the Group's employees was largely in line with the market trend and general inflation, remuneration adjustments and bonuses are based on performance of individual staff and financial performance of the Group. The total number of full-time staff of the Group decreased to 659 at the end of 2019 from 685 at the end of 2018.

**Other Income, Gains and Losses**

These comprise mainly management fee, credit card recharges, miscellaneous incomes received from the counters and tenants, and other sundry incomes and exchange gain/loss. Increase in other income, gains and losses of the Group during the year was mainly attributable to an exchange gain to the tune of HK$20.5 million whereas it was an exchange loss of HK$10.1 million in 2018, mainly arising from translating the Group's USD denominated bonds payable as the USD weakened against the HKD at the end of 2019.

**Interest and Investment Gains/(Losses)**

For the year 2019, the Group recorded a net investment income of HK$740.2 million, comparing to a net investment loss of HK$271.0 million in 2018. Investment income comprised mainly interest income to the tune of HK$201.7 million from the Group's bank deposits and net investment gain of HK$538.5 million, which consisted of fair value gain of HK$403.9 million (2018: fair value loss of HK$516.0 million), investment income received and receivable, and dividend income from the Group's investment in financial assets.

**Finance Costs**

The Group's total finance cost consisted mainly of finance charges and interest expenses on bank loans and bonds payable. The aggregate amount of finance costs and interest incurred, before capitalization, was approximately HK$619.3 million (2018: HK$494.6 million) for the full year, including HK$12.4 million interest in respect of lease liabilities following adoption of the new accounting standard at the beginning of the year. The substantial increase in the overall interest costs was mainly due to higher interest incurred in respect of the Group's HIBOR-based Hong Kong dollar bank loans as the HIBOR stayed at relatively higher level throughout the year as comparing to 2018. Furthermore, there was additional interest being incurred in the second half of the year on the US$300 million bond payable which was only issued in July 2019. Finance costs charged to the profit or loss account during the year amounted to HK$365.2 million (2018: HK$282.2 million) after some HK$254.1 million (2018: HK$212.4 million) of the borrowing costs relating to the Group's Kai Tak project has been capitalized.

**Liquidity and Financial Resources**

The Group's EBITDA (excluding fair value changes on the Group's financial assets at fair value through profit or loss ("FA at FVPL"), club debentures and investment property) for the year decreased 13.8% to HK$2,494.6 million (2018: HK$2,893.7 million), due mainly to a fall in sales revenue. As at the end of 2019, before counting the Group's FA at FVPL valued at approximately HK$3,306.1million (2018: HK$3,077.2 million), the Group's net debt increased from approximately HK$9,674.8 million in 2018 to HK$10,053.2 million. The Group's cash at banks and time deposits amounted to approximately HK$8,621.3 million (2018: HK$6,196.0 million) as at the end of 2019. Of the cash kept at banks in Hong Kong, approximately 99.1% was denominated in US dollar ("US$ or USD") and Hong Kong dollar ("HK$") and approximately 0.9% was in Renminbi ("RMB") and other foreign currencies.

The Group's outstanding bank loans at the end of 2019 amounted to approximately HK$11,712.2 million (2018: HK$11,214.2 million) and bonds payable amounted to approximately HK$6,962.2 million (2018: HK$4,656.5 million). The bank loans comprised HK$4,500 million term loan and HK$3,000 million revolving loan drawn under the Hong Kong dollar denominated five-year (due July 2021) HK$8,000 million secured loan facility, which interest is calculated with reference to HIBOR. The HK$4,500 million term loan is repayable semi-annually over the loan life, with the first repayment started from January 2019. The bank loans consisted of also a term loan of HK$3,691 million drawn under the HK$9,000 million project loan facility for financing payment of part of the land premium of the Kai Tak Land. This HK$9,000 million project loan facility bear interest calculated with reference to HIBOR and does not require repayment until the end of the 5-year term in the year 2022. The remaining bank loans represented short-term US$ loans totaling US$73.6 million (equivalent to HK$573.4 million) drawn under an aggregate US$320.0 million facilities, which are secured against certain of the Group's investment in financial assets, which interest are calculated either with reference to LIBOR or at fixed rate of 2.35%.

As at the year end, the Group had aggregate unutilized banking facilities in the amount equivalent to approximately HK$7,228.4 million (2018: HK$7,702.0 million).

The bonds payable of HK$6,962.2 million at the year-end (US$900 million at maturity) represented outstanding unsecured guaranteed bonds issued by the Group, which comprised a US$300 million 10-year (bearing interest at 4.25% and maturing in October 2022), a US$300 million 5-year (bearing interest at 4.875% and maturing in July 2024) which was issued during the year, and a US$300 million 10-year (bearing interest at 4.5% and maturing in June 2025).

As at 31 December 2019, the Group's net debt to equity ratio or net gearing (defined as total borrowings less cash and bank balances (before counting the Group's FA at FVPL) divided by equity attributable to owners of the Company) was 261.7% (2018: 330.0%). The relatively high level of net gearing was due to the fact that the Group's self-owned store property in Causeway Bay, Hong Kong is stated at historical cost less depreciation and amortization, thereby its fair value has not been taken into account in the calculation of the equity attributable to owners of the Company.

**Foreign Exchange Management**

The functional currency of the Company and its major subsidiaries is Hong Kong dollar, in which most of the transactions are denominated. As described under the "Liquidity and Financial Resources" section above, certain monetary assets and liabilities of the Group are denominated in USD and, to a small extent, other foreign currencies. The Group currently does not require a sophisticated and comprehensive foreign currency hedging policy as the Hong Kong dollar, in which most of the Group's transactions are denominated, is pegged to the USD in which certain of the Group's borrowings and cash are denominated. Accordingly, the Group's exposure to foreign currency fluctuation to certain extent is somewhat limited. As at 31 December 2019, there existed two outstanding cross currency swap contracts with an aggregate notional commitment of US$100 million.

**Pledge of Assets**

As at 31 December 2019, certain of the Group's leasehold land and buildings in Hong Kong with carrying values aggregating approximately HK$1,172.0 million (2018: HK$1,217.4 million), together with shares of certain subsidiaries of the Group, were pledged to secure the HK$8,000 million (2018: HK$8,000 million) loan facility granted to the Group, of which HK$8,000 million (2018: HK$7,000 million) was utilized.

In addition, the entire Kai Tak Project, comprising the land under development and investment property under development, with an aggregate carrying value of HK$9,762.2 million (2018: HK$9,185.7 million) was pledged to secure the HK$9,000 million loan facility granted to the Group for financing the Kai Tak Land acquisition and its construction, of which HK$3,691.0 million was utilized as at the year end. Moreover, certain of the Group's FA at FVPL with carrying value amounting to approximately HK$1,391.8 million (2018: HK$1,256.7 million) were pledged to secure loan facilities in the amount of approximately US$320 million (2018: US$255 million).

**Contingent Liabilities**

The Group did not have any material contingent liabilities as at 31 December 2019.

**Material Acquisitions and Disposals**

The Group did not have any material acquisitions or disposals during the year.

## Review of Operations

Against the backdrop of a global economic slowdown and protracted social unrest in Hong Kong, the Group's seasoned management team stayed committed to the sound long-term growth strategies anchored by the Group's strong brand equity, loyal clientele and solid execution ability that have been instrumental to the Group's long-running success in the industry.

### SOGO CWB

As lingering global trade tensions and subdued local economy weighed on the consumer confidence, a weaker Chinese currency and domestic social instability further dampened tourism and consumption-related activities. Sales at the flagship SOGO Causeway Bay ("SOGO CWB") as a result plunged 33.8% year on year during the second half of the year and a drop of 19.4% for the full year.

Faced with frequent business disruptions resulting from protests and other social incidents that took place in the vicinity of our stores in the second half of the year, the store was subject to a shortening of operating hours or full closures, which has significantly impacted our business particularly during the peak holiday shopping season in the fourth quarter. As a result, a total of approximately 60 business days were affected during the second half of 2019. The overall traffic footfall for 2019 saw a decrease of 15.5%, and the stay-and-buy ratio dropped by 0.3 percentage point to 33.8%. Average ticket size (excluding transactions from the Freshmart supermarket) of the store however remained steady at HK$1,489.

During the year, the Group's SOGO Rewards program continued to deepen customer engagement and improve customer services by offering greater convenience to shoppers, thereby further reinforcing the Group's brand equity.

In addition, CVISION, the outdoor full-HD LED advertising screen at the building façade of SOGO CWB that the Group launched in late 2017, continued to act as an effective advertising platform for our business partners. Whilst being able to generate stable advertising income to the Group, it also further reinforces our flagship store's position as a prominent retail landmark in Hong Kong.

**SOGO TST**

With a well-tailored merchandise portfolio, SOGO Tsim Sha Tsui ("SOGO TST") has established itself as a popular shopping destination especially for tourists and enjoyed remarkable sales growth in the past several years. However, due to the dramatic fall in inbound tourism and weak local consumption in the second half of 2019, sales at our SOGO TST reversed its growth trend for the first time since 2015 with sales revenue plummeted 46.0% in the second half of 2019 and down 18.8% for the full year, comparing to 2018. The months-long civil unrest and social instability that started in June 2019 has hit the city's inbound tourism badly and significantly affected the operations of the SOGO TST as, similar to the CWB store, the store was also subject to a shortening of operating hours or full closures, leading to drop in both traffic footfall and stay-and-buy ratio for the full year.

**Wa Sai Mai**

Located at the same building as our SOGO CWB, business of our Wa San Mai restaurant was also badly hit during the second half of the year. Its business receipts in 2019 declined 16.7% year on year to approximately HK$59.5 million.

**Kai Tak Project**

To capture the rising purchasing power and untapped customer base in the East Kowloon area, the Group through government tender acquired in 2016 a plot of land in Kai Tak — East Kowloon, at a price of HK$7,388 million. The accessibility of the Kai Tak redevelopment area has been greatly enhanced by the newly opened Kai Tak Station of the new Shatin-Central Link, and its development is expected to be further bolstered by a government supported redevelopment plan.

With a site area of approximately 14,159 square metres, the Group's Kai Tak Land will be developed into two blocks of commercial buildings to provide space for both retailing and office use, with a total gross floor area of approximately 101,000 square metres. The retailing portion is planned to house a full-fledged department store and other facilities complementary to the operations of a department store as well as to use for the operation of a shopping mall and other entertaining and dining facilities. The proposed development is expected to be completed by end of 2022, and it is believed that this Kai Tak Project will be able to create a landmark position in the new Kai Tak redevelopment and East Kowloon area and will further broaden and solidify the Group's presence in the Hong Kong retailing market.

Construction work of the Kai Tak Project has been progressing satisfactorily despite logistical delays caused by the recent viral outbreak. The Group will work closely with contractors with an aim to complete the foundation construction work around middle of 2020.

**Outlook and Plan**

The Group takes a pessimistic view on the outlook for the retailing market and believes that 2020 is set to be an extremely challenging year for Hong Kong, as lingering global geopolitical and trade tensions and ongoing domestic strife would continue to undermine tourist arrivals and consumer sentiment.

While Hong Kong's economy is bracing for contraction amidst sluggish global trade and subdued world economy, the novel coronavirus outbreak in China during the country's peak Spring Festival travelling season has resulted in a number of cities in China being sealed off, which would no doubt hit the already weakening Chinese economy and could derail a fledgling global economic recovery. To prevent the epidemic from spreading in the city, Hong Kong has been taking precautionary protective measures which are set to further dampen inbound tourism and domestic consumption in the city.

Although it is difficult if not impossible to estimate how much longer the situation will persist, the stand-still situation of the society in the past few weeks has already caused severe impact to the local economy and that unemployment rate is set to rise in the coming months. As a leading retail operator in Hong Kong, the Group will closely monitor the development of the situation and work with our business partners to weather the current turmoil. Leveraging on its strong brand equity and seasoned management team, the Group will strive to offer inspirational shopping environment and captivating shopping experiences for customers by employing a strategic mix of engaging and efficient services as well as sensible promotions, thereby driving store traffic and sales.

As always, the Group remains open to new strategic investment and lucrative business opportunities¸ with a view to generating higher returns for its shareholders and also further solidifying the business foundation for the profitable growth of the Group in the long term.

## EMPLOYEES

As at 31 December 2019, the Group employed a total of 659 employees in Hong Kong. Staff costs (excluding directors' emoluments) amounted to HK$220.7 million (2018: HK$237.9 million) for the year. The Group ensures that pay levels of its employees are competitive and in line with market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2019.

## CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2019.

## FINAL DIVIDEND

The Board has not recommended the payment of a final dividend for the year ended 31 December 2019 (2018: HK$0.37 per share). The interim dividend of HK$0.3 per share paid on 19 September 2019 represented the full year dividend for the year ended 31 December 2019 (2018: HK$0.665 per share).

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting to be held on Monday, 4 May 2020, the register of members of the Company will be closed from Monday, 27 April 2020 to Monday, 4 May 2020, both days inclusive. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificate(s) must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 24 April 2020.

## REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2019 have been reviewed by the audit committee of the Company.

## SCOPE OF WORK OF MESSRS. PRICEWATERHOUSECOOPERS

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 2019 as set out in this announcement have been agreed by the Group's auditors, Messrs. PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. PricewaterhouseCoopers 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. PricewaterhouseCoopers on this preliminary announcement.

## ACKNOWLEDGEMENT

We would like to thank the management and all of our staff for their hard work and dedication, as well as our shareholders and customers for their continuous support to the Group.

On behalf of the Board
**Lifestyle International Holdings Limited**
**Lau Kam Shim**
*Executive Director*

Hong Kong, 9 March 2020

*As at the date of this announcement, the Board comprises Mr. Lau Kam Sen and Ms. Lau Kam Shim as executive directors, Mr. Lau Luen Hung, Thomas, Mr. Doo Wai Hoi, William and Ms. Lau Yuk Wai, Amy as non-executive directors, and Mr. Lam Siu Lun, Simon, The Hon. Shek Lai Him, Abraham, Mr. Hui Chiu Chung and Mr. Ip Yuk Keung as independent non-executive directors.*