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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 2019

FINANCIAL HIGHLIGHTS

		2019	2018
Revenue	*HK$'000*	**341,773**	358,006
Gross profit	*HK$'000*	**199,473**	220,507
(Loss) profit before taxation	*HK$'000*	**(67,446)**	6,583
Loss attributable to owners of the Company	*HK$'000*	**(60,925)**	(1,749)
Gross profit margin	*%*	**58.4**	61.6
Loss margin attributable to owners of the Company	*%*	**(17.8)**	(0.5)
Loss per share — basic and diluted	*HK$*	**(0.28)**	(0.01)

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 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	NOTES	***HK$'000***	*HK$'000*
Revenue	3	**341,773**	358,006
Cost of sales		**(142,300)**	(137,499)
Gross profit		**199,473**	220,507
Other income		**996**	1,497
Other gains and losses		**2,490**	7,558
Impairment loss on			
— property, plant and equipment		**(3,937)**	—
— goodwill		**(27,071)**	—
— trade receivables under expected credit loss model		**(209)**	—
Selling and distribution costs		**(137,237)**	(147,370)
Administrative expenses		**(99,087)**	(72,758)
Other expenses		**—**	(1,207)
Share of results of an associate		**—**	(1)
Finance costs		**(2,864)**	(1,643)
(Loss) profit before taxation	5	**(67,446)**	6,583
Taxation	6	**544**	(498)
(Loss) profit for the year		**(66,902)**	6,085
Other comprehensive (expense) income for the year			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation from functional currency to presentation currency		**316**	716
Release of translation reserve upon disposal of a subsidiary		**(15)**	—
Total comprehensive (expense) income for the year		**(66,601)**	6,801

	NOTE	2019 HK$'000	2018 HK$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(60,925)**	(1,749)
Non-controlling interests		**(5,977)**	7,834
		(66,902)	6,085
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(60,624)**	(1,033)
Non-controlling interests		**(5,977)**	7,834
		(66,601)	6,801
Loss per share — basic and diluted *(HK$)*	8	**(0.28)**	(0.01)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	**2019** **HK$'000**	2018 *HK$'000*
Non-current assets			
Property, plant and equipment		**46,771**	13,861
Investment properties		**—**	—
Goodwill		**3,956**	31,027
Intangible assets		**30,358**	22,224
Interest in an associate		**—**	—
Loan to an associate		**546**	568
Deferred tax assets		**10,713**	10,063
Deposit and prepayment for a life insurance policy		**1,906**	1,900
Rental deposits and prepayment		**6,696**	5,949
		100,946	85,592
Current assets			
Inventories		**131,246**	139,940
Trade and other receivables	9	**39,272**	63,289
Amount due from an associate		**1,150**	—
Taxation recoverable		**18**	408
Bank balances and cash		**46,820**	28,835
		218,506	232,472
Assets classified as held for sale		**—**	29,700
		218,506	262,172
Current liabilities			
Trade and other payables	10	**28,325**	46,507
Amount due to an associate		**7,274**	—
Amount due to immediate holding company		**3,393**	12,610
Amount due to a related company		**762**	—
Taxation payable		**711**	630
Lease liabilities		**24,047**	—
Bank borrowings — due within one year		**36,068**	47,434
		100,580	107,181
Net current assets		**117,926**	154,991
Total assets less current liabilities		**218,872**	240,583

	2019	2018
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**14,216**	—
Loan from related companies	**13,462**	—
Other borrowing — due after one year	**15,000**	—
Deferred tax liabilities	**3,667**	3,667
	46,345	3,667
Net assets	**172,527**	236,916
Capital and reserves		
Share capital	**2,140**	2,140
Reserves	**158,489**	217,552
Equity attributable to owners of the Company	**160,629**	219,692
Non-controlling interests	**11,898**	17,224
Total equity	**172,527**	236,916

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 and online medical 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 and an interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 3.72%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	**73,691**
Less: Recognition exemption — short-term leases	**(34,090)**
	39,601
Lease liabilities discounted at relevant incremental borrowing rates relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	**38,543**
Analysed as	
Current	**23,476**
Non-current	**15,067**
	38,543

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	38,543
Adjustments on rental deposits at 1 January 2019 *(Note)*	350
	38,893
By class:	
Leased properties	38,893

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The adjustment has insignificant impact on the Group's consolidated statement of financial position at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 *HK$'000*	Adjustments *HK$'000*	Carrying amounts under HKFRS 16 at 1 January 2019 *HK$'000*
Non-current assets			
Property, plant and equipment	13,861	38,893	52,754
Rental deposits *(Note)*	5,949	(350)	5,599
Current liability			
Lease liabilities	—	(23,476)	(23,476)
Non-current liability			
Lease liabilities	—	(15,067)	(15,067)

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Note: Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$350,000 was adjusted to refundable rental deposits paid and right-of-use assets.

Except for the above, the HKICPA has issued a number of new standards and amendments to standards which are not effective for accounting period beginning 1 January 2019 and have not been early adopted by the Group.

3. REVENUE

Disaggregation of revenue from contracts with customers

	2019	2018
	HK$'000	*HK$'000*
Sales of goods		
Footwear products	**270,055**	337,929
Healthcare products	**51,550**	1,134
Financial services	**20,168**	18,943
	341,773	358,006
Sales of channel		
Retail	**264,581**	314,575
Wholesale	**15,413**	23,354
Internet	**41,611**	1,134
Corporate	**20,168**	18,943
	341,773	358,006
Time of revenue recognition		
A point in time	**327,619**	358,006
Over time	**14,154**	—
	341,773	358,006

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

For the year ended 31 December 2019

	Segment revenue *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
Footwear products	**270,055**	**—**	**270,055**
Healthcare products	**51,550**	**—**	**51,550**
Financial services	**21,082**	**(914)**	**20,168**
	342,687	**(914)**	**341,773**

For the year ended 31 December 2018

	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 (i) 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; or (ii) over time using input method, i.e. based on the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, when services are provided.

All services contracts are for periods of one year or less with fixed consideration. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. OPERATING SEGMENT

Information reported to the executive directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. During the year ended 31 December 2019, the Group commenced the business in the provision of online medical services along with the acquisition of a subsidiary, which is considered as a new operating and reportable segment by the CODM.

1. Trading of footwear products

2. Trading of healthcare products

3. Financial services

4. Online medical 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 2019

	Trading of footwear products *HK$'000*	**Trading of healthcare products** *HK$'000*	**Financial services** *HK$'000*	**Online medical services** *HK$'000*	**Segment total** *HK$'000*	**Eliminations** *HK$'000*	**Total** *HK$'000*
Revenue							
External sales	**270,055**	**51,550**	**20,168**	**—**	**341,773**	**—**	**341,773**
Inter-segment sales	**—**	**—**	**914**	**—**	**914**	**(914)**	**—**
	270,055	**51,550**	**21,082**	**—**	**342,687**	**(914)**	**341,773**
Segment results	**(11,981)**	**(3,198)**	**(30,090)**	**(9,986)**	**(55,255)**	**—**	**(55,255)**
Unallocated income							**2,067**
Unallocated expenses							**(14,258)**
Loss before taxation							**(67,446)**

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

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, 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 2019

	Trading of footwear products ***HK$'000***	**Trading of healthcare products** ***HK$'000***	**Financial services** ***HK$'000***	**Online medical services** ***HK$'000***	**Unallocated** ***HK$'000***	**Total** ***HK$'000***
Amounts included in measure of segment results or segment assets:						
Addition of non-current assets *(note)*	**25,073**	**3,735**	**3,071**	**7,187**	**—**	**39,066**
Loan to an associate	**—**	**546**	**—**	**—**	**—**	**546**
Depreciation	**(28,768)**	**(694)**	**(1,793)**	**(10)**	**(4)**	**(31,269)**
Amortisation of intangible assets	**—**	**(409)**	**—**	**(646)**	**—**	**(1,055)**
Allowance for inventories	**(1,469)**	**—**	**—**	**—**	**—**	**(1,469)**
Interest income	**8**	**—**	**4**	**—**	**15**	**27**
Finance costs	**(2,403)**	**(21)**	**(15)**	**—**	**(425)**	**(2,864)**

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)

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:

	2019 ***HK$'000***	2018 *HK$'000*
Hong Kong	**266,245**	335,085
Australia	**41,611**	1,134
Macau	**14,705**	12,340
Mainland China	**9,940**	—
Singapore	**9,272**	—
Taiwan	**—**	9,447
	341,773	358,006

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

	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**75,500**	68,898
Mainland China	**6,446**	9
Australia	**2,068**	—
Macau	**27**	105
	84,041	69,012

Note: *Non-current assets excluded loan to an associate, deferred tax assets and rental deposits.*

Information about major customers

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

5. (LOSS) PROFIT BEFORE TAXATION

	2019	2018
	HK$'000	*HK$'000*
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	**5,757**	4,886
Other staff costs	**86,543**	74,737
Share-based payments	**238**	138
Retirement benefit schemes contributions for other staff	**3,011**	2,987
Total staff costs	**95,549**	82,748
Auditors' remuneration	**2,861**	2,066
Allowance for inventories	**1,469**	1,781
Cost of inventories recognised as expenses (including allowance for inventories)	**142,300**	137,499
Depreciation of property, plant and equipment	**31,269**	3,698
Amortisation of intangible assets	**1,055**	—
Premium charges on a life insurance policy	**26**	26
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**N/A**	3,508
— retail shops (included in selling and distribution costs)		
— minimum lease payments	**N/A**	56,699
— contingent rent *(note)*	**N/A**	2,558
	N/A	59,257
— department store counters (including concessionaire commission) (included in selling and distribution costs)		
— minimum lease payments	**N/A**	26,384
— contingent rent *(note)*	**N/A**	4,350
	N/A	30,734
	N/A	93,499

Note:

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

6. TAXATION

	2019	2018
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**14**	410
Macau Complementary Tax	**174**	103
	188	513
Overprovision in prior years	**(82)**	(68)
Deferred taxation	**(650)**	53
	(544)	498

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%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Macau Complementary Tax is calculated at the rate of 12% (2018: 9% to 12%) on the estimated assessable profit for both years.

Under the applicable corporate tax law in Australia, income tax is charged at 30% (2018: 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 both years.

Taiwan income tax is calculated at 17% (2018: 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.

Under the Law of the People's Republic of China (the "PRC") on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% (2018: 25%). No provision for PRC EIT has been made in the consolidated financial statements as the subsidiaries operating in the PRC have no assessable profits for both years.

7. DIVIDENDS

No dividend was proposed for ordinary shareholders of the Company during the year ended 31 December 2019, nor has any dividend been proposed since the end of the year (2018: nil).

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2019 is based on the loss for the year attributable to owners of the Company and the weighted average number of 214,000,000 (2018: 211,737,000) ordinary shares for the purpose of basic and diluted loss per share during the year.

9. 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 receivables net of allowance for credit losses presented based on the invoice date at the end of each reporting period:

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**13,154**	16,167
31 to 60 days	**2,678**	1,456
61 to 90 days	**4,355**	1,501
Over 90 days	**1,980**	1,751
	22,167	20,875

10. TRADE PAYABLES

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

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**4,469**	1,545
31 to 60 days	**206**	9,610
61 to 90 days	**114**	—
Over 90 days	**1,239**	151
	6,028	11,306

The average credit period of trade payables is 30 days.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I present the annual results of the Group for the year ended 31 December 2019 (the "Year").

In 2019, the external general economic environment has shown a downward trend. Despite this, the Group will continue to implement its expansion strategy on diversification and transition itself into the big health industry. While remaining focused on its footwear business, the Group will actively expand its healthcare and financial services businesses, and place great efforts on the development of its online medical services business.

According to the information provided by the Hong Kong Tourism Board (the "Tourism Board"), due to the disturbance caused by the revision of the Extradition Bill, the overall number of visitors in the second half of the Year recorded a decline of 39.1%, and the total number of visitors during the Year fell by 14.2%, which impacted the retail business of the footwear industry seriously. During the Year, the footwear business recorded a revenue of approximately HK$270.1 million, representing a decrease of 20.1% as compared to the corresponding year in 2018.

Moreover, as a result of the increase in consumption and the structural upgrade, the market size of healthcare products in the PRC reached approximately RMB350 billion during the Year, and maintained an annual growth rate of approximately 30% in recent years. The Group will continue to increase its input into its healthcare business, and for the Year, the healthcare business recorded a revenue of approximately HK$51.6 million, representing a significant increase as compared to the corresponding year in 2018.

For the financial services business, the Group actively expanded into the overseas market and optimized its resources through internal restructuring. The financial services business recorded a revenue of approximately HK$20.2 million during the Year.

With the enormous potential of the online medical services market and the Group's strategic transformation towards the big health industry, during the second half of the Year, the Group obtained its internet hospital license through Shangying Internet Medical (Shanghai) Co., Limited ("Shangying Medical"), an indirect non-wholly owned subsidiary of the Company, which became the first and sole internet hospital in Shanghai to possess Class II and Class III Operation Rights for General Hospital. During the Year, the Group had completed building its one-stop internet hospital platform through comprehensive and deep cooperation with three major hospitals affiliated to universities in Shanghai.

The Group is currently at the critical period of its strategic transformation. Through the implementation of efficient market exploration strategies and cost control measures, the Group will continue its efforts transitioning itself into the big health industry, in which the operations of its online medical services business and healthcare business will act as the starting point. 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

31 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW AND FUTURE DEVELOPMENT

During the Year, the Group's revenue was contributed by a combination of its footwear business, healthcare business, the provision of financial services and online medical services businesses.

Footwear Business

Revenue of the Group's footwear business for the Year was HK$270.1 million, representing a 20.1% decrease from HK$337.9 million of the even year of 2018. We had recorded a same store sales decline of approximately 12.3% during the Year (2018: 2.0%). This was mainly due to weak retail climate in Hong Kong, as a result of the decline in the number of visitors to Hong Kong and more cautious local consumer sentiment amid the uncertain economic conditions and ongoing social activities.

Healthcare Business

According to the Business Wire Research, the nutritional supplement market in China is expected to reach US$40 billion by 2023, representing a compound annual growth rate (CAGR) of 14%. A report issued by Roland Berger, a consulting firm, concluded that China may soon overtake the USA as the most significant nutritional supplement market in the world. Factors such as increasing health-conscious behaviour, rising incidence of lifestyle diseases, China's growing GDP per capita, shifting trends towards preventive healthcare, use of botanicals due to its medicinal benefits and growth in the use of e-commerce have contributed to the demand for nutritional products.

Meanwhile, per recent research by William Reed Business Media, a leading B2B media company, Australia accounts for approximately 22.3% of all supplements and health foods imported into China, taking the top spot from the USA, which had a market share of 20.4% in 2018. According to the report from global consultancy Deloitte, the cross-border channel in China saw a CAGR of 76% between 2015 and 2018, while generating approximately RMB78.5 billion in gross merchandise volume (GMV) during the Year, representing approximately 2.2% of China's online retail sales.

With a full understanding of this huge market opportunity and the excellent performance of Australian brands in the Chinese market, the Group continuously expanded its investment in the healthcare business with the addition of new e-commerce platforms and partnerships with mainstream healthcare product brands in Australia. With further investment, we will progressively build a comprehensive marketing channel and industry chain for appealing natural healthcare products. Along with the rapid development of the industry, the healthcare business segment is playing a role as one of the key businesses of the Group to bring in a new source of profit growth, with a prospective turnaround of profit in 2020.

Revenue of the Group's healthcare business for the Year was HK$51.6 million (2018: HK$1.1 million), while a segment loss for the Year was HK$3.2 million, which was mainly due to increasing investment in promotion and marketing channels.

Financial Services Business

The operating revenue of DSG Asset Management (Cayman) Company Limited and DSG Finance Holdings (Hong Kong) Limited (collectively referred to as the "DSG Group") 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 loss in the amount of HK$20.2 million and HK$30.1 million, respectively, which was mainly due to the write down of its material goodwill arising from the acquisition of the DSG Group (the "goodwill write down") according to the estimated valuation analysis on the financial services business segment of the Group carried out by a third-party organization, in accordance with the applicable accounting standards. The amount of goodwill write down was HK$27.1 million. The Board would like to emphasize that the goodwill write down was one-off and a non-cash item, and had no effect on the cashflow of the Group.

Online Medical Services Business

During the Year, with the support of the favourable policies in the PRC, the Group recognised the tremendous potential in the healthcare business market and has increased its investments in this regard. The Group incorporated a joint venture company (the "JV Company"), which was principally engaged in hospital management, health management consulting, medical technology and internet technology in the PRC, in May 2019, and through the JV Company, acquired the entire equity interests in Shangying Medical, a company which obtained the internet hospital license in Shanghai, in August 2019. Shangying Medical will continue to focus on building a one-stop internet hospital platform driven by big data in the healthcare industry that can deliver an integrated suite of services. Through the JV Company and Shangying Medical, the Group entered into various agreements with third parties, such as major hospitals affiliated to universities in Shanghai, financial institutions and pharmaceutical companies in order to accelerate the development of its online medical services business in the PRC. For further details of the development of the Group's online medical services business, please refer the announcements of the Company dated 8 May 2019, 3 June 2019, 3 October 2019, 29 October 2019, 7 November 2019 and 14 November 2019, respectively.

There was no revenue generated from the Group's online medical services business for the Year (2018: Nil), while a segment loss for the Year was HK$10.0 million, which was mainly due to the short operation period of this business and high start-up costs.

Prospects

In 2019, according to the statistics from the Tourism Board, due to the disturbance caused by the revision of the Extradition Bill, the overall number of visitors in the second half of the Year recorded a decline of 39.1%, and the total number of visitors during the Year fell by 14.2%, which impacted the retail business of footwear industry seriously. The Group will continue to face tremendous operation pressure from this traditional footwear business, and will cautiously run this business.

Due to the decline of economic expectation caused by the external environment, in accordance with the principle of prudence and applicable accounting standards, the Group recognised the goodwill write down generated from the acquisition of the DSG Group according to the estimated valuation analysis on the financial services business segment of the Group carried out by a third-party organization. Nonetheless, the goodwill write down had no impact on the cashflow of the Group. In response to the economic downturn, the Group actively expanded its Singapore market and optimized resources through internal restructuring of its financial services business sector at the end of the Year, further strengthening business cooperation with other business sectors of the Group to achieve synergy and sustainable growth.

With regard to its healthcare business and online medical services business, the Group is currently at the critical period of its strategic transformation. A new business framework established upon its online medical services business and healthcare business is beginning to emerge, and a transformation to the Group will be carried out by utilizing the internet model, so as to realize a collaboration between its online and offline modes. Thus, the online medical services business and healthcare business will become important pillars of the Group, and the Group will transform itself gradually and form an industry chain of big health, and generate a better return for the shareholders of the Company.

Since 2018, the Group has diversified its business operation through acquisitions. The Group will continue to integrate the businesses of footwear, financial services, healthcare and online medical services to rationalise its 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 sustainable value to its shareholders.

FINANCIAL REVIEW

Revenue

Revenue of the Group's businesses for the Year was HK$341.8 million, representing a 4.5% decrease from HK$358.0 million for the even year of 2018. The decrease in revenue was mainly due to the decrease in revenue of the footwear business of HK$67.9 million, which was netted off by the improvement in revenue of the healthcare and financial services business, which increased by HK$50.5 million and HK$1.3 million, respectively.

Revenue from footwear business

Revenue of the Group's footwear business for the Year was HK$270.1 million, representing a 20.1% decrease from HK$337.9 million for the even year of 2018.

With regard to the sales of the major brands under distribution agreements for the Year as compared with the even year of 2018, sales of "Clarks" footwear products, "Josef Seibel" footwear products, "The Flexx" footwear products and "Petite Jolie" footwear products had decreased by approximately 17.9%, approximately 17.3%, approximately 45.6% and approximately 92.5%, respectively.

As at 31 December 2019, the Group operated 43 retail outlets in Hong Kong (2018: 47) and 2 retail outlets in Macau (2018: 2).

Revenue from the provision of financial services

Revenue of the Group's financial services for the Year was HK$20.2 million (2018: HK$18.9 million), which was mainly contributed by the increased investment management services.

Revenue from healthcare business

Revenue of the Group's healthcare business for the Year was HK$51.6 million (2018: HK$1.1 million), 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 "Bio Island" supplement products, "Wyeth" milk powder, "AXS" supplemental products and other branded supplemental products accounted for approximately 23.8%, approximately 12.4%, approximately 10.6% and approximately 53.3% of the total sales turnover, respectively.

Revenue from online medical services business

There was no revenue generated from the Group's online medical services business for the Year (2018: Nil), as the business commenced its operation since August 2019.

Cost of Goods Sold

The Group's cost of goods sold amounted to HK$142.3 million for the Year, representing 41.6% of the Group's revenue (2018: HK$137.5 million, representing 38.4% of the Group's revenue). The increase in cost of goods sold was mainly due to the overall increase in healthcare products 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$199.5 million, representing a decrease of 9.5% from HK$220.5 million of the year of 2018. Gross profit margin of the Group for the Year was 58.4% (2018: 61.6%). Such decrease in gross profit margin was predominately attributable to the increase in sales proportion of healthcare products with lower gross margin.

Depreciation

Depreciation accounted for 9.1% of revenue for the Year (2018: 1.0%). The Group adopted the HKFRS 16 "Lease" and recognised right-of-use assets with the amount of approximately HK$38.9 million as at 1 January 2019. Consequently, the Group recognised depreciation arising from right-of-use assets with the amount of approximately HK$28.0 million for the Year (2018: Nil). Therefore, the depreciation for the Year increased significantly as compared to the even year of 2018.

Staff Costs

Staff costs for the Year were HK$95.5 million, representing 28.0% of the Group's revenue (2018: HK$82.7 million, representing 23.1% of the Group's revenue). The increase in staff costs was mainly due to the increase in number of staff in the healthcare business and online medical services business of the Group as a result of the increase in sales activities as compared to the even year of 2018.

Short-term Lease Payments/Retail Outlet Rentals and Related Expenses

During the Year, the Group adopted the HKFRS 16 "Lease" and applied short-term lease recognition exemption for leases of buildings that had a lease term of 12 months or less from its commencement date which did not include an option to purchase. Therefore, lease payments on short-term leases were recognised as expenses on a straight-line basis over the lease term. The aforesaid expenses from short-term leases were disclosed as short-term lease payments and recognised in the consolidated statement of profit or loss and other comprehensive income. Except for short-term leases and leases of low-value assets, the Group recognised right-of-use assets at the commencement date of its leases. The right-of-use assets were depreciated on a straight-line basis over the shorter of its estimated useful life and lease term and recognised as depreciation expenses.

Upon the adoption of the HKFRS 16 "Lease", the Group modified the disclosure of lease rental for the Year. The short-term lease payments for the Year were approximately HK$51.6 million, representing 15.1% of revenue for the Year (2018: Nil).

Further, as a result of the aforementioned adoption, the retail outlet rentals and related expenses and concession fees were not applicable for disclosure during the Year (2018: retail outlet rentals and related expenses and concession fees were approximately HK$93.5 million and approximately HK$30.7 million, respectively).

Finance Costs

The Group's finance costs for the Year amounted to HK$2.9 million (2018: HK$1.6 million). The finance costs mainly consisted of interest expenses incurred on the trade-related financing facilities with banks and lease liabilities. The effective interest rates on the Group's borrowings during the Year ranged from 2.3% to 4.4% (2018: 2.1% to 4.5%).

The increase in finance costs was mainly due to the recognition of interest expenses arising from lease liabilities upon the adoption of HKFRS 16 "Lease". The aforesaid interest expenses from lease liabilities were approximately HK$1.3 million for the Year (2018: Nil).

(Loss) Profit Before Taxation

As a result of the foregoing, the Group's loss before taxation for the Year was HK$67.4 million, as compared to profit before tax of HK$6.6 million for the year ended 31 December 2018.

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 31 December 2019, the Group had bank deposits and cash amounting to HK$46.8 million (2018: HK$28.8 million), representing an increase of 62.4% from 31 December 2018. Most bank deposits and cash were denominated in Hong Kong dollars. As at 31 December 2019, the Group had short-term bank borrowings amounting to HK$36.1 million (2018: HK$47.4 million), representing a decrease of 24.0% from 31 December 2018. As at 31 December 2019, the Group did not have any outstanding long-term bank borrowings, except for loans from related companies and other borrowings which amounted to HK$13.5 million and HK$15.0 million, respectively.

Pledge of Asset

As at 31 December 2019, leasehold land and buildings, deposit and prepayment of a life insurance policy were pledged to secure the bank borrowings and banking facilities granted to 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 businesses, and look for strategic partnerships in the healthcare and online medical services sectors 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

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Year.

Lapse of Placing of Convertible Bonds

On 3 June 2019, the Company and a placing agent entered into a placing agreement (as supplemented by an agreement dated 27 June 2019) in relation to the placing and issue of 6% 3-year convertible bonds in the aggregate principal amount of HK$200 million (the "Placing") at the initial conversion price of HK$15.00 per conversion share (the "Convertible Bonds"). The estimated gross proceeds and net proceeds (after deducting placing commission and related expenses and legal fees) from the Placing would amount to approximately HK$200 million and approximately HK$193 million, respectively, resulting in the estimated net price of approximately HK$14.48 for each conversion share. The market price of the shares on the date when the terms of the Placing were determined (i.e. 3 June 2019) was HK$9.00. Upon full conversion of the Convertible Bonds, a total of 13,333,333 conversion shares would be allotted and issued. The Company intended that the net proceeds of the Placing would be used as to (i) approximately HK$77.2 million for the development of its online medical services business as an additional business activity of the Group; (ii) approximately HK$67.55 million for the development of its healthcare business; (iii) approximately HK$28.95 million for the development of its financial services business; and (iv) the remaining proceeds for the purpose of general working capital. The Placing did not become unconditional on 31 July 2019 (being the extended long stop date) and lapsed accordingly.

For details of the Placing, please refer to the Company's announcements dated 3 June 2019, 27 June 2019 and 30 July 2019, respectively.

Announcement pursuant to Rule 3.7 the Takeovers Code and the Proposed Transfer

On 7 November 2019, the Board was informed by Shang Ying Financial Holding Co., Limited (a wholly-owned subsidiary of Shang Ying International Holdings Limited, which was ultimately wholly owned by Mr. Yang Jun (the chairman of the Board, an executive Director and the controlling shareholder of the Company) ("Mr. Yang")) (the "Selling Shareholder") that it had entered into a memorandum of understanding (the "MOU") with Shangying Global Co., Ltd. ("Potential Purchaser", a company listed on the Shanghai Stock Exchange, stock code: 600146) regarding the possible disposal of 107,021,140 shares of the Company (the "Shares"), representing approximately 50.01% of the entire issued share capital of the Company as at 7 November 2019. On 9 December 2019, the Board was further informed by the Selling Shareholder that the parties had entered into a termination agreement to terminate the MOU.

Despite the termination of the MOU, on 9 December 2019, the Board was further informed by the Selling Shareholder that it had entered into a share transfer agreement (the "Transfer Agreement") with Shangying Global (Hong Kong) Co., Limited (a wholly-owned subsidiary of the Potential Purchaser) ("SY Global") and Mr. Yang, pursuant to which the Selling Shareholder agreed to transfer 42,800,000 Shares (representing 20% of the issued share capital of the Company) to SY Global by way of gift (the "Proposed Transfer"). As at the date of this announcement, the Proposed Transfer has not yet been completed.

For details of the MOU and the Proposed Transfer, please refer to the Company's announcements dated 7 November 2019 and 9 December 2019, respectively.

Foreign Currency Risk

The Group's sales and purchases for the Year were mostly denominated in Hong Kong dollars, Renminbi, Macau Pataca, Singapore 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, the Group's ability to convert large amounts of Macau Pataca into Hong Kong dollars over a relatively short period of time may be limited. 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 2019, the Group employed 257 employees (2018: 227). The increase in employees were mainly due to the recruitment of 52 and 11 new employees for the commencement of the online medical services business and the expansion of the healthcare business, respectively. 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 (2018: 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 positive 54.2% for the Year (2018: negative 28.4%).

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.

EVENT AFTER THE REPORTING PERIOD

Since the outbreak of the 2019 Novel Coronavirus ("COVID-19") pandemic in early 2020 in China and around the world, the Group has actively taken measures to implement the regulations and requirements issued by the local governments on COVID-19 prevention and control. The Group will continuously evaluate the development of the COVID-19 situation and its impact on the financial position and operations of the Group.

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 its 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, 31 March 2020

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