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S. CULTURE INTERNATIONAL HOLDINGS LIMITED

港大零售國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1255)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

		For the six months ended 30 June	
		2020	2019
Revenue	<i>HK\$'000</i>	79,099	191,670
Gross profit	<i>HK\$'000</i>	11,130	114,472
Loss before taxation	<i>HK\$'000</i>	(93,831)	(2,434)
Loss attributable to owners of the Company	<i>HK\$'000</i>	(85,243)	(3,155)
Gross profit margin	<i>%</i>	14.1	59.7
Loss margin attributable to owners of the Company	<i>%</i>	(107.8)	(1.6)
Loss per share — basic and diluted	<i>HK\$</i>	(0.398)	(0.015)
		As at	
		30 June 2020	31 December 2019
Current ratio		1.5 times	2.2 times
Gearing ratio (total debt to total equity)		75.7%	37.4%
Average trade receivables turnover period		32.4 days	23.0 days
Average trade payables turnover period		9.3 days	22.2 days
Average inventory turnover period		286.1 days	347.8 days

The board (the “Board”) of directors (the “Directors”) of S. Culture International Holdings Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 (the “Reporting Period”) together with comparative figures for the corresponding period in 2019, and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 together with audited comparative figures as at 31 December 2019. The unaudited condensed consolidated interim financial statements have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended	
		30.6.2020	30.6.2019
	<i>Notes</i>	HK\$’000	HK\$’000
		(unaudited)	(unaudited)
Revenue	3	79,099	191,670
Cost of sales		(67,969)	(77,198)
Gross profit		11,130	114,472
Other income		4,621	438
Other gains and losses	5	(265)	1,767
Impairment loss on			
— property, plant and equipment		(1,834)	—
— goodwill		(3,956)	—
— intangible assets		(7,388)	—
Impairment loss under expected credit loss model, net of reversal	6	(54)	—
Selling and distribution costs		(40,536)	(72,813)
Administrative expenses		(53,508)	(45,050)
Finance costs		(2,041)	(1,248)
Loss before taxation	7	(93,831)	(2,434)
Taxation	8	(1,697)	(652)
Loss for the period		(95,528)	(3,086)
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences on translation from functional currency to presentation currency		304	110
Total comprehensive expense for the period		(95,224)	(2,976)

		Six months ended	
		30.6.2020	30.6.2019
<i>Note</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
(Loss) profit for the period attributable to:			
	Owners of the Company	(85,243)	(3,155)
	Non-controlling interests	<u>(10,285)</u>	<u>69</u>
		<u>(95,528)</u>	<u>(3,086)</u>
Total comprehensive (expense) income for the period attributable to:			
	Owners of the Company	(85,054)	(3,045)
	Non-controlling interests	<u>(10,170)</u>	<u>69</u>
		<u>(95,224)</u>	<u>(2,976)</u>
Loss per share — basic and diluted (HK\$)	10	<u>(0.398)</u>	<u>(0.015)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	At 30.6.2020 HK\$'000 (unaudited)	At 31.12.2019 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		30,583	46,771
Goodwill		—	3,956
Intangible assets		21,903	30,358
Interest in an associate		—	—
Loan to an associate		497	546
Deferred tax assets		7,856	10,713
Deposits paid for acquisition of property, plant and equipment		1,633	—
Deposit and prepayment for a life insurance policy		1,908	1,906
Rental deposits and prepayment		3,414	6,696
		<u>67,794</u>	<u>100,946</u>
Current assets			
Inventories		81,876	131,246
Trade and other receivables	11	23,125	39,272
Amount due from an associate		1,046	1,150
Taxation recoverable		—	18
Time deposits over three months		20,217	—
Bank balances and cash		30,917	46,820
		<u>157,181</u>	<u>218,506</u>
Current liabilities			
Trade and other payables	12	28,786	28,325
Contract liabilities		219	—
Amount due to an associate		8,829	7,274
Amount due to immediate holding company		6,667	3,393
Amount due to a related company		514	762
Taxation payable		752	711
Deferred income		3,127	—
Lease liabilities		17,932	24,047
Bank borrowings — due within one year		36,102	36,068
		<u>102,928</u>	<u>100,580</u>
Net current assets		<u>54,253</u>	<u>117,926</u>
Total assets less current liabilities		<u>122,047</u>	<u>218,872</u>

	At 30.6.2020 <i>HK\$'000</i> (unaudited)	At 31.12.2019 <i>HK\$'000</i> (audited)
Non-current liabilities		
Lease liabilities	5,758	14,216
Loans from a related company	13,499	13,462
Other borrowing — due after one year	15,000	15,000
Deferred tax liabilities	2,448	3,667
	<u>36,705</u>	<u>46,345</u>
Net assets	<u>85,342</u>	<u>172,527</u>
Capital and reserves		
Share capital	2,140	2,140
Reserves	73,486	158,489
Equity attributable to owners of the Company	75,626	160,629
Non-controlling interests	9,716	11,898
Total equity	<u>85,342</u>	<u>172,527</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The outbreak of coronavirus disease (“COVID-19”) and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affected the operations of the Group. Under these circumstances, the Group reduced the number of retail outlets during the current interim period. On the other hand, the Hong Kong government has announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic and certain lessors have provided rent concessions to the Group. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue, government grants in respect of COVID-19-related subsidies and rent concessions from certain lessors as disclosed in the relevant notes.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standard and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 “COVID-19-Related Rent Concessions”.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2.2 Impacts and accounting policies on early application of Amendment to HKFRS 16 “COVID-19-Related Rent Concessions”

2.2.1 Accounting policies

Leases

COVID-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

2.2.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period. The application has no impact to the opening accumulated losses at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of HK\$911,000 in the profit or loss for the current interim period.

2.3 Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Revenue from contracts with customers

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of services transferred to the customers to date relative to the remaining goods or services promised under the contract, that best depict the Group’s performance in transferring control of goods or services.

Leases

The Group as a lessee

Lease modifications

Except for COVID-19-related rent concessions in which the Group applies the practical expedient, changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications. The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

3. REVENUE

Disaggregation of revenue from contracts with customers

	Six months ended	
	30.6.2020	30.6.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Sales of goods		
Footwear products	66,923	153,433
Healthcare products	3,762	28,661
Financial services	8,148	9,576
Online medical services	266	—
	<u>79,099</u>	<u>191,670</u>
Sales of channel		
Retail	64,903	146,200
Wholesale	2,020	7,233
Internet	4,028	28,661
Corporate	8,148	9,576
	<u>79,099</u>	<u>191,670</u>
Time of revenue recognition		
A point in time	71,335	182,588
Over time	7,764	9,082
	<u>79,099</u>	<u>191,670</u>

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

For the six months ended 30 June 2020 (unaudited)

	Segment revenue <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Footwear products	66,923	—	66,923
Healthcare products	3,762	—	3,762
Financial services	8,776	(628)	8,148
Online medical services	266	—	266
	<u>79,727</u>	<u>(628)</u>	<u>79,099</u>

For the six months ended 30 June 2019 (unaudited)

	Segment revenue <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Footwear products	153,433	—	153,433
Healthcare products	28,661	—	28,661
Financial services	10,080	(504)	9,576
	<u>192,174</u>	<u>(504)</u>	<u>191,670</u>

4. OPERATING SEGMENT

Information reported to the executive directors of the Company, being the chief operating decision makers (the “CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group’s reportable segments under HKFRS 8 “Operating Segments” are as follows:

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 six months ended 30 June 2020 (unaudited)

	Trading of footwear products <i>HK\$'000</i>	Trading of healthcare products <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Online medical services <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue							
External sales	66,923	3,762	8,148	266	79,099	—	79,099
Inter-segment sales	—	—	628	—	628	(628)	—
	<u>66,923</u>	<u>3,762</u>	<u>8,776</u>	<u>266</u>	<u>79,727</u>	<u>(628)</u>	<u>79,099</u>
Segment results	<u>(57,594)</u>	<u>(2,723)</u>	<u>(15,047)</u>	<u>(11,345)</u>	<u>(86,709)</u>	<u>—</u>	<u>(86,709)</u>
Unallocated expenses							<u>(7,122)</u>
Loss before taxation							<u>(93,831)</u>

For the six months ended 30 June 2019 (unaudited)

	Trading of footwear products <i>HK\$'000</i>	Trading of healthcare products <i>HK\$'000</i>	Financial services <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue						
External sales	153,433	28,661	9,576	191,670	—	191,670
Inter-segment sales	—	—	504	504	(504)	—
	<u>153,433</u>	<u>28,661</u>	<u>10,080</u>	<u>192,174</u>	<u>(504)</u>	<u>191,670</u>
Segment results	<u>645</u>	<u>194</u>	<u>163</u>	<u>1,002</u>	<u>—</u>	<u>1,002</u>
Unallocated income						1,900
Unallocated expenses						<u>(5,336)</u>
Loss before taxation						<u>(2,434)</u>

Inter-segment sales are charged at prevailing market rates.

Geographical information

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

	Six months ended	
	30.6.2020	30.6.2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Hong Kong	72,131	155,692
Australia	3,762	28,661
Macau	2,854	7,317
Mainland China	266	—
Singapore	86	—
	<u>79,099</u>	<u>191,670</u>

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 classified as held for sale and rental income. This is the measure reported to the CODM of the Company for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	At 30.6.2020 HK\$'000 (unaudited)	At 31.12.2019 HK\$'000 (audited)
<i>Segment assets</i>		
Trading of footwear products	173,257	242,384
Trading of healthcare products	4,638	13,008
Financial services	28,496	44,774
Online medical services	8,731	7,314
Total reportable segment assets	215,122	307,480
Unallocated assets	9,853	11,972
Consolidated assets	<u>224,975</u>	<u>319,452</u>
<i>Segment liabilities</i>		
Trading of footwear products	75,724	87,338
Trading of healthcare products	9,539	9,405
Financial services	3,703	4,769
Online medical services	8,654	15,528
Total reportable segment liabilities	97,620	117,040
Unallocated liabilities	42,013	29,885
Consolidated liabilities	<u>139,633</u>	<u>146,925</u>

5. OTHER GAINS AND LOSS

	Six months ended 30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Net exchange (loss) gain	(265)	67
Change in fair value of investment properties	—	1,700
	<u>(265)</u>	<u>1,767</u>

6. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Impairment loss recognised (reversed) in respect of:		
Loan to an associate	49	—
Trade receivables	(99)	—
Amount due from an associate	104	—
	<u>54</u>	<u>—</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

7. LOSS BEFORE TAXATION

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	13,263	14,444
Amortisation of intangible assets	894	—
Premium charges on a life insurance policy	14	13
Staff costs, including directors' emoluments	50,033	48,834
Allowance for inventories, net of reversal, included in cost of sales	38,682	(223)
COVID-19-related rent concessions	(911)	—
Rental income	—	(200)
Government grants, included in other income (note)	(3,566)	—
Interest income	(222)	(5)
Imputed interest income on rental deposits	(141)	(106)
Imputed interest income from deposits and prepayment for a life insurance policy	<u>(16)</u>	<u>(16)</u>

Note: During the current interim period, the Group received government grants of HK\$6,693,000 in respect of COVID-19-related subsidies, of which HK\$4,691,000 relates to Employment Support Scheme provided by the Hong Kong government, and has recognised government grants of HK\$3,566,000 in profit or loss. The government grants of HK\$3,127,000 have been recognised as deferred income and will be credited to profit or loss on a systematic basis over the period in which the Group recognises staff costs for which the grants are intended to compensate.

8. TAXATION

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	59	525
Macau Complementary Tax	—	127
	<u>59</u>	<u>652</u>
Deferred taxation	1,638	—
	<u>1,697</u>	<u>652</u>

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 periods.

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 assessable 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%.

Macau Complementary Tax is calculated at the rate of 12% (six months ended 30 June 2019: 12%) on the estimated assessable profit exceeding MOP600,000 for the period.

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

Taiwan income tax is calculated at 17% (six months ended 30 June 2019: 17%) on the estimated assessable profit of a branch of Kong Tai Sundry Goods Company Limited in Taiwan for the period. No provision for Taiwan income tax has been made in the condensed consolidated financial statements as the branch operating in Taiwan has no assessable profits for both periods.

Under the Law of the People’s Republic of China (“PRC”) on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% (six months ended 30 June 2019: 25%). No provision for PRC Enterprise Income Tax has been made in the condensed consolidated financial statements as the subsidiaries operating in the PRC have no assessable profits for both periods.

9. DIVIDENDS

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2019: nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the six months ended 30 June 2020 is based on the loss for the period attributable to owners of the Company of HK\$85,243,000 (six months ended 30 June 2019: HK\$3,155,000) and the weighted average number of 214,000,000 (six months ended 30 June 2019: 214,000,000) ordinary shares for the purpose of basic and diluted loss per share during the period.

11. TRADE AND OTHER RECEIVABLES

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

	At 30.6.2020 HK\$'000 (unaudited)	At 31.12.2019 HK\$'000 (audited)
Within 30 days	4,175	13,154
31 to 60 days	400	2,678
61 to 90 days	31	4,355
Over 90 days	1,278	1,980
	<u>5,884</u>	<u>22,167</u>

12. TRADE AND OTHER PAYABLES

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

	At 30.6.2020 HK\$'000 (unaudited)	At 31.12.2019 HK\$'000 (audited)
Within 30 days	117	4,469
31 to 60 days	286	206
61 to 90 days	—	114
Over 90 days	527	1,239
	<u>930</u>	<u>6,028</u>

The average credit period of trade payables is 30 days.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

Footwear Business

Revenue of the Group's footwear business for the Reporting Period was approximately HK\$66.9 million, representing a 56.4% decrease from approximately HK\$153.4 million for the even period of 2019. We had recorded a same store sales decline of approximately 47.5% during the Reporting Period (30 June 2019: 2.3%). This was mainly due to the weak retail climate in Hong Kong, as a result of the continuous decline in the number of visitors to Hong Kong and the severe adverse impact of the unprecedented 2019 Novel Coronavirus ("COVID-19") pandemic since January 2020.

Healthcare Business

The healthcare business segment, being a new family member of the Group, has been in operation for over one year now, and had contributed to approximately 15.0% of the Group's turnover in 2019. However, the revenue of the healthcare business segment for the Reporting Period was just approximately HK\$3.8 million (30 June 2019: HK\$28.7 million), while segment loss for the Reporting Period was approximately HK\$2.7 million. Such decrease was mainly due to the drop in sales as a result of the outbreak of COVID-19 during the Reporting Period.

Taking into account of the current COVID-19 pandemic, we will keep optimizing the product structure of the Group's healthcare business segment, mainly focusing on the sales of leading brands, pregnancy and babies business and new brand AXS supplements and MERE beauty products, which could generate higher profit margins. Furthermore, we will update the Group's Zebra e-commerce platform and also develop a mini app to enhance user experience so as to maintain and attract a greater variety of clients.

Financial Services Business

The operating revenue of DSG Finance Holdings (Hong Kong) Limited and its subsidiaries (collectively, the "DSG Group") derives from: (i) advisory services in securities; (ii) investment management services; and (iii) advisory services in corporate finance. As the COVID-19 pandemic has seriously disrupted a wide range of Hong Kong's economic activities, the economic recession deepened in the first half of 2020. Nonetheless, the total revenue of the DSG Group during the Reporting Period had only decreased slightly as compared to the even period of 2019 to approximately HK\$8.1 million (30 June 2019: approximately HK\$9.6 million).

During the Reporting Period, although the sales revenue was not seriously affected by the COVID-19 pandemic, the DSG Group still recorded a net loss of approximately HK\$15 million, which was mainly due to the impairment of leased properties, goodwill and intangible assets amounting to approximately HK\$0.4 million, HK\$4.0 million and HK\$7.4 million, respectively (the “Impairment”).

Online Medical Services Business

The online medical services business was a new business segment invested by the Group in the PRC during the second half of 2019. In February 2020, Shangying Internet Medical (Shanghai) Co. Limited (“SY Internet Medical”), an indirect non-wholly owned subsidiary of the Company, jointly established “Fever Consultation Platform of Shanghai” (a WeChat Mini Program called “Novel Coronavirus Workshop”) with Shanghai Xuhui District Central Hospital under the guidance of the Shanghai Municipal Health Commission, providing high-quality advisory and consultation for treating COVID-19. Further, after obtaining the internet hospital license in Shanghai last year, SY Internet Medical obtained approval on the setting up of Shanghai Tongzhou Gongji Internet Hospital (上海同舟共濟互聯網醫院) (the “Internet Hospital”) on 25 February 2020, which will be supported by Shanghai Tongji Hospital. As at the end of the Reporting Period, the Internet Hospital has become a one-stop online medical platform with comprehensive and deep cooperation with the three major university hospitals in Shanghai. For further details of the development of the Group’s online medical services business, please refer to the announcements of the Company dated 3 February 2020 and 28 February 2020, respectively.

As the online medical services business is currently still in its start-up stage, during the Reporting Period, the recognised revenue of this business segment was approximately HK\$266,000 (30 June 2019: Nil, as the business only commenced its operation since August 2019), while a segment loss for the Reporting Period was approximately HK\$11.3 million, which was mainly due to the short operation period of this business segment and high start-up costs. By the end of Reporting Period, the cumulative number of registered users of the Internet Hospital and orders reached were approximately 42,000 and 6,600, respectively.

Prospects

According to the data from the Hong Kong Tourism Board, due to the impact of COVID-19, Hong Kong had only approximately 3.52 million visitors during the first half of 2020, representing a year-on-year decrease of nearly 90%, whereas the number of mainland visitors to Hong Kong was approximately 2.68 million, also representing a year-on-year decrease of more than 90%. In the first quarter of 2020 alone, Hong Kong’s retail sales fell by 36.9% year-on-year, which is the largest quarterly decline on record. The Group’s footwear business is expected to be under pressure continuously during the second half of 2020.

In terms of the financial services business, due to the expected deterioration of economic condition caused by the external environment, in accordance with applicable accounting standards, the Group recognised the Impairment generated from the acquisition of the DSG Group with reference to the estimated valuation analysis on the financial services business segment of the Group carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”), an independent third-party valuer. Nonetheless, the Impairment had no impact on the cashflow of the Group. Looking forward, given the potential of the Singapore market and the Group’s optimization of resources through internal restructuring last year, the financial services business will continue to focus on developing financing consultancy and seek further opportunities in Singapore during the second half of 2020.

Although the online medical services business is still in its expansion and start-up stage, with the improvement of market channels and the accumulation of users, the revenue of this business segment is expected to achieve a considerable growth during the second half of 2020.

In terms of the healthcare business in Australia, the Zebra e-platform has been engaged to provide Australian health products to small to medium-sized B2C e-commerce platforms and the Group’s purchasing agent in the PRC. Based on studies provided by Tenba Group and TMO Group, China’s retail imports of cross-border China Border E-commerce (CBEC) reached approximately US\$88.6 billion in 2019, and small to medium-sized B2C e-commerce platforms accounted for approximately 17.5% of the total market share in 2019. In light of this, it is expected that there will be a huge room for the Group to expand its current business. Moreover, the Group plans to expand its healthcare business from Australia to other markets in order to increase this segment’s revenue and profit as and when appropriate, thereby diversifying the healthcare business segment as a whole.

Overall, the performance of the Group was seriously affected by the macro environment and had declined significantly compared with the even period of 2019. Therefore, for the remainder of 2020, the Group will operate cautiously, and aim to increase revenue, reduce expenditure, seek new business opportunities and maintain the continuity and stability of its current business segments.

FINANCIAL REVIEW

Revenue

Revenue of the Group's businesses for the Reporting Period was approximately HK\$79.1 million, representing a 58.7% decrease from approximately HK\$191.7 million of the even period of 2019.

Revenue from the Footwear Business

Revenue of the Group's footwear business for the Reporting Period was approximately HK\$66.9 million, representing a 56.4% decrease from approximately HK\$153.4 million for the even period of 2019. With regard to the sales of footwear products of the major brands under distribution agreements for the Reporting Period as compared with the even period of 2019, sales of "Clarks" footwear products, "Josef Seibel" footwear products, "The Flexx" footwear products and "Petite Jolie" footwear products had decreased by approximately 54.4%, 61.5%, 87.8% and 78.8%, respectively.

As at 30 June 2020, the Group operated 31 retail outlets in Hong Kong (30 June 2019: 41) and 1 retail outlet in Macau (30 June 2019: 2).

Revenue from the Financial Services Business

Revenue of the Group's financial services business for the Reporting Period was approximately HK\$8.1 million (30 June 2019: approximately HK\$9.6 million). The slight decrease in revenue was mainly due to the decrease of service fee income.

Revenue from the Healthcare Business

Revenue of the Group's healthcare business for the Reporting Period was approximately HK\$3.8 million (30 June 2019: approximately HK\$28.7 million). The main reason for the sales decrease compared with the even period of 2019 was due to the outbreak of COVID-19.

With regards to the sales of the major brands under distribution agreements for the Reporting Period, sales of "Aptamil" milk powder, "AXS" supplement products, "Bio Lands" supplement products and other leading brands supplement products represented approximately 26.2%, 19.3%, 16.9% and 37.6% of revenue from the healthcare business, respectively.

Revenue from the Online Medical Services Business

Revenue of the Group's online medical services business for the Reporting Period was approximately HK\$0.3 million (30 June 2019: Nil), as the business only commenced its operation since August 2019.

Cost of Sales

Our cost of sales amounted to approximately HK\$68.0 million for the Reporting Period, representing 85.9% of revenue (30 June 2019: approximately HK\$77.2 million, representing 40.3% of revenue). The decrease in cost of sales was mainly due to the decrease in sales activities of the footwear and healthcare businesses, but the increase in cost of sales as a percentage of revenue was due to the allowance for inventories, net of reversal, with the amount of approximately HK\$38.7 million, representing 56.9% of cost of sales.

Gross Profit

Gross profit (gross profit equals to revenue minus cost of sales) of the Group for the Reporting Period was approximately HK\$11.1 million, representing a decrease of 90.3% from approximately HK\$114.5 million of the even period of 2019. Gross profit margin of the Group for the Reporting Period was 14.1% (30 June 2019: 59.7%). Such decrease in gross profit margin was predominantly attributable to the decrease of average selling price for products of the footwear business and the allowance for inventories, net of reversal, with the amount of approximately HK\$38.7 million, representing 48.9% of the Group's revenue.

Staff Costs

Staff costs for the Reporting Period were approximately HK\$50.0 million, representing 63.3% of revenue (30 June 2019: approximately HK\$48.8 million, representing 25.5% of revenue). The increase in staff costs was mainly due to the increase in the number of staff in the online medical services business as a result of an increase in the number of system establishment and the amount of start-up work as compared to the even year of 2019.

Depreciation

Depreciation accounted for 16.8% of revenue for the Reporting Period (30 June 2019: 7.5% of revenue).

Finance Costs

Our finance costs for the Reporting Period amounted to approximately HK\$2.0 million (30 June 2019: approximately HK\$1.2 million). The finance costs mainly consist of interest expenses incurred on the trade related financing facilities with banks, other borrowing and lease liabilities.

The increase of finance costs was mainly due to the recognition of interest expenses arising from other borrowing with the amount of approximately HK\$0.6 million for the Reporting Period.

Loss Before Taxation

As a result of the foregoing, our loss before taxation for the Reporting Period was approximately HK\$93.8 million (30 June 2019: approximately HK\$2.4 million).

Liquidity and Financial Resources

The Group finances its working capital with internally generated cash flows and bank borrowings. As at 30 June 2020, the Group had bank deposits and cash amounting to approximately HK\$51.1 million (31 December 2019: approximately HK\$46.8 million), representing an increase of 9.2% from 31 December 2019. Most bank deposits and cash were denominated in Hong Kong Dollars. As at 30 June 2020, the Group had short-term bank borrowings amounting to approximately HK\$36.1 million (31 December 2019: approximately HK\$36.1 million). As at 30 June 2020, the Group did not have any outstanding long-term bank borrowings, except for loans from a related company and other borrowing, which remained the same when compared to the amount as at 31 December 2019 (31 December 2019: approximately HK\$13.5 million and HK\$15.0 million, respectively).

Pledge of Assets

As at 30 June 2020, land and buildings, deposit and prepayment for a life insurance policy (31 December 2019: land and buildings, deposit and prepayment for a life insurance policy) were pledged to secure the bank borrowings and banking facilities granted to the Group.

Gearing Ratio

As at 30 June 2020, the Group's gearing ratio (total debt to total equity) was 75.7% (31 December 2019: 37.4%). The higher gearing ratio was mainly attributable to the decrease of non-current assets as a result of the Impairment and the decrease of current assets due to the allowance for inventories with the amount of approximately HK\$38.7 million.

Leased Properties, Goodwill and Intangible Assets Impairment

Circumstances leading to the Impairment:

Due to the COVID-19 pandemic, which led to a downturn in the financial market in Hong Kong in the first half of 2020, the DSG Group did not reach the expected sales target. The management of the Company therefore took a cautious strategy in the forecast of the DSG Group. Based on the said external factors, the forecast income target decreased accordingly, which led to a loss in valuation as compared with the even period of 2019.

The assets subject to the Impairment are the leased properties, goodwill and intangible assets arising from the acquisition of the DSG Group, as a result of the aforementioned external factors. As the DSG Group experienced negative business conditions, including decreased revenue, it indicated that the relevant property, plant and equipment, goodwill and intangible assets may be required to be further impaired.

The Board first formally discussed the circumstances and issues in relation to the Impairment during the first quarterly Board meeting of 2020. After deliberation, the Company reassessed the financial forecast based on a more conservative business strategy for the future, and engaged JLL to re-evaluate the valuation of the DSG Group in order to achieve a fair and reasonable assessment of the Impairment. The Company also issued the profit warning announcement on 18 August 2020, which emphasized the effects of the Impairment on the overall results of the Group.

During the Reporting Period, based on the valuation performed by JLL, it was determined that the value-in-use of cash-generating units in the DSG Group as provided by JLL was lower than its carrying value, resulting in the Impairment of leased properties, goodwill and intangible assets amounting to approximately HK\$0.4 million, HK\$4.0 million and HK\$7.4 million, respectively (six months ended 30 June 2019: Nil).

Valuation methodology conducted by JLL:

In order to assess the value-in-use of the DSG Group, JLL applied the income approach known as the discounted cash flow method.

The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the asset than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar asset with a similar risk profile. This approach allows for the prospective valuation of future profits and has numerous empirical and theoretical justifications for the present value of expected future cash flows.

The discounted cash flow method eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks, including intrinsic and extrinsic uncertainties in relation to the DSG Group. Under this method, value depends on the present worth of future economic benefits to be derived from the projected sales income. Indications of value have been developed by discounting projected future net cash flows available for payment of investors' interest to their present worth at a discount rate, which in the Board's opinion is appropriate for the risk of the business.

In calculating the value-in-use of the DSG Group, cash flow projections covering a five-year period based on the most recent financial budgets approved by the management of the Company and a discount rate of 18.48% was used. For cash flows beyond the said five-year period, the cash flow projections have been extrapolated using an estimated constant growth rate of 2.5% which do not exceed the average growth rate for the relevant markets.

Key assumptions made by JLL:

In the course of assessing the value-in-use of the DSG Group, JLL made certain key assumptions, including but not limited to:

- 1) the valuation methodology was primarily based on the financial projects and latest historical financial information made available to JLL;
- 2) the financial information provided was prepared on a reasonable basis;
- 3) the DSG Group has, or will have, sufficient capital needs to achieve or contribute to its current and future production; and
- 4) there will be no material change in the core operations of the DSG Group.

In view of the above and after discussions with JLL, the Board is of the view that the Impairment was calculated in a fair and reasonable manner, and is an one-off and non-cash item, and has no effect on the cashflow of the Group.

Treasury Policy

The Group adopts a treasury policy that aims to better control its treasury operations and lowers its borrowing cost. As such, the Group endeavors to maintain an adequate level of cash and cash equivalents to address short-term funding needs. The Board also considers various funding sources depending on the Group's needs so as to ensure 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 Reporting Period.

Capital Contribution into Shangying Hospital

On 7 February 2020, Hengying Trading (Shanghai) Co., Limited* (恆贏商貿(上海)有限公司) ("Hengying Trading", a wholly owned subsidiary of the Company), Shangying Global Co., Ltd. ("Shangying Global", a company listed on the Shanghai Stock Exchange, stock code: 600146), Shanghai Xinran Investment Management Consulting Co., Limited* (上海欣然投資管理諮詢有限公司) ("Shanghai Xinran") and Shangying Hospital Management (Shanghai) Company Limited* (商贏醫院管理(上海)有限公司) ("Shangying Hospital", a company owned by Hengying Trading, Shangying Global and Shanghai Xinran as to 52%, 39.65% and 8.35%, respectively) entered into a capital contribution agreement, pursuant to which Hengying Trading, Shangying Global and Shanghai Xinran injected an aggregate of RMB37.8 million into Shangying Hospital in proportion to their respective equity interests in Shangying Hospital (the "Capital

Contribution”). After completion of the Capital Contribution, Shangying Hospital continued to be owned as to 52% by the Group, 39.65% by Shangying Global and 8.35% by Shanghai Xinran. The proceeds of the Capital Contribution were intended for the business operations of Shanghai Shangying Internet Hospital Co., Limited (上海商贏互聯網醫院有限公司), a company wholly owned by Shangying Hospital.

As Mr. Yang Jun (the chairman of the Board, an executive Director and the controlling shareholder of the Company) was deemed as the de facto controller of Shangying Global, which was directly and indirectly interested as to 23.88% by Mr. Yang Jun together with his controlled companies, and he was a (i) general manager from December 2018 to April 2020; and (ii) director from January 2019 to April 2020, of Shangying Global, respectively. Shangying Hospital was thus a connected subsidiary of the Company.

For further details of the Capital Contribution, please refer to the announcement of the Company dated 7 February 2020.

Proposed Change of Company Name

On 24 April 2020, the Board proposed to change the name of the Company from “S. Culture International Holdings Limited 港大零售國際控股有限公司” to “TATA Health International Holdings Limited TATA 健康國際控股有限公司” (the “Proposed Name Change”). On 18 June 2020, the special resolution approving the Proposed Name Change was passed at the annual general meeting of the Company. As at the date of this announcement, the Company still needs to obtain the approval of the Registrar of Companies in the Cayman Islands for the use by the Company of its proposed new name in order for the Proposed Name Change to become effective. For further details of the Proposed Name Change, please refer to the announcements of the Company dated 24 April 2020 and 18 June 2020 and the circular of the Company dated 29 April 2020, respectively.

Announcement pursuant to Rule 3.7 the Takeovers Code

On 7 May 2020, the Company had received a letter from Alvarez & Marsal Asia Limited regarding the appointment of Ms. Yeung Mei Lee and Ms. Wing Sze Tiffany Wong as joint and several receivers and managers (collectively, the “Receivers”) over 119,993,617 shares of the Company (the “Charged Shares”) held by Shang Ying Financial Holding Co., Limited (the “Borrower”), which had been charged to Great Wall International Investment X Limited. The Charged Shares represented approximately 56.07% of the issued share capital of the Company as at the date of this announcement, and the Company was given to understand that the Receivers may look for potential purchaser(s) for the Charged Shares (the “Possible Transaction”). For further details of the Possible Transaction, please refer to the announcements of the Company dated 8 May 2020, 12 May 2020, 12 June 2020, 13 July 2020 and 13 August 2020, respectively.

Foreign Currency Risks

The Group's sales and purchases for the Reporting Period were mostly denominated in Hong Kong dollars, Renminbi, Macau Pataca, Singapore dollars, Euros, US dollars and Australian dollars. The Renminbi is not a freely convertible currency, and the currency market for Macau Pataca is relatively small and undeveloped. 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.

The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group did not enter into any foreign currency forward contracts to hedge against foreign currency risk as at 30 June 2020.

HUMAN RESOURCES

As at 30 June 2020, the Group employed approximately 249 employees (31 December 2019: 257). Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications and experience. During the Reporting Period, various training activities, such as training of product and service knowledge, management skills as well as local consumer laws, had been conducted to improve the performance of our staff members.

DIVIDENDS

The Board has resolved not to declare an interim dividend for the Reporting Period (2019: Nil).

PURCHASE, SALE OR 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 Reporting Period.

CORPORATE GOVERNANCE

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 (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the Reporting Period.

INSUFFICIENT NUMBER OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 3.10A of the Listing Rules, a listed issuer must appoint independent non-executive directors representing at least one-third of the board. During the Reporting Period, following the appointment of Mr. Chen Anhua as a non-executive Director on 23 January 2020, the number of independent non-executive Directors fell below the minimum number prescribed under Rule 3.10A of the Listing Rules. The Company had not appointed an additional independent non-executive Director within three months from 23 January 2020 as required under Rule 3.11 of the Listing Rules, and only re-complied with the aforesaid requirement upon the appointment of Prof. Yan Haifeng and Ms. Tan Yuying as independent non-executive Directors on 5 May 2020.

For further details, please refer to the announcements of the Company dated 23 January 2020, 23 April 2020, 5 May 2020 and 8 May 2020, respectively.

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” (Appendix 10 to the Listing Rules) (the “Model Code”) 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 Reporting Period.

AUDIT COMMITTEE

The audit committee of the Company (comprising three independent non-executive Directors, namely Mr. Lum Pak Sum, Mr. Xie Rongxing and Prof. Yan Haifeng) has reviewed with management the principal accounting policies adopted by the Group and discussed the risk management, internal controls and financial reporting matters including a review of the interim financial statements for the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, no major subsequent events affecting the Group had occurred since the end of the Reporting Period and up to the date of this announcement.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at 30 June 2020 and the date of this announcement, the Company has maintained the prescribed minimum public float under the Listing Rules.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement of the Company has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.s-culture.com). The 2020 interim report of the Company, containing all the information required by the Listing Rules, will be dispatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

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

** The English translation is for reference of those official names in Chinese only.*

By order of the Board
S. Culture International Holdings Limited
Yang Jun
Chairman

Hong Kong, 31 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Yang Jun and Mr. Lai Wenjing; 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 four independent non-executive Directors, namely, Mr. Xie Rongxing, Mr. Lum Pak Sum, Prof. Yan Haifeng and Ms. Tan Yuying.