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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 2018

HIGHLIGHTS

| | Continuing operation | | | Continuing and discontinued operation | | |
|--|----------------------|--------------------|--------|---------------------------------------|--------------------|--------|
| | 2018 | 2017 (Restated) | Change | 2018 | 2017 (Restated) | Change |
| Turnover (HK\$ millions) | 4,358.0 | 3,755.1 | 16.1% | 4,358.0 | 3,755.1 | 16.1% |
| Profit attributable to owners of the Company (HK\$ millions) | 1,690.1 | 2,875.7 | -41.2% | 1,690.1 | 3,300.5 | -48.8% |
| Earnings per share (HK\$) | 1.08 | 1.79 | -39.7% | 1.08 | 2.06 | -47.6% |
| Final cash dividend (HK cents) | 37.0 | 34.3 | 7.9% | | | |
| Full year dividend (HK cents) | 66.5 | 63.2 | 5.2% | | | |

(1) The Group completed disposal of its entire equity interests in Lifestyle Properties Development Limited in April 2017 and the results attributable to the Lifestyle Properties Group for the year ended 2017 was presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income in the 2017 annual results.

(2) The definition for turnover has been changed effective 1 January 2018 following application of the HKFRS 15 and the acquisition of Global Top Limited has been accounted for using merger accounting, respective corresponding figures in 2017 have been restated.

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 2018, 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 2018**

| | <i>Notes</i> | 2018 HK\$'000 | 2017 HK\$'000 (Restated) |
|---|--------------|--------------------------------|--------------------------------|
| Continuing operation | | | |
| Turnover | 3 | 4,358,010 | 3,755,092 |
| Cost of sales | | <u>(1,142,748)</u> | <u>(924,502)</u> |
| Gross profit | | 3,215,262 | 2,830,590 |
| Other income, gains and losses | | 108,507 | 53,749 |
| Selling and distribution costs | | (721,950) | (669,671) |
| Administrative expenses | | (137,485) | (131,288) |
| Interest and investment (losses) gains | 5 | (270,971) | 735,063 |
| Fair value changes on investment properties | | 251,200 | 823,200 |
| Finance costs | 6 | <u>(282,187)</u> | <u>(228,954)</u> |
| Profit before taxation | | 2,162,376 | 3,412,689 |
| Taxation | 7 | <u>(472,306)</u> | <u>(537,015)</u> |
| Profit for the year from continuing operation | 8 | <u>1,690,070</u> | <u>2,875,674</u> |
| Discontinued operation | | | |
| Profit for the year from discontinued operation | | <u>-</u> | <u>426,710</u> |
| Profit for the year | | <u>1,690,070</u> | <u>3,302,384</u> |
| Other comprehensive income (expense) | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operation | | - | 16,177 |
| Release of exchange reserve upon disposal of foreign subsidiaries | | <u>-</u> | <u>(102,178)</u> |
| Other comprehensive expense for the year (net of tax) | | <u>-</u> | <u>(86,001)</u> |
| Total comprehensive income for the year | | <u>1,690,070</u> | <u>3,216,383</u> |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

| | <i>Note</i> | 2018 HK\$'000 | 2017 HK\$'000 (Restated) |
|--|-------------|--------------------------------|--------------------------------|
| Profit for the year attributable to owners of the Company: | | | |
| - from continuing operation | | 1,690,070 | 2,875,674 |
| - from discontinued operation | | - | 424,848 |
| | | <u>1,690,070</u> | <u>3,300,522</u> |
| Profit for the year attributable to non-controlling interests: | | | |
| - from continuing operation | | - | - |
| - from discontinued operation | | - | 1,862 |
| | | <u>-</u> | <u>1,862</u> |
| Profit for the year | | <u>1,690,070</u> | <u>3,302,384</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 1,690,070 | 3,207,979 |
| Non-controlling interests | | - | 8,404 |
| | | <u>1,690,070</u> | <u>3,216,383</u> |
| Earnings per share | <i>10</i> | | |
| From continuing and discontinued operation | | | |
| - Basic | | <u>HK\$1.08</u> | <u>HK\$2.06</u> |
| From continuing operation | | | |
| - Basic | | <u>HK\$1.08</u> | <u>HK\$1.79</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018**

| | | 31 December 2018 | 31 December 2017 | 1 January 2017 |
|--|--------------|-----------------------------|---------------------|-------------------|
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | (Restated) | (Restated) |
| Non-current assets | | | | |
| Investment properties | | 5,132,000 | 4,620,000 | 4,327,884 |
| Property, plant and equipment | | 5,876,308 | 5,708,076 | 5,668,295 |
| Prepaid lease payments | | - | - | 548,191 |
| Deposits paid for acquisition of property, plant and equipment | | 28,715 | 29,899 | 66,230 |
| Club debentures | | 19,137 | 19,137 | 19,137 |
| | | <u>11,056,160</u> | <u>10,377,112</u> | <u>10,629,737</u> |
| Current assets | | | | |
| Inventories | | 44,783 | 38,305 | 35,454 |
| Prepaid lease payments | | - | - | 16,123 |
| Trade and other receivables | <i>11</i> | 189,569 | 176,022 | 197,041 |
| Financial assets at fair value through profit or loss | <i>12</i> | 3,080,999 | 3,349,047 | 2,440,605 |
| Time deposits | | 4,782,877 | - | - |
| Bank balances and cash | | 1,413,115 | 7,423,068 | 7,536,764 |
| | | <u>9,511,343</u> | <u>10,986,442</u> | <u>10,225,987</u> |
| Current liabilities | | | | |
| Trade and other payables | <i>13</i> | 1,046,371 | 1,072,051 | 1,047,374 |
| Contract liabilities | <i>14</i> | 153,496 | 156,786 | 136,758 |
| Tax payable | | 290,459 | 211,886 | 320,218 |
| Bank borrowings – due within one year | | 3,099,958 | 2,601,552 | 3,427,208 |
| Bonds – due within one year | | - | - | 3,879,914 |
| Financial liabilities at fair value through profit or loss | <i>12</i> | 3,773 | - | - |
| | | <u>4,594,057</u> | <u>4,042,275</u> | <u>8,811,472</u> |
| Net current assets | | <u>4,917,286</u> | <u>6,944,167</u> | <u>1,414,515</u> |
| Total assets less current liabilities | | <u>15,973,446</u> | <u>17,321,279</u> | <u>12,044,252</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 31 DECEMBER 2018

| | 31 December 2018 | 31 December 2017 | 1 January 2017 |
|--|-----------------------------|---------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Restated) | (Restated) |
| Non-current liabilities | | | |
| Bank borrowings – due after one year | 8,114,291 | 8,582,586 | 4,949,040 |
| Bonds – due after one year | 4,656,499 | 4,637,641 | 4,601,335 |
| Deferred tax liabilities | 271,272 | 222,386 | 212,813 |
| | 13,042,062 | 13,442,613 | 9,763,188 |
| | 2,931,384 | 3,878,666 | 2,281,064 |
| Capital and reserves | | | |
| Share capital | 7,510 | 8,013 | 8,013 |
| Reserves | 2,923,874 | 3,870,653 | 1,675,509 |
| Equity attributable to owners of the Company | 2,931,384 | 3,878,666 | 1,683,522 |
| Non-controlling interests | - | - | 597,542 |
| | 2,931,384 | 3,878,666 | 2,281,064 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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.

On 31 July 2018, the Group entered into the sales and purchase agreement with Majestic Eagle Limited, an indirect wholly owned subsidiary of Lifestyle China Group Limited ("Lifestyle China"), to acquire the entire issued share capital of Global Top Limited ("Global Top") for a total consideration of HK\$52 million in cash. The principal activity of Global Top is the operation of Wa San Mai Japanese restaurant in Hong Kong. The acquisition was completed on the same date.

The Group and Global Top are both under the control of ultimate controlling party before and after the date of acquisition, and that control is not transitory, hence the acquisition has been accounted for as combination of entities under common control by applying the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. Accordingly, the consolidated statements of profit and loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the two years ended 31 December 2017 and 2018 include the results of operations, change in equity and cash flows of Global Top as if the current group structure upon the completion of the acquisition had been in existence throughout each of the two years ended 31 December 2017 and 2018. The consolidated statement of financial position of the Group as at 1 January 2017 and 31 December 2017 have been restated to include the assets and liabilities of Global Top as if the current group structure had been in existence as at the respective date.

1. BASIS OF PREPARATION - continued

The effect of restatements described above on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 by line items is as follows:

| | Year ended 31 December <u>2017</u> <i>HK\$'000</i> (Audited and originally stated) | Global <u>Top</u> <i>HK\$'000</i> | Adjustments/ <u>Eliminations</u> <i>HK\$'000</i> | Year ended 31 December <u>2017</u> <i>HK\$'000</i> (Restated) |
|--|---|---|--|---|
| Continuing operation | | | | |
| Turnover | 4,898,605 | 68,620 | (11,665) | 4,955,560 |
| Cost of sales | (2,112,296) | (19,710) | - | (2,132,006) |
| Other income, gains and losses | 54,456 | (707) | - | 53,749 |
| Selling and distribution costs | (648,542) | (32,408) | 11,279 | (669,671) |
| Administrative expenses | (131,058) | (230) | - | (131,288) |
| Fair value changes on investment properties | 844,200 | - | (21,000) | 823,200 |
| Taxation | (536,834) | (2,548) | 3,529 | (535,853) |

The effect of restatements on the consolidated statement of financial position as at 1 January 2017 is as follows:

| | 1 January <u>2017</u> <i>HK\$'000</i> (Audited and originally stated) | Global <u>Top</u> <i>HK\$'000</i> | Adjustments/ <u>Eliminations</u> <i>HK\$'000</i> | 1 January <u>2017</u> <i>HK\$'000</i> (Restated) |
|--------------------------------|---|---|--|---|
| Non-current assets | | | | |
| Investment properties | 4,628,884 | - | (301,000) | 4,327,884 |
| Property, plant and equipment | 5,649,186 | 2,006 | 17,103 | 5,668,295 |
| Current assets | | | | |
| Inventories | 34,533 | 921 | - | 35,454 |
| Trade and other receivables | 194,307 | 2,923 | (189) | 197,041 |
| Bank balances and cash | 7,520,140 | 16,624 | - | 7,536,764 |
| Current liabilities | | | | |
| Trade and other payables | 1,243,211 | 6,219 | (189) | 1,249,241 |
| Tax payable | 308,930 | 545 | - | 309,475 |
| Non-current liabilities | | | | |
| Deferred tax liabilities | 259,782 | (454) | (46,515) | 212,813 |
| Capital and reserves | | | | |
| Reserves | 1,842,361 | 16,164 | (237,382) | 1,621,143 |

1. BASIS OF PREPARATION - continued

The effect of restatements on the consolidated statement of financial position as at 31 December 2017 is as follows:

| | 31 December <u>2017</u> <i>HK\$'000</i> (Audited and originally stated) | Global <u>Top</u> <i>HK\$'000</i> | <u>Adjustments/ Eliminations</u> <i>HK\$'000</i> | 31 December <u>2017</u> <i>HK\$'000</i> (Restated) |
|--------------------------------|---|---|---|---|
| Non-current assets | | | | |
| Investment properties | 4,942,000 | - | (322,000) | 4,620,000 |
| Property, plant and equipment | 5,689,962 | 1,397 | 16,717 | 5,708,076 |
| Current assets | | | | |
| Inventories | 37,571 | 734 | - | 38,305 |
| Trade and other receivables | 174,887 | 1,291 | (156) | 176,022 |
| Bank balances and cash | 7,389,274 | 33,794 | - | 7,423,068 |
| Current liabilities | | | | |
| Trade and other payables | 1,293,288 | 7,848 | (156) | 1,300,980 |
| Tax payable | 199,343 | 640 | - | 199,983 |
| Non-current liabilities | | | | |
| Deferred tax liabilities | 272,883 | (453) | (50,044) | 222,386 |
| Capital and reserves | | | | |
| Reserves | <u>4,036,471</u> | <u>29,181</u> | <u>(255,239)</u> | <u>3,810,413</u> |

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

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

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

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

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

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

The Group has applied the full retrospective method of transition to HKFRS 15 and the comparative figures have been restated.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

Summary of effects arising from initial application of HKFRS 15

The effect of HKFRS 15 described above on the results for the current and preceding years by line items presented in the consolidated statements of profit or loss or other comprehensive income is as follows:

Impact on profit for the year

| | Notes | Year ended 31 December 2018 <i>HK\$'000</i> | Year ended 31 December 2017 <i>HK\$'000</i> |
|---|-------|--|--|
| Decrease in turnover | a,b | (1,382,077) | (1,200,468) |
| Decrease in cost of sales | a | 1,388,690 | 1,207,504 |
| Increase in taxation | b | <u>(1,091)</u> | <u>(1,162)</u> |
| Net increase in profit for the year and total comprehensive income for the year | | <u>5,522</u> | <u>5,874</u> |
| Increase in profit for the year attributable to owners of the Company: - from continuing operation | | <u>5,522</u> | <u>5,874</u> |
| Increase in total comprehensive income attributable to: Owners of the Company | | <u>5,522</u> | <u>5,874</u> |

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

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

Summary of effects arising from initial application of HKFRS 15 - continued

The effect of HKFRS 15 described above on the consolidated statement of financial position as at 1 January 2017 and 31 December 2017 by line item affected are as follows:

| | Notes | 1 January 2017 <i>HK\$'000</i> (per note 1 restated) | Reclassifications/ <u>Adjustments</u> <i>HK\$'000</i> | 1 January 2017 <i>HK\$'000</i> (Restated) |
|--------------------------|-------|--|---|--|
| Trade and other payables | c | 1,249,241 | (201,867) | 1,047,374 |
| Contract liabilities | c | - | 136,758 | 136,758 |
| Tax payable | b | 309,475 | 10,743 | 320,218 |
| Reserves | | <u>1,621,143</u> | <u>54,366</u> | <u>1,675,509</u> |
| | | 31 December 2017 <i>HK\$'000</i> (per note 1 restated) | Reclassifications/ <u>Adjustments</u> <i>HK\$'000</i> | 31 December 2017 <i>HK\$'000</i> (Restated) |
| Trade and other payables | c | 1,300,980 | (228,929) | 1,072,051 |
| Contract liabilities | c | - | 156,786 | 156,786 |
| Tax payable | b | 199,983 | 11,903 | 211,886 |
| Reserves | | <u>3,810,413</u> | <u>60,240</u> | <u>3,870,653</u> |

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

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

Summary of effects arising from initial application of HKFRS 15 - continued

Note:

- (a) Application of the HKFRS 15 has resulted in a change of the accounting treatment for those sales transactions under the After Purchase Order ("APO") arrangements. These transactions were previously accounted for as direct sales on a gross basis amounted to HK\$1,920,726,000 and HK\$1,681,352,000 for the year ended 31 December 2018 and 31 December 2017, respectively, whereas under the HKFRS 15, the Group is regarded as the agent rather than the principal and therefore only the commission income amounted to HK\$532,036,000 and HK\$473,848,000 for the year ended 31 December 2018 and 31 December 2017, respectively, on a net basis will be booked as the Group's turnover.
- (b) Revenue in respect of breakage is recognised in proportion to the amount of gift certificate and rewards points under customer loyalty program redeemed in the year. Breakage amounted to HK\$6,613,000 and HK\$7,036,000 for the year ended 31 December 2018 and 31 December 2017, respectively has been recognised as revenue under HKFRS 15, with adjustment made to account for the corresponding tax effect amounted to HK\$1,091,000 and HK\$1,162,000 for the year ended 31 December 2018 and 31 December 2017, respectively. In addition, as at 1 January 2017, the accumulated amount of breakage amounted to 65,109,000 was reclassified from deferred income and the corresponding accumulated tax effect amounted to HK\$10,743,000.
- (c) Deferred income of HK\$156,786,000 and HK\$136,758,000 as at 31 December 2017 and 1 January 2017, respectively, which were attributable to unredeemed gift certificate sold to customers, deferred advertising income and unredeemed reward points under customer loyalty program, was reclassified to contract liabilities upon application of HKFRS 15.

3. TURNOVER

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

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|----------------------------------|--------------------------------|--|
| Continuing operation | | |
| Sales of goods – direct sales | 1,562,484 | 1,273,779 |
| Income from concessionaire sales | 2,095,041 | 1,900,998 |
| Income from APO sales | 535,326 | 479,877 |
| Service income | 125,470 | 63,113 |
| Rental income | 39,689 | 37,325 |
| | <u>4,358,010</u> | <u>3,755,092</u> |

Disaggregation of revenue from goods and service

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|---------------------------------------|--------------------------------|--|
| Recognised at a point in time | | |
| Sales of goods – direct sales | 1,562,484 | 1,273,779 |
| Recognised over time | | |
| Income from concessionaire sales | 2,095,041 | 1,900,998 |
| Income from APO sales | 535,326 | 479,877 |
| Service income | 125,470 | 63,113 |
| Revenue from contracts with customers | 4,318,321 | 3,717,767 |
| Rental income | 39,689 | 37,325 |
| Total turnover | <u>4,358,010</u> | <u>3,755,092</u> |

All the above turnover is derived from Hong Kong.

4. SEGMENT INFORMATION

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

The Group's operations are located in Hong Kong. The Group's non-current assets are all based in Hong Kong. The Group has no customers that contributed over 10% of the total revenue of the Group for both years.

5. INTEREST AND INVESTMENT (LOSSES) GAINS

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Continuing operation | | |
| Interest income on bank deposits | 159,022 | 65,995 |
| Dividend income from financial assets at fair value through profit or loss ("FVTPL") | 74,934 | 48,728 |
| Interest income from financial assets at FVTPL | 11,052 | 1,012 |
| Change in fair value of financial instruments: | | |
| - financial assets at FVTPL other than derivative financial instruments | (492,497) | 593,097 |
| - derivative financial instruments | (23,482) | 26,231 |
| | (270,971) | 735,063 |

6. FINANCE COSTS

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Continuing operation | | |
| Interest on: | | |
| Bank borrowings | 281,896 | 159,677 |
| Bonds | <u>212,676</u> | <u>225,079</u> |
| | 494,572 | 384,756 |
| Less: Amounts capitalised in construction in progress and investment property under development | <u>(212,385)</u> | <u>(155,802)</u> |
| | <u>282,187</u> | <u>228,954</u> |

Borrowing costs capitalised are interest expenses incurred for financing the development of qualifying assets specifically.

7. TAXATION

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|------------------------------|-------------------------|---------------------------------------|
| Continuing operation | | |
| Hong Kong Profits Tax: | | |
| Current tax | 423,874 | 380,282 |
| Overprovision in prior years | <u>(454)</u> | <u>(301)</u> |
| | 423,420 | 379,981 |
| Deferred tax charge | <u>48,886</u> | <u>157,034</u> |
| | <u>472,306</u> | <u>537,015</u> |

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

8. PROFIT FOR THE YEAR FROM CONTINUING OPERATION

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|---|--------------------------------|---------------------------------------|
| Profit for the year from continuing operation has been arrived at after charging (crediting): | | |
| Directors' remuneration: | | |
| Fees | 2,600 | 1,717 |
| Salaries and allowances | 7,500 | 3,500 |
| Bonus | 15,000 | 15,000 |
| Retirement benefits scheme contributions | 36 | 29 |
| | 25,136 | 20,246 |
| Other staff costs, excluding retirement benefits scheme contributions | 229,036 | 233,186 |
| Retirement benefits scheme contributions, net of forfeited contributions for staff | 8,888 | 8,579 |
| Total staff costs | 263,060 | 262,011 |
| Auditor's remuneration | 2,364 | 2,338 |
| Depreciation of property, plant and equipment | 185,078 | 163,305 |
| Rental payment paid under operating lease in respect of leasehold land and buildings | 171,739 | 129,429 |
| Loss on disposal / written off of property, plant and equipment | 2,922 | 2,177 |
| Cost of inventories recognised as expense | 1,142,748 | 924,502 |
| Impairment of trade and other receivables, net of reversal | 18 | (17) |
| Reversal of write-down of obsolete inventories (included in cost of sales) | (26) | (1) |

9. DIVIDENDS

| | 2018 | 2017 |
|--|-------------------------|------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Dividend recognised as distributions during the year: | | |
| Final dividend in cash paid for the year ended | | |
| 31 December 2017 - HK cents 34.3 per share | | |
| (2017: HK cents 34.3 per share paid for the year ended | | |
| 31 December 2016) | 549,687 | 549,687 |
| Interim dividend in cash paid for the six months ended | | |
| 30 June 2018 - HK cents 29.5 per share | | |
| (2017: HK cents 28.9 per share paid for the six months ended | | |
| 30 June 2017) | 456,501 | 463,148 |
| | <u>1,006,188</u> | <u>1,012,835</u> |

Notes: Subsequent to the end of the reporting period, a final dividend of HK cents 37.0 (2017: HK cents 34.3) per share has been proposed by the directors of the Company which is subject to approval by the shareholders in the forthcoming general meeting.

10. EARNINGS PER SHARE

From continuing operation

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

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|--|--------------------------------|---------------------------------------|
| <u>Earnings figures are calculated as follows:</u> | | |
| Profit for the year attributable to owners of the Company | 1,690,070 | 3,300,522 |
| Less: Profit for the year from discontinued operation | <u>-</u> | <u>(424,848)</u> |
| Earnings for the purpose of basic earnings per share from continuing operation | <u>1,690,070</u> | <u>2,875,674</u> |

| | 2018 <i>'000</i> | 2017 <i>'000</i> |
|-------------------------|----------------------------|---------------------|
| <u>Number of shares</u> | | |

| | | |
|--|-------------------------|-------------------------|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u>1,567,701</u> | <u>1,602,587</u> |
|--|-------------------------|-------------------------|

No dilutive earnings per share are presented as there were no dilutive potential ordinary shares during both years.

From continuing and discontinued operation

Calculation of the basic earnings per share from continuing and discontinued operation attributable to the owners of the Company is based on the following data:

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|--|--------------------------------|---------------------------------------|
| <u>Earnings</u> | | |
| Profit for the year attributable to owners of the Company for the purposes of basic earnings per share | <u>1,690,070</u> | <u>3,300,522</u> |

From discontinued operation

Calculation of the basic earnings per share from discontinued operation of HK\$0.27 per share for the year ended 31 December 2017 is based on the profit for the year from the discontinued operation attributable to owners of the Company of HK\$424,848,000 for the year ended 31 December 2017.

The denominators used for the calculation of basic earnings per share for both continuing and discontinued operation are the same.

11. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date:

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|--------------|--------------------------------|---------------------------------------|
| 0 – 30 days | 86,079 | 100,208 |
| 31 – 60 days | 3,276 | 3,581 |
| 61 – 90 days | 59 | 29 |
| Over 90 days | 7 | 37 |
| | 89,421 | 103,855 |

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

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

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Financial assets at FVTPL: | | |
| - Equity securities listed in Hong Kong | 814,245 | 1,261,871 |
| - Equity securities listed overseas | 922,514 | 1,180,327 |
| - Listed debt securities | 434,833 | 8,743 |
| - Listed investment funds | 455,275 | 506,250 |
| - Unlisted securities | 441,099 | 311,778 |
| - Written put options | 12,880 | 34,057 |
| - Unlisted equity-linked notes | - | 46,021 |
| - Interest rate swap | 153 | - |
| | 3,080,999 | 3,349,047 |
| Financial liabilities at FVTPL: | | |
| - Interest rate swap | 265 | - |
| - Currency swap | 3,508 | - |
| | 3,773 | - |

13. TRADE AND OTHER PAYABLES

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

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|--------------|--------------------------------|---------------------------------------|
| 0 – 30 days | 46,376 | 62,465 |
| 31 – 60 days | 23,114 | 26,778 |
| 61 – 90 days | 777 | 490 |
| Over 90 days | 1,815 | 1,361 |
| | <u>72,082</u> | <u>91,094</u> |

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

14. CONTRACT LIABILITIES

| | 2018 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> (Restated) |
|--|--------------------------------|---------------------------------------|
| Gift certificates | 137,071 | 145,175 |
| Deferred advertising income | 13,123 | 3,480 |
| Reward points under customer loyalty program | 3,302 | 8,131 |
| | <u>153,496</u> | <u>156,786</u> |

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of a final cash dividend for the year ended 31 December 2018 of HK\$0.370 per share (2017: HK\$0.343 per share). The proposed final dividend, together with the interim dividend of HK\$0.295 per share paid on 21 September 2018, will give rise to an aggregate cash dividend of HK\$0.665 per share for the year ended 31 December 2018 (2017: HK\$0.632 per share).

Subject to approval of the shareholders of the Company at the annual general meeting to be held on Tuesday, 30 April 2019, the proposed final dividend will be paid on or about Friday, 17 May 2019. The register of members of the Company will be closed as follows:

- (a) For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from Thursday, 25 April 2019 to Tuesday, 30 April 2019, 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, 24 April 2019.
- (b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed on Tuesday, 7 May 2019. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificate(s) must be lodged with 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 Monday, 6 May 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The global economy started 2018 on an upbeat note. Yet, the global economic expansion lost momentum towards the end of the year amidst rising protectionism and tightening monetary policy.

China, the world's second largest economy, grew at its slowest pace in 28 years in 2018, with gross domestic product expanding 6.6%, down from 6.8% in 2017 as the China-US trade dispute took a heavy toll on sentiment, leading to slowdown in consumer spending and capital expenditure. Total retail sales of consumer goods in China rose 9% in 2018, shrinking from a 10.2% increase in 2017.

Hong Kong, the Group's home market, saw its economic growth slow in the second half of 2018 under the shadow of China-US trade dispute and stock market corrections. The city's GDP in the last quarter slowed to 1.3% and for 2018 as a whole, it slowed to 3% from 3.8% in 2017. Growth in the retail market also softened in the second half of the year as consumer sentiment turned cautious amid rising external uncertainties and volatilities in the global financial markets. Visitor arrivals to Hong Kong rose 11.4% to over 65 million visitors in aggregate for 2018 with visitations from mainland China reporting a 14.8% increase, partly fueled by the recently opened high speed rail and Hong Kong-Zhuhai Macau Bridge. However, weaker Chinese yuan weighed on the spending by mainland tourists. For the whole year, retail sales in Hong Kong rose 8.8% year-on-year, compared with only 2.2% growth in 2017 but the full-year growth sharply shrunk from a 13.4% increase recorded in the first half of 2018. Sales of luxury goods categories, including jewelry and watches, rose 13.7% whereas department store sales increased 9.6% year-on-year.

During the year, the Group constantly optimized its operations and enhanced customer experiences to navigate the fast-changing market landscape. The Group's two distinctive Japanese-style department stores in Hong Kong operated under the "SOGO" brand have established themselves as a lovable brand among the customers. The Company is pleased to announce that on 4 December 2018, the Group entered into a new trademark licence agreement with Sogo & Seibu to grant the Group the sole and exclusive licence to use the "SOGO" trademark in Hong Kong for conducting its operation of department stores for a further term of 20 years from May 2019. With the renewal of the SOGO trademark, the Group is ready to take its business to the next level in the coming decades.

Financial Review 2018

Leveraging on its unrivalled brand equity and pleasurable customer experience, the Group managed to capture the strong retail momentum in the first half of the year while maintaining solid performance when the consumer sentiment turned sour and retail market slowed down in the second half of the year, amid rising trade tensions and weaker asset markets. During the year, the Group continued to implementing effective measures to reinforce customer loyalty and create the ultimate shopping experience. In 2018, the Group's operations once again outperformed the broader market, with aggregate gross sales proceeds growing 13.5% to approximately HK\$11.71 billion. The Group's outperformance was backed by sound business strategy and strong management team.

Turnover and Sales Proceeds

For the year ended 31 December 2018, the Group's department store operations saw its turnover increased by 16.1 % over the previous year, while total gross sales proceeds, derived from both direct and concessionaire sales transactions, was up by 13.5%, outperformed the broader market. The strong growth in turnover was mainly due to growth in direct sales of approximately 22.7% and approximately 10.2% increase in commission income derived from concessionaire sales.

Gross Profit and Concessionaire Rates

The Group's gross profit margin as a percentage of turnover decreased to 73.8% from 75.4% in 2017, mainly caused by a higher growth in direct sales relative to concessionaire sales. Gross profit amounted to HK\$3,215.3 million, up 13.6% from HK\$2,830.6 million in 2017. The blended average concessionaire rate for the Group remained relatively stable at approximately 24.8%, compared with approximately 24.7% recorded in the previous year.

Net Profit Attributable to Shareholders

Net profit attributable to owners of the Group for the year amounted to HK\$1,690.1 million, down 48.8% from HK\$3,300.5 million recorded in 2017. The decline was primarily attributable to (i) a negative investment income of HK\$271.0 million resulting from the fair value loss on the Group's financial investments amid the volatile financial market whereas it was a positive income of HK\$735.1 million last year, (ii) the profit last year was boosted by an one-off gain of HK\$420.8 million from disposal of the Group's 59.56% interest in a subsidiary; and (iii) a lower revaluation gain of HK\$251.2 million was recorded as comparing to an approximately HK\$823.2 million gain recorded last year in respect of the Group's investment properties, namely the Kai Tak Land. Net profit attributable to the Group's core operations (before the one-off gain, investment and revaluation gains/losses) was HK\$1,709.8 million, up 29.8% from HK\$1,317.4 million in 2017, thanks to the growth in sales which clearly provided operating leverage.

Selling and Distribution Costs

The aggregate selling and distribution costs of the Group increased 7.8% over the previous year and represented 6.2% (2017: 6.5%) of the Group's gross sales proceeds. The increase in absolute amount was mainly a result of additional rental expenses incurred for the TST store as its sales surged. The increase was also a result of higher depreciation charge in respect of leasehold improvements and other fixed assets, including full year effect of the LED advertising screen which was only put into operation in late 2017.

Administrative Expenses

The Group's general administrative expenses increased 4.7% to approximately HK\$137.5 million when compared to 2017. The expense level was considered reasonable and in line with the Group's operations.

Staff Costs

Staff costs (excluding those of the directors) of the Group decreased 1.6% to approximately HK\$237.9 million during the year under review. While the annual general increment of salaries and wages for the Group's employees was largely in line with the market trend and general inflation, remuneration adjustments and bonuses are based on performance of individual staff and financial performance of the Group. The total number of full-time staff of the Group decreased to 685 at the end of 2018 from 694 at the end of 2017.

Other Income, Gains and Losses

These comprise mainly management fee, credit card charges and other miscellaneous incomes received from the counters and tenants, other sundry incomes and exchange gain or loss. Increase in other income, gains and losses of the Group this year was mainly attributable to a much lower exchange loss to the tune of HK\$10.1 million recorded during the year, comparing to HK\$45.0 million in 2017, on the Group's USD denominated bonds payable.

Interest and Investment (Loss) Income

The Group's interest and investment income turned during the year to a loss of HK\$271.0 million from a gain of HK\$735.1 million for the year 2017. While the amount of interest income from the Group's bank deposits saw an increase of 141.0% to HK\$159.0 million amid rising deposit rates, the net investment loss comprised mainly fair value loss on the Group's financial assets to the tune of, HK\$516.0 million whereas it was a fair value gain of HK\$619.3 million in 2017. The overall negative return on the Group's cash and financial investment portfolio was due to the poor and volatile equity market conditions during most parts of the year. The market value of the Group's financial investment portfolio amounted to approximately HK\$3,077.2 million as at 31 December 2018.

Finance Costs

The Group's total finance cost consisted mainly of finance charges and interest expenses on bank loans and bonds payable. The aggregate amount of finance costs and interest incurred, before capitalization, was approximately HK\$494.6 million (2017: HK\$384.8 million) for the full year. The increase was mainly due to higher interest expenses incurred in respect of the Group's Hong Kong dollar bank loans which interest calculation is linked to the HIBOR, which continued to stay at relatively higher level throughout the year as compared to 2017. Finance costs charged to the profit and loss account during the year amounted to HK\$282.2 million (2017: HK\$229.0 million) after some HK\$212.4 million (2017: HK\$155.8 million) of the borrowing costs relating to the Kai Tak Land has been capitalized.

Liquidity and Financial Resources

The Group's EBITDA (excluding investment losses/income, fair value changes on investment properties, and non-recurring items) for the year increased 17.9% to HK\$2,649.4 million (2017: HK\$2,246.7 million). As at the end of 2018, before counting the financial investment portfolio which was worth approximately HK\$3,077.2 million (2017: HK\$3,349.0 million), the net debt of the Group increased from approximately HK\$8,398.7 million in 2017 to HK\$9,674.8million.

The Group's cash at banks and time deposits amounted to approximately HK\$6,196.0 million (2017: HK\$7,423.1 million) as at the end of 2018. Of the cash kept at banks in Hong Kong, approximately 99.3% was denominated in US dollar ("US\$") and Hong Kong dollar ("HK\$") and approximately 0.7% was in Renminbi ("RMB") and other foreign currencies. The substantial decrease in cash at bank and time deposits was mainly due to the cash being used for the Company's share repurchase during the year.

The Group's outstanding bank loans at the end of 2018 amounted to approximately HK\$11,214.2 million (2017: HK\$11,184.1 million) and bonds payable amounted to approximately HK\$4,656.5 million (2017: HK\$4,637.6 million). The bank loans comprised HK\$5,000 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\$5,000 million term loan is repayable semi-annually over the loan life, with the first repayment starting from January 2019. The bank loans consisted of also a term loan of HK\$3,691 million drawn under the HK\$9,000 million project loan facility for financing payment of part of the land premium of the Kai Tak Land. This HK\$9,000 million project loan facility bear interest calculated with reference to HIBOR and does not require repayment until the end of the 5-year term in the year 2022. The remaining bank loans represented short-term US\$ loans totaling US\$77.1 million (equivalent to HK\$603.6 million) drawn under a US\$255 million facility, which is secured against certain of the Group's financial investments, with interest calculated with reference to LIBOR.

As at the year end, the Group had aggregate unutilized banking facilities in the amount equivalent to approximately HK\$7,702.0 million (2017: HK\$8,099.0 million).

The bonds payable of HK\$4,656.5 million at the year-end (US\$600 million at maturity) comprised a US\$300 million 10-year (bearing interest at 4.25% and maturing in October 2022) and a US\$300 million 10-year (bearing interest at 4.5% and maturing in June 2025) unsecured guaranteed bonds.

As at 31 December 2018, the Group's net debt to equity ratio (defined as total borrowings less cash and bank balances divided by equity attributable to the owners of the Company) was 330.0% (2017: 216.5%). The increase in both the amount of net debt and net debt to equity ratio was mainly due to the fact that approximately HK\$1,543 million of cash was used for the repurchase of the Company's shares during the year. 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 US\$ and, to a small extent, other foreign currencies. The Group currently does not require a sophisticated and comprehensive foreign currency hedging policy as the Hong Kong dollar, in which most of the Group’s transactions are denominated, is pegged to the USD in which certain of the Group’s borrowings are denominated. Accordingly, the Group’s exposure to foreign currency fluctuation to certain extent is somewhat limited.

Pledge of Assets

As at 31 December 2018, certain of the Group’s leasehold land and buildings in Hong Kong with carrying values aggregating approximately HK\$1,217.4 million (2017: HK\$1,262.8 million), together with shares of certain subsidiaries of the Group, were pledged to secure the HK\$8,000 million (2017: HK\$8,000 million) loan facility granted to the Group, of which HK\$7,000 million (2017: HK\$7,000 million) was utilized.

In addition, the entire Kai Tak Project, comprising the land under development and investment property under development, with an aggregate carrying value of HK\$9,185.7 million (2017: HK\$8,416.2 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\$3,691.0 million was utilized as at the year end. Moreover, certain of the Group’s financial assets at fair value through profit or loss with carrying value amounting to approximately HK\$1,256.7 million (2017: HK\$1,427.4 million) were pledged to secure loan facilities in the amount of approximately US\$255 million (2017: US\$255 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2018.

Material Acquisitions and Disposals

As part of its continuous efforts to enrich customer experience at its store, at a cash consideration of HK\$52 million, the Group acquired from a connected party the Wa San Mai Japanese restaurant, which is operated in the same building where the Group’s flagship department store in Causeway Bay is operated. Complementing the coffee shops and food counters within the store, Wa San Mai provides a convenient alternative for customers of the store with full Japanese lunch and dinner menu. The business of Wa San Mai is stable and profitable and has generated approximately HK\$6 million of cash flow to the Group during the year.

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

Review of Operations

The Group repeatedly outperformed the broader retail sector in Hong Kong during the past year, thanks to the Group's seasoned management team and sound business strategies.

SOGO CWB

Despite the nascent recovery in Hong Kong's retail sector seen in the first half of 2018 was dented by escalating US-China trade tensions and stock market tumult in the second half of the year, SOGO Causeway Bay ("SOGO CWB") recorded a 10.5% increase in sales revenue for the year. The flagship store's strong sales growth recorded in the first half of 2018 was partly offset by the relatively flattish sales growth recorded in the second half of the year when global political and economic uncertainties undermined consumer sentiment.

With a 10.5% growth in sales revenue, SOGO CWB contributed 83% to the Group's gross sales proceeds in 2018. Average ticket size of the store saw an increase of 5.6% to HK\$912 while the stay-and-buy ratio remained steady, thanks to an enhanced shopping experience provided by the store rejuvenation program.

During the year, the SOGO Rewards program continued to gain traction, with the number of members exceeding 570,000 by the end of 2018. The program has helped keep customers engaged and reinforced the Group's brand equity. Sales revenue from members of the SOGO Rewards program accounted for around 52% of the total sales revenue of the store, up from 46% in 2017. The Group will continue to optimize the loyalty program to increase sales productivity of the store.

The Group continued to enhance its digital promotion and customer services to offer greater convenience to shoppers, especially at the store's iconic biannual Thankful Week anniversary events. The popular events held in May and November drew overwhelming responses from shoppers and sustained strong sales momentum. In aggregate, sales from the two events accounted for approximately 27% of the store's gross sales proceeds of the year.

In addition, CVISION, the outdoor full-HD LED advertising screen at the building façade of SOGO CWB that the Group launched in late 2017, has proven to be an effective advertising platform and has further reinforced our flagship store's position as a prominent retail landmark in Hong Kong.

SOGO TST

Catering to shoppers across multiple ages and customer needs with an eclectic range of well-selected products and brands, sales revenue growth of our SOGO Tsim Sha Tsui (“SOGO TST”) once again outperformed the broader market and widened its lead over the Hong Kong retail industry. SOGO TST continued its robust growth momentum throughout the year, with a 30.3% increase in sales revenue recorded for the full year.

Cosmetics and skin care products, grew 39.8% over 2017, remained the main growth driver for the SOGO TST store during the year. SOGO TST saw growth of its average ticket size, traffic footfall and stay-and-buy ratio during the year. The May and November Thankful Week events at SOGO TST were well received and achieved record-breaking sales revenue.

Wa Sai Mai

Wa San Mai restaurant contributed aggregate sales revenue of approximately HK\$71.4 million in 2018, up 4.1% from 2017.

Kai Tak Project

To capture the rising purchasing power and untapped customer base in the East Kowloon area, which will be bolstered by a government supported redevelopment plan as well as increasing accessibility brought about by the upcoming Kai Tak Station of the new Shatin-Central Link, the Group through government tender on 23 November 2016 acquired a plot of land in Kai Tak — East Kowloon, at a price of HK\$7,388 million.

The government’s Kai Tak redevelopment project is a huge and highly complex project spanning a total planning area of over 320 hectares, encompassing the former airport site together with the adjoining hinterland districts of Kowloon City, Wong Tai Sin and Kwun Tong. Under the current redevelopment plan, the Hong Kong government has proposed to provide a quality living environment for over 100,000 residents, developing a mix of community, housing, business, tourism and infrastructural amenities in the area.

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

The Kai Tak Project commenced ground breaking works in December 2017, marking the start of construction for the two commercial blocks. The construction has been progressing satisfactorily and the Group aims to complete the foundation construction work in early 2020.

Renewal of Trademark Licence

The Group currently operates its department stores in Hong Kong under the “SOGO” brand name and trademarks pursuant to an existing trademark licence granted by Sogo & Seibu for a period of 18 years from 9 May 2001 to 8 May 2019. On 4 December 2018, the Group entered into a new trademark licence agreement with Sogo & Seibu, pursuant to which Sogo & Seibu agreed to grant the Group the sole and exclusive licence to use the “SOGO” trademarks in Hong Kong for conducting its business activities of operation of department stores for a further term of 20 years commencing from 9 May 2019.

Outlook and Plan

Looking ahead, the Group takes a cautious view for 2019, as lingering Sino-US trade tensions and a weaker Chinese yuan could hit consumer spending. The easing growth momentum seen in emerging economies coupled with the looming Brexit risks would also undermine consumer confidence around the globe.

Hong Kong’s economy is set for muted growth on the back of slowing economic growth in China and moderating global trade. While resilient local job market and continued expansion in inbound tourism will lend some support to the retail sector, consumer sentiment could be dampened by a decline in wage growth and waning wealth effects stemming from weakness in asset prices.

As a leading retail operator in Hong Kong with a loyal clientele and strong brand equity, the Group will continue to integrate its physical and digital assets to curate a more engaging and seamless shopping experience to discerning shoppers. The Group, with a view to creating personalized customer experience and addressing customer pain points, will enhance its service and product portfolios as well as in-store interaction, thereby driving store traffic and sales.

As always, the Group remains on the lookout for strategic investment and lucrative business opportunities that enable us to generate higher returns for shareholders and achieve profitable growth in the long term.

EMPLOYEES

As at 31 December 2018, the Group employed a total of 685 employees in Hong Kong. Staff costs (excluding directors’ emoluments), amounted to HK\$237.9 million (2017: HK\$241.8 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 2018, the Company repurchased a total of 100,670,500 shares of the Company on the Stock Exchange for enhancing the net asset value and earnings per share of the Company. All the repurchased shares were subsequently cancelled. Details of the repurchases of shares are as follows:

| Month | Number of shares repurchased | Price paid per share | | Aggregate consideration (excluding expenses) (HK\$'000) |
|----------------|------------------------------|----------------------|---------------|---|
| | | Highest (HK\$) | Lowest (HK\$) | |
| June 2018 | 11,420,500 | 16.70 | 15.60 | 185,534 |
| July 2018 | 11,710,500 | 17.06 | 15.84 | 194,000 |
| August 2018 | 25,151,000 | 15.80 | 14.44 | 379,022 |
| September 2018 | 32,112,500 | 15.70 | 14.70 | 488,298 |
| October 2018 | 20,276,000 | 15.50 | 13.28 | 291,949 |
| | <u>100,670,500</u> | | | <u>1,538,803</u> |

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 2018.

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 2018.

REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2018 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this 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, 4 March 2019

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.