LIFESTYLE INTERNATIONAL HOLDINGS LIMITED
利福國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1212)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS

	2020	2019	Change
Revenue (*HK$ millions*)	1,993.0	3,542.0	-43.7%
Profit attributable to owners of the Company (*HK$ millions*)	138.5	1,890.7	-92.7%
Earnings per share *(HK$)*	0.09	1.26	-92.7%

FINAL RESULTS

The board of directors ("Board") of Lifestyle International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020, together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020** *HK$'000*	2019 *HK$'000*
Revenue	*3*	**1,993,024**	3,542,032
Cost of sales		**(519,387)**	(888,869)
Gross profit		**1,473,637**	2,653,163
Other income, gains and losses		**218,878**	147,165
Selling and distribution costs		**(578,107)**	(697,344)
Administrative expenses		**(114,634)**	(137,787)
Interest income and investment gains/(losses)	*5*	**34,559**	740,176
Fair value changes on investment properties		**(418,056)**	(173,959)
Finance costs	*6*	**(369,314)**	(365,238)
Profit before taxation		**246,963**	2,166,176
Taxation	*7*	**(108,453)**	(275,500)
Profit for the year	*8*	**138,510**	1,890,676
Profit for the year attributable to owners of the Company		**138,510**	1,890,676
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising from translation of foreign operation		**(1,911)**	-
Fair value change on financial assets at fair value through other comprehensive income		**(132,779)**	25,528
Other comprehensive (expense)/income for the year (net of tax)		**(134,690)**	25,528
Total comprehensive income for the year		**3,820**	1,916,204
Total comprehensive income attributable to:			
Owners of the Company		**3,820**	1,916,204
		3,820	1,916,204
Earnings per share			
– Basic and diluted	*10*	**HK$0.09**	HK$1.26

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	**31 December 2020** ***HK$'000***	31 December 2019 *HK$'000*
Non-current assets			
Investment properties		**8,068,559**	5,420,000
Property, plant and equipment		**6,541,161**	6,291,532
Financial assets at fair value through other comprehensive income	*12*	**1,320,281**	633,121
Financial assets at fair value through profit or loss	*12*	**16,538**	15,871
Deposits		**82,839**	72,248
Deferred tax assets		**87,451**	-
		16,116,829	12,432,772
Current assets			
Inventories		**25,795**	38,615
Trade and other receivables	*11*	**644,878**	102,811
Financial assets at fair value through profit or loss	*12*	**4,814,485**	3,306,082
Bank deposits		**-**	1,508,698
Cash and cash equivalents		**4,175,789**	7,112,561
		9,660,947	12,068,767
Current liabilities			
Trade and other payables	*13*	**662,249**	826,275
Contract liabilities	*14*	**121,824**	138,294
Lease liabilities		**86,574**	76,144
Tax payable		**105,162**	490,926
Bank borrowings – due within one year		**9,628,937**	4,070,966
Financial liabilities at fair value through profit or loss	*12*	**220,836**	12
		10,825,582	5,602,617

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2020

	31 December 2020 *HK$'000*	31 December 2019 *HK$'000*
Non-current liabilities		
Bank borrowings – due after one year	**3,874,125**	7,641,212
Bonds – due after one year	**6,836,181**	6,962,233
Lease liabilities	**136,697**	210,876
Deferred tax liabilities	**260,067**	243,297
	11,107,070	15,057,618
	3,845,124	3,841,304
Capital and reserves		
Share capital	**7,510**	7,510
Reserves	**3,837,614**	3,833,794
Equity attributable to owners of the Company	**3,845,124**	3,841,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

As at 31 December 2020, the Group had net current liabilities of HK$1.2 billion. The occurrence of net current liabilities was mainly due to the increase in current portion of bank borrowings as of 31 December 2020 as a bank loan of HK$6 billion from the existing 5-year banking facility of HK$8 billion will become due within one year, and therefore being classified as current liabilities. The Group has initiated and is in the process of negotiating a refinancing of this existing 5-year HK$8 billion banking facility with the respective banks. The directors of the Company consider that the Group will be able to refinance its existing 5-year HK$8 billion banking facility before its final maturity date in July 2021. In addition, the directors have reviewed the Group's cash flow projections covering a period of 12 months from 31 December 2020. Having considered the likelihood of a successful refinancing of the existing 5-year HK$8 billion banking facility, the Group's other existing financial resources and banking facilities as well as the cash flows being generated from the Group's anticipated improving business operations, the directors believe that the Group will be able to meet its liabilities as and when they fall due within the next twelve months from the date of the statement of financial position. Accordingly, these financial statements of the Group have been prepared on a going concern basis.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

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

HKAS 1 and HKAS 8 (Amendment)	Definition of material
HKFRS 3 (Amendment)	Definition of a business
HKAS 39, HKFRS 7 and HKFRS 9 (Amendment)	Hedge accounting
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting

In addition, the Group has early adopted the following amendment to the accounting standards for the accounting period commencing 1 January 2020:

HKFRS 16 (Amendments)	COVID-19 - Related Rent Concessions

The Group has assessed the impact of the adoption of these amended standards and considered that there was no significant impact on the Group's results and financial position.

3. REVENUE

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

	2020	2019
	HK$'000	*HK$'000*
Recognised at a point in time		
Sales of goods – direct sales	**687,039**	1,212,022
Recognised over time		
Income from concessionaire sales	**919,561**	1,698,204
Income from APO sales	**267,826**	461,455
Service income	**70,519**	129,404
Revenue from contracts with customers	**1,944,945**	3,501,085
Rental income	**48,079**	40,947
Total revenue	**1,993,024**	3,542,032

4. SEGMENT INFORMATION

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

The Group's operations are located in Hong Kong and the United Kingdom. The Group's non-current assets are based in Hong Kong, except the completed investment property in the United Kingdom of HK$2,648,559,000 as at 31 December 2020 (2019: The Group's operations are located in Hong Kong and the non-current assets are all based in Hong Kong). The Group has no customers that contributed over 10% of the total revenue of the Group for the current year (2019: Same).

5. INTEREST INCOME AND INVESTMENT GAINS/(LOSSES)

	2020	2019
	HK$'000	*HK$'000*
Interest income on bank deposits	**105,605**	201,670
Dividend income from financial assets at fair value through profit or loss ("FVPL")	**24,796**	59,650
Dividend income from financial assets at fair value through other comprehensive income ("FVOCI")	**2,323**	2,919
Interest income from financial assets/liabilities at FVPL	**190,073**	72,086
Fair value change of financial assets/liabilities at FVPL	**(333,758)**	403,851
Net exchange gain of financial assets at FVOCI	**45,520**	-
	34,559	740,176

6. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest expenses on:		
Bank borrowings	**252,538**	340,011
Bonds	**324,037**	266,956
Lease liabilities	**10,069**	12,355
	586,644	619,322
Less: Amounts capitalised in construction in progress and investment property under development	**(217,330)**	(254,084)
	369,314	365,238

Borrowing costs capitalised are interest expenses incurred for financing the development of qualifying assets. The capitalisation rate used to determine the amounts of borrowing costs eligible for the capitalization is 2.7% (2019: 3.5%) per annum.

7. TAXATION

	2020	2019
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**192,184**	334,021
United Kingdom Corporate Income Tax	**1,526**	-
	193,710	334,021
Overprovision in prior years:		
Hong Kong Profits Tax	**(14,576)**	(30,546)
Deferred tax credit	**(70,681)**	(27,975)
	108,453	275,500

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

United Kingdom Corporate Income Tax is calculated at 19.0% of the estimated assessable profits for the current year (2019: Nil).

8. PROFIT FOR THE YEAR

	2020	2019
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging/(crediting):		
Directors' remuneration:		
Fees	**2,600**	2,600
Salaries and allowances	**6,320**	8,400
Bonus	**-**	-
Retirement benefits scheme contributions	**36**	36
	8,956	11,036
Staff costs, excluding directors' remuneration		
Salaries and wages	**203,774**	211,949
Retirement benefits scheme contributions, net of forfeited contributions for staff	**8,322**	8,725
Total staff costs	**221,052**	231,710
Auditor's remuneration	**2,287**	2,376
Depreciation of property, plant and equipment	**252,336**	271,384
(Reversal of rental expenses)/Rental expenses relating to variable lease payments	**(9,461)**	62,811
Gain on disposal of property, plant and equipment	**(447)**	(168)
Cost of inventories recognised as expenses	**519,387**	888,869
Provision/(Reversal of provision) for trade and other receivables, net	**23**	(11)
Provision for write-down of obsolete inventories (included in cost of sales)	**93**	22

9. DIVIDENDS

	2020	2019
	HK$'000	*HK$'000*
Dividend paid in cash and recognised as distributions during the year:		
No final dividend for the prior year (2019: HK cents 37.0 per share)	**-**	555,709
No interim dividend for the current year (2019: HK cents 30.0 per share)	**-**	450,575
	-	1,006,284

Note: Subsequent to the end of the reporting period, the directors of the Company resolved not to recommend payment of a final dividend (2019: Same).

10. EARNINGS PER SHARE

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

	2020	2019
	HK$'000	*HK$'000*
Earnings:		
Earnings for the purpose of basic and diluted earnings per share	**138,510**	1,890,676

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,501,916**	1,501,916

	2020	2019
Basic and diluted earnings per share	**HK$0.09**	HK$1.26

The diluted earnings per share for the year ended 31 December 2020 equals to the basic earnings per share as there are no potential dilutive ordinary shares to issue during the year (2019: Same).

11. TRADE AND OTHER RECEIVABLES

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

	2020	2019
	HK$'000	*HK$'000*
0 – 30 days	**20,736**	27,989
31 – 60 days	**3,394**	4,335
61 – 90 days	**498**	1,703
Over 90 days	**708**	1,094
	25,336	35,121

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

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

	2020	2019
	HK$'000	*HK$'000*
Non-current assets		
Financial assets at FVOCI:		
- Equity securities listed overseas	**932,781**	243,621
- Unlisted equity securities	**387,500**	389,500
	1,320,281	633,121
Financial assets at FVPL:		
- Club debentures	**16,538**	15,871
Current assets		
Financial assets at FVPL:		
- Equity securities listed in Hong Kong	**891,939**	756,990
- Equity securities listed overseas	**54,701**	750,450
- Listed debt securities	**1,815,394**	1,203,759
- Money market fund	**1,542,853**	111,960
- Unlisted hedge funds	**-**	18,666
- Unlisted investment funds	**430,008**	146,721
- Unlisted debt securities	**-**	234,583
- Cross currency and interest rate swaps	**-**	51,738
- Unlisted equity-linked notes	**76,304**	31,215
- Warrant	**54**	-
- Target redemption forward contracts	**3,232**	-
	4,814,485	3,306,082
Current liabilities		
Financial liabilities at FVPL:		
- Interest rate swaps	**220,807**	-
- Target redemption forward contracts	**29**	-
- Written put options	**-**	12
	220,836	12

13. TRADE AND OTHER PAYABLES

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

	2020	2019
	HK$'000	*HK$'000*
0 – 30 days	**32,762**	16,128
31 – 60 days	**4,993**	23,996
61 – 90 days	**178**	2
Over 90 days	**2,866**	3,548
	40,799	43,674

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

14. CONTRACT LIABILITIES

	2020	2019
	HK$'000	*HK$'000*
Gift certificates	**114,881**	134,181
Deferred advertising income	**2,064**	2,524
Reward points under customer loyalty program	**4,879**	1,589
	121,824	138,294

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The lingering novel coronavirus (COVID-19) pandemic and the associated containment measures dealt a severe blow to the world economy in 2020, wreaking havoc on global trade and economic activities. China's economy grew at the slowest pace in more than four decades, but it would be the only major economy to expand in 2020 thanks to its effective containment of the pandemic. The world's second largest economy saw its gross domestic product expand 2.3% last year, down from 6.1% in 2019. Total retail sales of consumer goods in China fell 3.9%, compared with a growth of 8% in 2019.

The Group's home market Hong Kong plunged into a deeper recession with the COVID-19 pandemic weighing on investments and exports, coupled with subdued domestic demand amid deteriorating job market. The city's GDP contracted by 6.1% in 2020, compared with a 1.2% contraction in 2019. Hong Kong's retail sales also tumbled in 2020 as the prolonged pandemic brought inbound tourism to a standstill and domestic consumption took a big hit. Visitor arrivals to Hong Kong plummeted 93.6% in 2020, compared with a decline of 14.2% in 2019. Visitations from mainland China reported a decline of 93.8% for the full year, compared with a 14.2% drop in 2019. For the whole year, retail sales in Hong Kong sank 24.3% year-on-year, compared with a decline of 11.1% in 2019. Sales of luxury goods categories, including jewelry and watches, dropped 54% whereas department store sales decreased 22.5% year-on-year.

Financial Review 2020

Faced with an unprecedented health and economic crisis, the Group has swiftly implemented a series of critical strategic initiatives to alleviate the negative impact of the COVID-19 pandemic and adapted to the rapidly changing retail environment. Under the leadership of seasoned management team, the Group navigated the adversity and changing consumer behavior with accelerating pace of operation enhancement and continuous digital investment.

Revenue and Sales Proceeds

For the year ended 31 December 2020, the Group's department store operations saw its revenue decreased by 43.7% over the previous year to HK$1,993.0 million, while total gross sales proceeds, derived from direct, After Purchase Order ("APO") and concessionaire sales transactions, were down by 39.9% to approximately HK$5.7 billion. The decline in revenue of the Group was caused by a decrease in direct sales of approximately 43.3% while commission income derived from APO and concessionaire sales reported a drop of approximately 45.0%.

Gross Profit and Concessionaire Rates

The Group's gross profit margin as a percentage of revenue decreased to 73.9% from 74.9% in 2019 as the drop in concessionaire commission, which gross margin is theoretically 100%, was slightly higher than the decline in direct sales. Gross profit amounted to HK$1,473.6 million, down 44.5% from HK$2,653.2 million in 2019 as sales tumbled. The blended average concessionaire rate for the Group was down 1.4 percentage point to 23.4% from 24.8% last year, mainly a result of higher discounts were given in terms of extra SOGO Rewards points as well as cash coupons to incentivize customer spending amid the unprecedented pandemic market situation when consumer sentiments were generally weak.

Net Profit Attributable to Shareholders

For the year ended 31 December 2020, the Group recorded a net profit attributable to owners of the Company of HK$138.5 million, down 92.7% from HK$1,890.7 million as reported in 2019. The relatively small profit this year was mainly caused by a combination of (i) a 43.7% drop in the Group's revenue, mainly as a result of a significant fall in customer foot traffic at the stores of the Group stemming from the containment measures of COVID-19 pandemic; (ii) a significant drop in investment income due to a mark-to-market fair value loss of HK$333.8 million being recorded on the Group's financial investments whereas it was a fair value gain of HK$403.9 million in 2019; and (iii) a fair value loss of HK$418.1 million being recorded on the Group's investment properties as compared to HK$174.0 million in 2019. The net profit attributable to the Group's department store operations (before counting the fair value changes on financial assets/liabilities at fair value through profit or loss ("FA/L at FVPL") and investment properties, net exchange gain of financial assets at fair value through other comprehensive income ("FA at FVOCI") would have amounted to HK$801.2 million, down 50.9% from HK$1,632.1 million in 2019, primarily a result of a plunge in sales and revenue attributed to the sluggish consumer demand amid the pandemic, coupled with the commission/rental concessions the Group offered to business partners during the year with an aim to ride through the difficult time together.

Selling and Distribution Costs

The aggregate selling and distribution costs of the Group decreased 17.1% over the previous year and represented 10.2% (2019: 7.4%) of the Group's gross sales proceeds as the fall in sales proceeds was much steeper. The decrease in absolute amount was mainly attributable to a significant drop in rental equivalent expenses for the TST store amid a substantial drop in sales that only the fixed base rent was required to be paid during the year. The decrease in selling and distribution costs was also a result of the Group's cost tightening measures in response to the pandemic situation.

Administrative Expenses

The Group's general administrative expenses decreased 16.8% as compared to the previous year as the Group implemented further cost tightening measures during the year in view of the difficult operating environment. The decrease was also due to the fact that there was a one-off donation of HK$10 million made in 2019 whereas donations made during the year were relatively insignificant.

Staff Costs

Staff costs (excluding those of the directors) of the Group decreased 3.9% to approximately HK$212.1 million during the year under review as the Group implemented cost reduction measures amid the pandemic. While the annual general increment of salaries and wages for the Group's employees was largely in line with the market trend, remuneration reviews and bonuses are based on performance of individual staff and operating and financial performances of the Group. The total number of staff of the Group increased to 675 at the end of 2020 from 659 at the end of 2019.

Other Income, Gains and Losses

These comprise mainly management fee, credit card recharges, miscellaneous incomes received from the counters and tenants, and other sundry incomes and exchange gain/loss. Increase in other income, gains and losses of the Group during the year was mainly attributable to the receipt of subsidy under the Employment Support Scheme from the government to the tune of HK$ 35.5 million and a larger amount of exchange gain of HK$45.9 million being recorded whereas the exchange gain in 2019 was HK$20.5 million, mainly arising from translating the Group's US dollar denominated bonds payable amid a weakening US dollar against HK dollar.

Interest income and Investment Income

For the year 2020, the Group recorded a net investment income of HK$34.6 million, comparing to HK$740.2 million in 2019. Net investment income comprised mainly interest income of HK$105.6 million from the Group's bank deposits and net investment loss of HK$71.0 million, which consisted of fair value changes, net exchange gain, interest and investment income received and receivable, and dividend income from a portfolio of financial assets and liabilities. As at 31 December 2020, the Group's financial investment portfolio grouped under current assets and current liabilities amounted to an aggregate of approximately HK$4,814.5 million (including the approximately HK$1,542.9 million holding in a Money Market Fund) and HK$220.8 million respectively.

Finance Costs

The Group's total finance cost consisted mainly of finance charges and interest expenses on bank loans and bonds payable. The aggregate amount of finance costs and interest incurred for the year, before capitalisation, was approximately HK$586.6 million (2019: HK$619.3 million). The overall decrease was mainly due to decrease in interest in respect of the HIBOR-linked bank loans amid the lower interest rate environment but was off-set by the full year effect in respect of the additional interest for the USD300 million bonds issued in July 2019. Finance costs charged to the profit and loss account during the year amounted to HK$369.3 million (2019: HK$365.2 million) after HK$217.3 million (2019: HK$254.1 million) of the borrowing costs relating to the Kai Tak Project has been capitalized.

Liquidity and Financial Resources

The Group's EBITDA (excluding fair value changes on FA/L at FVPL, club debentures and investment properties, net exchange gain of FA at FVOCI) for the year decreased 40.4% to HK$1,487.8 million (2019: HK$2,494.6 million), mainly due to a fall in sales and concessionaire income.

As at the end of 2020, before counting the Group's net FA/L at FVPL, which was valued at approximately HK$4,593.6 million (2019: HK$3,306.1 million), the Group's net debt (total borrowings less cash and cash equivalents and bank deposits) increased to HK$16,163.5 million from HK$10,053.2 million as at 31 December 2019. The Group's cash at banks and bank deposits (before counting the approximately HK$1,542.9 million holding in a Money Market Fund) amounted to approximately HK$4,175.8 million (2019: HK$8,621.3 million) as at the end of 2020. Of the cash kept at banks in Hong Kong, approximately 99% was denominated in US dollar ("US$ or USD") and Hong Kong dollar ("HK$") and approximately 1% was in Renminbi and other foreign currencies.

The Group's outstanding bank loans at the end of 2020 amounted to approximately HK$13,503.1 million (2019: HK$11,712.2 million) and bonds payable amounted to approximately HK$6,836.2 million (2019: HK$6,962.2 million) respectively. The outstanding bank loans comprised HK$4,000 million term loan and HK$2,000 million revolving loan drawn under the Hong Kong dollar denominated five-year (due July 2021) HK$8,000 million secured loan facility, which interest is calculated with reference to HIBOR. The HK$4,000 million outstanding term loan is repayable semi-annually over the loan life, with the first repayment started back in January 2019. The Group's outstanding bank loans consisted of also a term loan of HK$3,891 million drawn under the HK$9,000 million project loan facility for financing payment of part of the land premium of the Kai Tak Project. This HK$9,000 million project loan facility bear interest calculated with reference to HIBOR and does not require repayment until the end of the 5-year term in July 2022. The remaining outstanding bank loans comprised also short-term US$ loans totaling US$41.9 million (equivalent to HK$324.4 million) and £312.7 million (equivalent to HK$3,311.9 million) loan drawn under an aggregate US$725 million facilities, which are secured against certain of the Group's financial assets and cash deposits, bearing interest calculated with reference to LIBOR. The £312.7 million loan was drawn for funding the acquisition of the property in London during the year.

As at the year end, the Group had aggregate unutilised banking facilities in the amount equivalent to approximately HK$8,091.5 million (2019: HK$7,228.4 million).

The bonds payable of HK$6,836.2 million at the year end (US$887 million at maturity) represented outstanding unsecured guaranteed bonds issued by the Group, which comprised a US$287 million 10-year (bearing interest at 4.25% and maturing in October 2022), a US$300 million 5-year (bearing interest at 4.875% and maturing in July 2024), and a US$300 million 10-year (bearing interest at 4.5% and maturing in June 2025).

As at 31 December 2020, the Group's net debt to equity ratio or net gearing (defined as total borrowings less cash and bank balances (including the approximately HK$1,542.9 million holding in Money Market Fund classified under the Group's FA/L at FVPL)) divided by equity attributable to owners of the Company) was 380.2% (2019: 261.7%). The increase in the net debt was mainly caused by the £312.7 million loan drawn for funding the acquisition of the property in London. Meanwhile, the relatively high level of net gearing was also due to the fact that the Group's self-owned store property in Causeway Bay, Hong Kong is stated at historical cost less depreciation and amortization, thereby its fair value has not been taken into account in the calculation of the equity attributable to owners of the Company.

Foreign Exchange Management

The functional currency of the Company and its major subsidiaries is Hong Kong dollar, in which most of the transactions are denominated. As described under the "Liquidity and Financial Resources" section above, certain monetary assets and liabilities of the Group are denominated in USD and Sterling. The Group currently does not require a sophisticated and comprehensive foreign currency hedging policy as the Hong Kong dollar, in which most of the Group's transactions are denominated, is pegged to the USD in which certain of the Group's borrowings and cash are denominated. While the Group's exposure to the Sterling borrowings is somewhat hedged by the holding of an investment property in London, the Group is looking at different options with an aim to reduce the potential foreign exchange impact to the Group caused by future fluctuations in the Sterling.

Pledge of Assets

As at 31 December 2020, certain of the Group's leasehold land and buildings in Hong Kong with carrying value aggregating approximately HK$1,126.6 million (2019: HK$1,172.0 million), together with shares of certain subsidiaries of the Group, were pledged to secure the HK$8,000 million (2019: HK$8,000 million) loan facility granted to the Group, of which HK$7,000 million (2019: HK$8,000 million) was utilised.

In addition, the entire Kai Tak Project, comprising the land, construction in progress and investment property under development, with an aggregate carrying value of HK$10,193.4 million (2019: HK$9,762.2 million) was pledged to secure the HK$9,000 million loan facility granted to the Group for financing the Kai Tak Land acquisition and its construction, of which HK$3,891.0 million (2019: HK$3,691.0 million) was utilised as at the year end. Moreover, certain of the Group's financial assets with carrying value amounting to approximately HK$5,091.3 million (2019: HK$1,391.8 million) were pledged to secure loan facilities in the amount of approximately US$725 million (2019: US$320 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2020.

Material Acquisitions and Disposals

To tap into a rare opportunity to own a high-quality freehold property in a prime area in London that will enable the Group to diversify and enhance its asset portfolio, the Group completed the acquisition of a commercial property at a consideration of £250.1 million (equivalent to approximately HK$2,571.0 million) on 20 November 2020. The property is located in St. James's Square, London, one of the city's most prestigious addresses, providing approximately 103,655 sq. ft. of Grade A office accommodation. The acquisition was an outright asset purchase and the Group paid approximately £15 million of Stamp Duty Land Tax, which formed part of the acquisition cost to the Group.

Immediately following completion of the acquisition, the Group leased the property back to the seller for a term of 24 months from the date of completion at a principal rent of £11.21 million (equivalent to approximately HK$115.2 million) per annum (exclusive of VAT) payable quarterly in advance. The Group believes that the acquisition will provide long-term investment opportunity to the Group.

Save for the acquisition of the property abovementioned, the Group did not have any other material acquisitions or disposals during the year.

Review of Operations

The COVID-19 pandemic has taken a sharp economic toll on the Hong Kong retail market. In the face of a challenging operating environment, the Group remains committed to strengthening its business resilience and bolstering customer engagement.

SOGO CWB

Lingering pandemic alongside weakening labor market and prolonged recession in Hong Kong weighed heavily on the consumer sentiment. Protracted pandemic containment measures severely curtailed economic activities in and tourist arrival to the city. Sales at the flagship SOGO Causeway Bay ("SOGO CWB") as a result plunged 36.2% for the full year. The year-on-year sales decline narrowed to 17.5% in the second half of the year compared to a drop of 49.3% in the first half of 2020, due to a short-lived recovery in local consumption along with the abated local pandemic situation before the fourth wave of local COVID-19 infections emerged in the latter part of November as well as a relatively lower base of comparison in the same period last year when local social incidents caused disruptions to business operations.

During the year, the store's operations and operating hours were adjusted from time to time to prioritize the safety of staff, customers and business partners. Stricter containment measures implemented by the government amid resurgence in COVID-19 cases since late November badly dampened customer patronage and adversely impacted our business during the peak holiday shopping season in the fourth quarter. As a result, the overall traffic footfall for 2020 saw a decrease of 38.7%, but the stay-and-buy ratio on the contrary increased by 6.5 percentage points to 40.3%. Average ticket size (excluding transactions from the Freshmart supermarket) of the store managed to remain at around HK$1,490.

Faced with the formidable challenges brought by the pandemic, the Group continued to upgrade its omni-channel capabilities with accelerating enhancement of the mobile application of its SOGO Rewards program and enrichment of its SOGO eStore services during the year, in order to entice consumer spending and further fortify its customer base.

The store's SOGO 35th Anniversary Sale program delighted the shoppers and achieved satisfactory sales performance, thanks to shrewd marketing promotions and convenient shopping experiences.

As the demand for airtime softened amid the deteriorating retailing environment, advertising income during the year from CVISION, the Group's outdoor advertising screen at the building façade of SOGO CWB, also dropped by more than 50% as comparing to the previous year.

SOGO TST

With prime location and appealing merchandise assortment, SOGO Tsim Sha Tsui ("SOGO TST") had established itself as a well sought-after shopping destination especially for tourists. However, faced with a halt in tourist visits and local consumption deterred by the government-mandated social distancing measures in the wake of COVID-19, sales at SOGO TST tumbled 57.7% from a year earlier, with both traffic footfall and stay-and-buy ratio fell for the full year. Similar to the CWB store, benefitting from the temporary relaxation of COVID-19 containment measures and a lower comparison base, the store saw its sales decline narrowing from a drop of 71.1% in the first half of 2020 to 31.7% in the second half of the year.

Wa San Mai

Located at the same building as our SOGO CWB, business of our Wa San Mai restaurant was also affected by the COVID-19 during the year, with its sales saw a decline of 22.6% year on year to approximately HK$46.1 million.

London Property

For 2020, the gross rental income generated by the commercial property in London since its acquisition in late November amounted to £1.3 million, equivalents to approximately HK$13.4 million.

Kai Tak Project

With a site area of approximately 14,159 square metres, the Group's Kai Tak Land is being developed into two blocks of commercial buildings to provide space mainly for retailing use, with a total gross floor area of approximately 101,000 square metres. The commercial blocks will house a full-fledged SOGO department store and other facilities complementary to the operations of a department store as well as to use for the operation of a shopping mall and other entertaining and dining facilities. The Kai Tak retail complex is expected to be in business in 2023 and we believe that it will become a landmark in the new Kai Tak development and East Kowloon area, further broadening and solidifying the Group's presence in the Hong Kong retailing market.

Construction work of the Kai Tak Project has encountered certain delay during the year due to both the pandemic as well as suspension of work for carrying out the tunnel settlement investigation as requested by the MTR. Despite this, at the end of 2020, the foundation works was largely completed and the Group will continue to closely monitor and ensure that the works are sped up with an aim to meet our planned schedule and complete the project in 2023.

Outlook and Plan

Looking ahead, the Group continues to hold a pessimistic outlook for Hong Kong's retail market and the year 2021 is expected to remain challenging for Hong Kong's economy. With the fluctuating local pandemic situation and continued restrictions on cross-border travel, retail businesses will continue to face pressure. It is hoped that the subsequent roll-out of the vaccine will bring a measure of stability and a return to normality by the end of the year. Nevertheless, the unpredictability of the evolving pandemic will make it difficult for us to predict the timing and scale of the local retail market recovery in the intermediate term.

Whilst the continued strengthening of the mainland economy and strong mainland capital inflows into the city's stock market would render support to the Hong Kong economy, profound COVID-19 induced uncertainties over the pace of global economic recovery and mounting geopolitical tensions might stymie the rebound in global trade. The battered retail industry is likely to remain under pressure amidst sluggish business confidence and deteriorating employment market in the city.

Hong Kong's retail market is currently undergoing massive structural changes in terms of market demand, consumer behaviour and business models. In face of these changes, the Group will continue focusing upon strengthening its business structure while maintaining a flexible strategy in order to stay ahead and retain our competitive positioning within a rapidly evolving retail landscape. With our experienced management team, the Group will be well positioned to leverage upon market opportunities as soon as the pandemic subsides.

As a leading retail operator in Hong Kong, the Group will further bolster its long-term competitiveness for sustainable business growth with forward-thinking and agile strategies, while also striving to overcome difficult time together with our business partners and emerge stronger from turbulence with mutually beneficial collaborations.

The Group will continue to pursue lucrative long-term business opportunities and capitalize on new strategic investments that would generate sustainable returns for its shareholders.

EMPLOYEES

As at 31 December 2020, the Group employed a total of 675 employees in Hong Kong. Staff costs (excluding directors' emoluments) amounted to HK$212.1 million (2019: HK$220.7 million) for the year. The Group ensures that pay levels of its employees are competitive and in line with market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2020, the Company repurchased an aggregate principal amount of US$13,051,000 of 4.25% guaranteed bonds due 2022 in the principal amount of US$300,000,000 issued by the Group (bond code: 4571) ("2022 Guaranteed Bonds") for an aggregate consideration of approximately US$13,189,000 and the repurchased 2022 Guaranteed Bonds had been cancelled subsequently. As at 31 December 2020, the aggregate principal amount of the outstanding 2022 Guaranteed Bonds amounted to US$286,949,000, representing 95.6% of the initial principal amount of the 2022 Guaranteed Bonds.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2020.

CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2020.

FINAL DIVIDEND

The Board has not recommended the payment of a final dividend for the year ended 31 December 2020 (2019: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting to be held on Tuesday, 11 May 2021, the register of members of the Company will be closed from Thursday, 6 May 2021 to Tuesday, 11 May 2021, both days inclusive. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificate(s) must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 5 May 2021.

REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2020 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF MESSRS. PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group's auditors, Messrs. PricewaterhouseCoopers, to the amounts set out in the Group's drafted audited consolidated financial statements for the year. The work performed by Messrs. PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. PricewaterhouseCoopers on this preliminary announcement.

ACKNOWLEDGEMENT

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

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

Hong Kong, 2 March 2021

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