



LEVEL 7 ASSESSMENT SPECIFICATION

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UWTSD MBA (Nov 2019 intakes)

BMMB7008 Finance for Business Managers

Assignment Title:

Lifestyle International Holdings Limited - Business review and new project

Investment appraisals

“I, Lam Wai Yeung, certify this work is the result of my own investigations, except where otherwise stated. All references have been duly cited”

Signed: *Marco Lam*

Date: 17 August 2020

Lifestyle International Holdings Limited -
Business review and new project Investment appraisals
By Lam Wai Yeung (1913636)

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BMMB7008 Finance for Business Managers

17 August 2020

Executive summary

Lifestyle International Holdings Limited is a Hong Kong department store with premier service. Founded in 1985, their target audience is middle to upper-income class. It has two major business unit in Hong Kong, one of them is in Causeway bay East Point Centre with over 454,132 ft² of a department store(Lifestyle International Holdings Limited, 2004a) , and the other one is located Tsim Sha Tsui.

To compare the business performance, two other competitor data of 2017-2019 are used in this report. Among those competitor, target company showing that they have more health business in financial point of view. The corporate governance of Lifestyle International Holdings Limited can fit the guideline yet suggestions had been made for the management consideration.

There are a new project in East Kowloon that assume Lifestyle International Holdings Limited will invest in near future. By using different methods and tools, the new project are recommended to process by using cash and time deposits to cover the initial cost.

New project required more attention by internal audit team and board of directories in order to avoid major risk. Different recommendations and suggested timeline had been included in the report for company further action.

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1. Introduction

Being one of the market leaders in the department store industry, the brand “Sogo” is originally created in Japan. Lifestyle International Holdings Limited (“Lifestyle”) buy the usage of the brand name in Hong Kong in 2001. The use of the brand name “Sogo” had recently extended for another 20 years in 2019, which means that they can use this famous brand name for another two decades till 2039 since 2001 (Lifestyle International Holdings Limited, 2019a).

Lifestyle international holdings limited was listed in Hong Kong Stock Exchange mainboard since 15 April 2004 with 8.3 HKD listing price (Lifestyle International Holdings Limited, 2004b). Lifestyle first listing through issuing 180,000,000 new shares, 83.3% of them is placing. 16.7% or 30,000,000 shares are public offers(Lifestyle International Holdings Limited, 2004b). The new investment, around 1 billion HKD will be reinvested in developing china marketing, including building a Joint Venture in Shanghai (Lifestyle International Holdings Limited, 2004c).

15 years since its first IPO, the company develop goal had changed. The development in China area is a great success, separately listed as Lifestyle China with stock code HK.2136 (Lifestyle china group limited, 2016). Their other development in the property had also spin-off in 2013 and listed with stock code HK.2183 by new name Sansheng holding Group Limited (Lifestyle Properties Development Limited, 2013).

At the end of 2019, Lifestyle International Holdings Limited stock price is 8.94 HKD, total company value is over 23 billion HKD(Lifestyle International Holdings Limited,

2020a). Since there are lots of spin-off action in the last 6-7 years, their historical market value can't be directly compared to the existing value.

1.1.Operating business overview

Lifestyle’s business model is mainly focused on the local department store, their department store in Tsim Sha Tsui and Causeway bay are self-own property which allows them to easily managed and avoid the risk of the rental increase. 82.6% of the business is coming from Causeway Bay and the other 17.4% are coming from Tsim Sha Tsui Store (Lifestyle International Holdings Limited, 2020b). Other than that, they had a restaurant in the same building with Sogo Causeway Bay providing high-end Japanese food and cuisine.

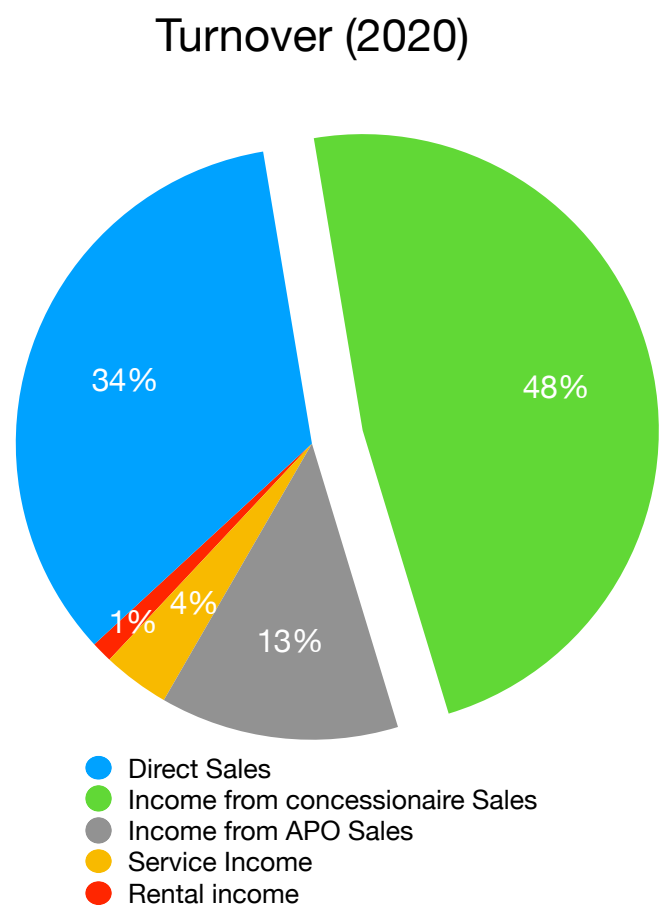


FIGURE 1.1 : TURNOVER OF LIFESTYLE INTERNATIONAL HOLDINGS LIMITED 2020

Source: Lifestyle International Holdings Limited (2020b)

In their sales shown in figure 1.1, there are around 50% of their income coming from concessionaire sales. They had a high rate of stay and spend ratio which is over 33.8% and the average spend of each ticket is HKD 1,489(excluding spending from the Freshmart (Lifestyle International Holdings Limited, 2020b).

With the social movement in 2019, the overall business is facing a huge challenge, they force to close up Causeway bay department store for around 60 business days which lead to a 19.3% sales drop in 2019. In the second half of the year 2019, the number of tourists in Hong Kong had a negative growth of 14.2%, that affect the sales on luxury goods such as jewellery and watches and the sales of department store decreased 13% (Lifestyle International Holdings Limited, 2020c).

Forecasting future 3 years, lifestyle will launch a new flagship department store in Kai Tak (Lifestyle International Holdings Limited, 2020c), aiming to maintain their market share and create significant growth in east Kowloon new lifestyle area.

1.2.Current market

2020 is a challenging year for retails industry worldwide, the global COVID-19 pandemic leads to a different kind of economic issue. The world-wide economy expected to scale down, the number of traveller and business trip will also reduce (Lee, 2020). Lifestyle's department store located in core traveller spot, the reduce of traveller will affect their visitor number and may lead to a decrease in sales.

The trade and informational conflict between US and China is now the hot topic and that might affect the economic scale and growth rate of China. Being a part of China, Hong Kong GDP growth and overall business environment are heavily related to China (Wong, 2020). The drop in GDP will affect the average spending on each ticket.

In Hong Kong Prevention and Control of Disease Regulation limit the size of the gathering, limited the service hour of the restaurant and work from the home policy will lower office worker and lead to the decreases of the customer visit.

Local unemployment rate reaches 6.2%, (Information Services Department, HKSAR, 2020) record high since SARS, together with the number of visitors is 14,606, 99.7% of decrease compared with last year same period(Hong Kong Tourism Board, 2020). We can foresee a huge drop in sales and profit in the year 2020 and coming 1-2 years. To better be prepared, Lifestyle had not to issue deviant the first time since the IPO.

1.3.Company Structure

According to the annual report of Lifestyle (Lifestyle International Holdings Limited, 2020d), the major shareholder of the company is Mr Lau Lueng Hung, Thomas. He holds 75.97% of the share of the company made him reach the percentage share limit of a listed company. They have 716 employees with 3 major departments according to IPO information, store management, sales-related and finance and accounting department (Lifestyle International Holdings Limited, 2004d).

1.4. Research and comparison company information

This study put three local department store in comparison, including Sincere (.HK.44) and Wing On (HK.289), both these company publicly list company with some self-own department store. Wing on had 4 stores in Hong Kong and Sincere had 5 stores in Hong Kong. Their business area and business model are very similar, we will use these three stores to do the comparative analysis.

TABLE 1.1 THREE MARKET COMPETITOR BACKGROUND INFORMATION

Company Name	Lifestyle	Sincere	Wing On
(Stock Number)	1212	244	289
Business Nature	Department Store, Shopping Mall and Supermarket		
Market Area	Hong Kong		
Market Value (HKD)	13,427,129,000	367,909,360	6,436,342,000
P.E.	7.1	N/A	11.54
Number of Stores	2	5	4

Source : Lifestyle International Holdings Limited (2020a) ; The Sincere Company, Limited (2020a) ; Wing on company international limited (2020a)

In table 1.1, we can see take the number of stores was not related to the market value of the company. In 2020, the age of online shopping, Wing On department store still not yet have an online store (Lifestyle International Holdings Limited, 2020e; The Sincere Company, Limited, 2020b; Wing on company international limited, 2020b)

2. Lifestyle financial analysis

In this section, we will go through the financial report of three companies to help us better understand the advantage and disadvantage of the company from a financial point of view. We will use a different tool such as Z score, repayment and realised capacity

2.1. Z-score analysis

In this section, we will look into three competitors annual report and highlight important data to analysis. We will be using z-score as our tool to evaluate the possibility of bankruptcy.

TABLE 2.1 BASIC FINANCIAL DATA OF COMPANIES

Company Name	Liftstyle('000 HKD)			Sincere('000 HKD)	Wing On('000 HKD)
Year	2017	2018	2019	2019/20	2019/20
Net Current Asset	6,856,596	4,917,286	6,466,150	-111,951	3,482,878
Total Assets	21,631,777	20,567,503	24,501,539	625,915	21,019,218
Retained earnings	4,036,471	2,923,874	3,833,794	-327,363	507,104
EBIT	3,640,428	2,444,563	2,531,414	-130,031	966,715
Total Liabilities	17,587,293	17,636,119	20,660,235	450,734	1,438,277
Sales	4,898,605	4,358,010	3,542,032	263,312	1,371,494
Number of Stock ('000)	1,602,587	1,602,587	1,501,916	1,313,963	292,561
Stock value (HKD)	10.38	11.86	8.94	0.28	22

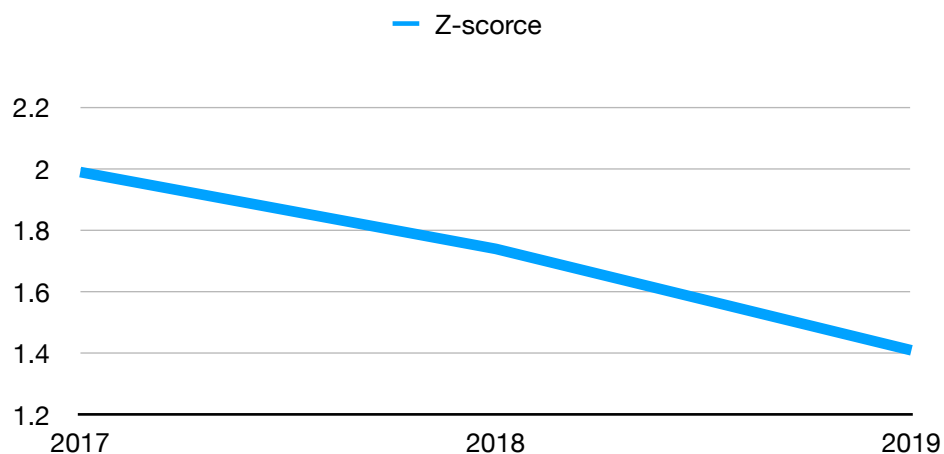
Source : Lifestyle International Holdings Limited, (2018a); Lifestyle International Holdings Limited, (2019b); Lifestyle International Holdings Limited, (2020a); The Sincere Company, Limited, (2020a) ; Wing on company international limited, (2020a)

TABLE 2.2 Z-SCORE TABLE OF COMPANIES

Company Name	Liftstyle			Sincere	Wing On
Year	2017	2018	2019	2019	2019
A	0.3170	0.2391	0.2639	-0.1790	0.166
B	0.1866	0.1422	0.1565	-0.5230	0.024
C	0.1683	0.1189	0.1033	-0.2080	0.046
D	0.9458	1.0777	0.6499	0.8160	4.475
E	0.2265	0.2119	0.1446	0.4210	0.065
Z*	1.99	1.74	1.41	(0.72)	3.130

Source : Construct by the write

In table 2.1, we can see the retained earning of Sincere is a negative value, that means the company had retained loss or accumulated deficit. The total asset of Lifestyle had a 25% growth in 2019 and its growth together with retained earnings (Lifestyle International Holdings Limited, 2020a).

**FIGURE 2.2 Z-SCORE TABLE OF LIFESTYLE 2017-2019**

Source : Lifestyle International Holdings Limited, (2018a); Lifestyle International Holdings Limited, (2019b); Lifestyle International Holdings Limited, (2020a)

For the Z-score, as shown in table 2.2, Sincere had a negative value, which located in bankruptcy range. For Lifestyle, comparing 2017-2019, the Z-scorch

is a decreasing trend, from 1.99 to 1.41 as shown in table figure 2.2. We can see the trend means the company financial health is getting worse and falling to the danger zone. Wing On's Z-score is 3.13 in 2019, which is in a healthy range.

2.2. Liabilities

TABLE 2.3 RATIO RELATED TO LIABILITIES OF COMPANIES

Company Name	Lifestyle			Sincere	Wing On
Year	2017	2018	2019	3-year average	
Fixed Asset to Long Term Liability Ratio	0.61	0.69	0.59	0.52	18.299
Current Liability to Net Asset Ratio	0.60	0.93	0.87	2.53	0.029
Current Liabilities to Stock Ratio	108.97	103	145	4.11	5.385

Source : Construct by the writer (Appendix i)

As shown as 2.3, we can see that the current liabilities to stock ratio is pretty high for Lifestyle, over their current liabilities is over 100 times more than stock. The reason behind is the competitive advantage of Lifestyle, as their stock value is relatively low to others. For Wing On, their fixed asset to long term liability ratio is high but their current liabilities to stock ratio is 5.385, we can see that they have a high value of the fixed asset.

We can see that Lifestyle has controlled their fix asset to long term liability ratio is around 65% in 2017-2019, which can be interpreted as they have a stable cash flow. For Wing On, their fixed asset to long term liability ratio is 18.299 higher than Lifestyle and Sincere. This can be an advantage to Wing On as it

only has 0.087 in their Total Debt to Fixed Asset Ratio, they are paying less in tax and finance cost compare to other two company.

The Current Liability to Net Asset Ratio of lifestyle is in an increasing trend. For Sincere, the ratio is 2.53, which means their current liability is two times more than their net asset. For Wing On, we can see that their ratio is 0.029, showing us they have not much liability.

In summary, we can see that Lifestyle has its advantage as they have less stock, Sincere is having a cashflow issue as their current liability is two times more than a net asset. Wing On advantage is they have less liability compare to the other two companies.

2.3. Paying debt ability

TABLE 2.4 RATIO RELATED TO DEBT AND CASH

Company Name	Lifestyle			Sincere	Wing On
Year	2017	2018	2019	3 Year Average	3 Year Average
Current Ratio	2.67	2.07	2.15	1.16	7.15
Quick Ratio	2.67	2.06	2.15	0.90	6.96
Stock Credit Index	-181.5	-108.8	-166.5	0.76	2.75
Cash Ratio	1.80	1.31	1.27	0.11	5.49
Total Debt Ratio	0.81	0.86	0.84	0.71	0.07
Debt / Equity Ratio	0.80	0.79	0.70	0.54	0.07
Long Term Debt Ratio	0.77	0.82	0.77	0.34	0.04
Total Debt / Fixed Asset Ratio	1.65	1.60	1.87	7.06	0.09
Time Interest cover ratio	15.90	8.66	6.93	-18.59	352.24

Source : Construct by the writer (Appendix i)

According to table 2.4, the current ratio and quick ratio of Lifestyle is almost equal, that means the stock value of Lifestyle is trivial. For Sincere, the average of the current is just above 1.1, that's mean their current debt value is larger than asset value without stock, that means they are facing cash flow issue.

The stock credit ratio for Lifestyle is a negative value because of the inventory value is low, and the current asset is higher than the current liability. For Sincere, their ratio is lower than 1, which means the inventory value is lower than the difference between current liability and net current asset. In other words, they have not enough inventory to sell and pay the current liability.

Cash ratio is a ratio that showing is the company has enough cash to pay all their current liability if the ratio is under 1, that's mean they high likely cannot pay their current liability, The 3 year average of Sincere is 0.11, which is not a good sign. Lifestyle managed to maintain its ratio between 1-2 for the last three

year, which is a good and health ratio for a company as they can manage the usage of their cash.

As shown in table 2.4, we can see Wing On is having low ratio in total debt ratio, Debt to equity ratio, long term debt ratio total debt to fixed asset ratio compare to Lifestyle, this ratio is all under 1%. For Sincere, we can get the result of their liability is high and the situation is not looking good.

Our primary company has a stable ratio on debt, their interest cover ratio is in a decreasing trend from 15.9 to 6.93, their interest-bearing is getting less this last three years.

2.4. Sales

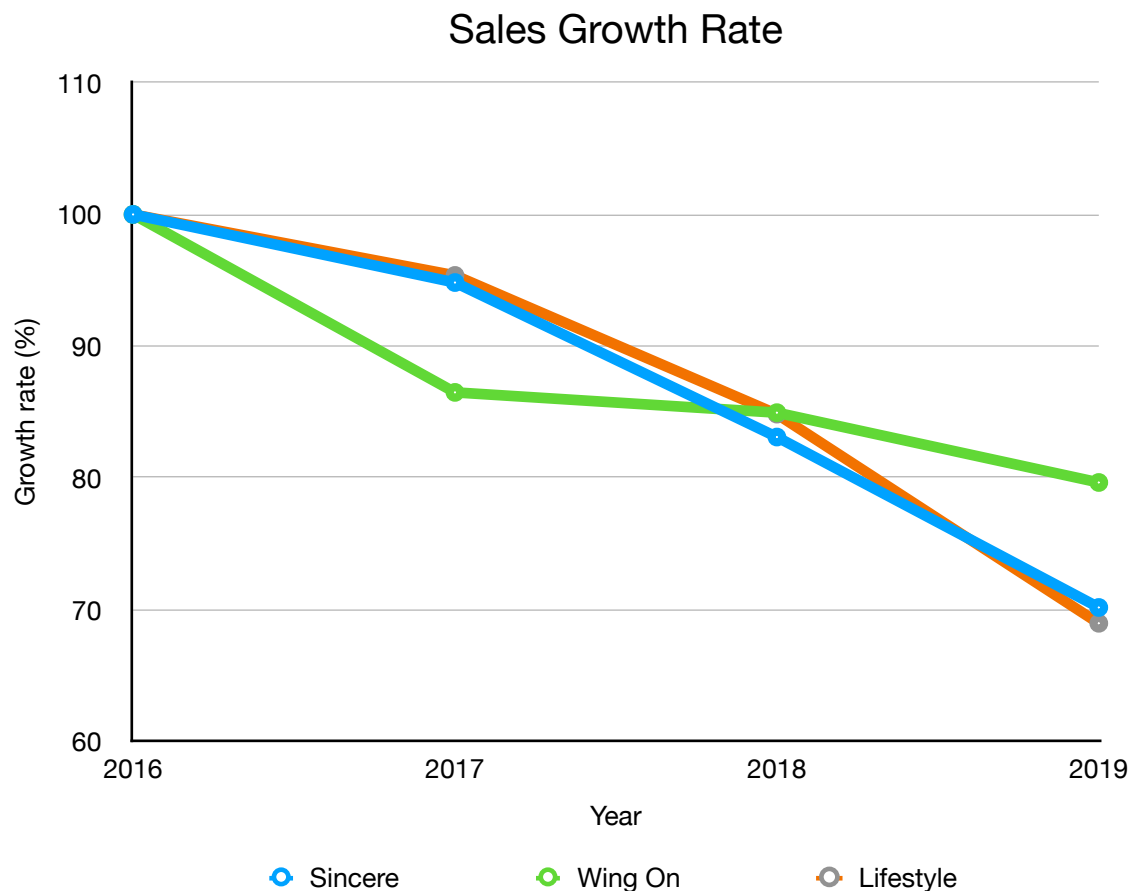


FIGURE 2.3 SALES GROWTH RATE

Source : Construct by the writer (Appendix i)

Figure 2.3 shows the sales growth trend in the last 3 years, the figure set 2016 as a base and compare the accumulative growth over the last 3 years. The overall trend of these three companies are similar, they all have a negative growth rate and after 3 years, lifestyle only remains 68% of sales company to the year 2016.

Mentioned in Lifestyle annual report (Lifestyle International Holdings Limited, 2020c) the decreasing trend of the company is because of the behaviour change of tourist in Hong Kong. Caused by the social movement of Hong Kong

in 2019. For 2020, with the negative effect of COVID-19 pandemic, the decreasing trend will high likely remains.

2.5. Operation

TABLE 2.5 OPERATING EXPENSES

Company Name	Lifestyle			Sincere	Wing On
Year	2017	2018	2019	3 Year Average	3 Year Average
Employee Costs	5.00%	6.04%	6.54%	N/A	32.24%
Depreciation and amortisation	3.31%	4.25%	7.66%	2.99%	4.81%
Other operating expenses	N/A	N/A	N/A	3.69%	28.41%

Source : Construct by the writer (Appendix i)

According to table 2.5, the depreciation cost of all three company is within 10%.

The reason for Lifestyle's depreciation and amortisation is increasing, is because their sales are decreasing in the last 3 year. The employee cost of Wing On is about 32%, which is higher than Lifestyle's. In a general point of view, the percentage of Lifestyle cost is increasing is because of the sales is decreasing. the actual amount of the employee is stable in the last 3 years.

TABLE 2.6 OPERATING PERIOD

Company Name	Lifestyle('000)			Sincere	Wing On
Year	2017	2018	2019	3 Year Average	3 Year Average
Total Assets Turnover (Time)	0.23	0.21	0.14	0.66	0.07
Average Collection Period (days)	13	16	11	N/A	20
Day's Sales in Inventory (days)	6	14	16	172	74
Payment period (days)	223	334	339	138	311
Net Profit (In HKD, '000)	3,301,350	1,690,070	1,890,676	-125,625	1,709,045

Source : Construct by the writer (Appendix i)

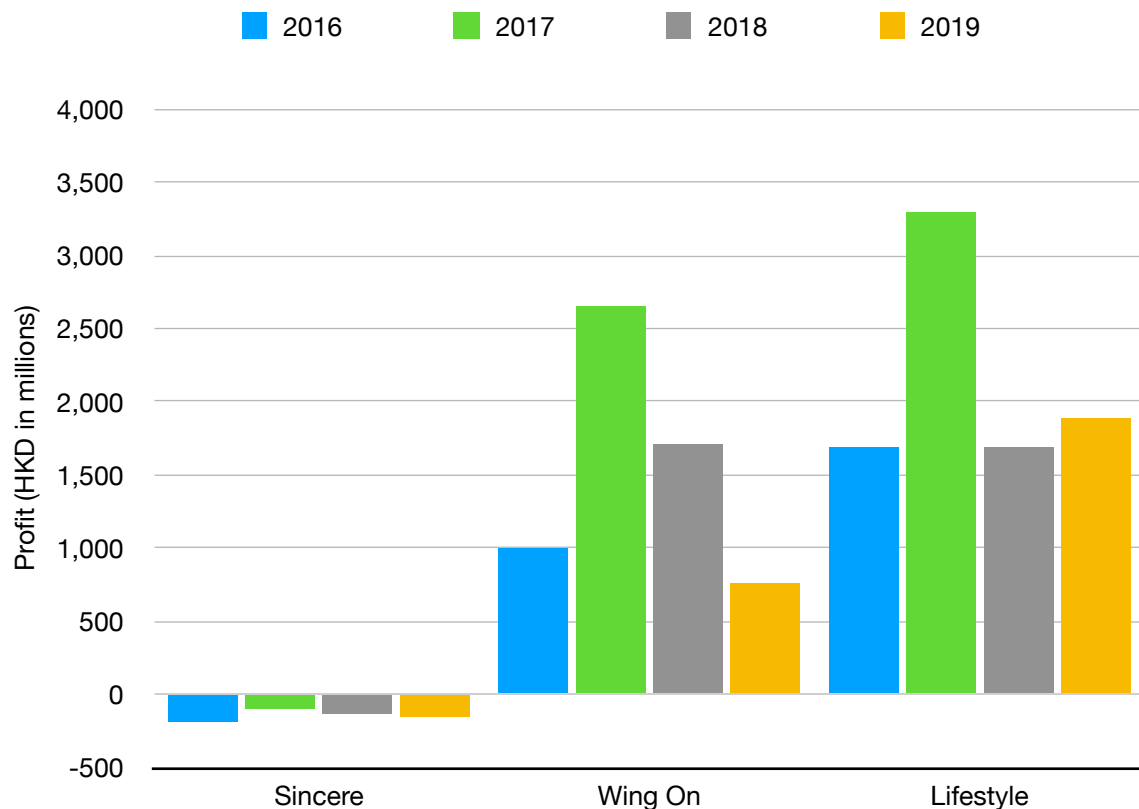
The total assets turnover of Lifestyle is between 0.23 to 14 in the last three years as shown in table 2.6. Lifestyle total asset turnover is also in a decreasing trend together with net profit. For Sincere and Wing On, their total assets turnover is 0.66 and 0.07. Total assets turnover can show an asset and sales ratio. As Wing On has a large amount of fixed asset in their profile, so the turnover time is lower the average of the industry.

The average collection period of Lifestyle is maintaining at a low level in recent three years, , that means in general, they need 2 weeks to collect receivable. Lifestyle performs very well in day's sales in inventory, they only need around 2 weeks to sell their inventory. Comparing to Sincere and Wing on, they need more than 4 months and 2 months to sell their inventory, that will create a pressure of cashflow since for Sincere, their Payment period is 138 days. When their payment days are shorter than the day's sales in inventory, they can't take advantage of being a department store to gain benefit for the net cash flow created by the different of sales day and payment period. For Lifestyle, their payment period in 2019 is 339 days, over 21 times of days sales, mean that they can sell the inventory 21 times before they need to pay the first payment. This gives large flexibility for them to maintain cash flow in the company. Profitability.

TABLE 2.7 NET PROFIT

	Sincere (‘000)	Wing On (‘000)	Lifestyle(‘000)		
Year	3 year average	3 year average	2017	2018	2019
Net Profit (In HKD)	-125,625	1,709,045	3,301,350	1,690,070	1,890,676
Net Profit growth	-31.63%	26.1%	94.7%	-48.8%	11.9%
P.E.	N/A	15	5.04	11.25	7.10
Gross profit margin	80.97%	41%	56.88%	73.78%	74.91%
Net Profit margin	-41.99%	117%	34.62%	38.78%	53.38%

Source : Construct by the writer (Appendix i)

**FIGURE 2.4 NET PROFIT TREND IN 2016 TO 2019**

Source : Construct by the writer (Appendix i)

The Profitability of Sincere is the worst among all three companies as shown in figure 2.4, although in 2017, they managed to cut 50% of the loss comparing 2016, they are losing money every year. For Wing On, in 2018 and 2019, they

are having less profit. In overview, we can see that 2017 is a good year for the department store industry since they all managed to cut loss or double their profit in that year.

The net profit margin of Wing On is over 100%, as they have a major income form investment and land. For Lifestyle, their profit margin had improved in 2019 by a one time interest and investment gains.

TABLE 2.8 RETURN RATIO

	Sincere	Wing On	Lifestyle		
Year	3 Year Average	3 Year Average	2017	2018	2019
Total Assets Turnover	65.87%	6.827%	22.65%	21.19%	14.46%
Leverage ratio	4.06	1.127	5.3	7.0	6.4
Return on Equity (after tax) (%)	-115.20%	9.23%	81.63%	57.65%	49.22%

Source : Construct by the writer (Appendix i)

The Return on equity ratio means how many returns can be earned by the equity, the ratio of Lifestyle show in 2.8 is decreasing with other ratio related to profit and sales. The leverage ratio of lifestyle is the ratio of company leverage by Fixed assets to equity. in these three company, Lifestyle has the highest leverage ratio.

TABLE 2.9 GROWTH ABILITY

	Sincere	Wing On	Lifestyle		
Year	3 Year Average	3 Year Average	2017	2018	2019
Retained yield (times)	2.34	0.752	1.223	1.730	2.028
Self-sustainable Growth Ratio (%)	-281.79%	7.1%	99.80%	99.74%	99.80%

Source : Construct by the writer (Appendix i)

In table 2.9, there are three different range of self-sustainable ratio, Sincere is a negative value, Wing On has a 7.1% average value and Lifestyle has a value of near 100%. Self-sustainable Growth Ratio is the ratio of retain earning and equity, the ratio close to 100% means all the equity invested had already earned back from the retained earning, or in other words, the business is break even.

TABLE 2.10 EBITA RATIO

	Sincere	Wing On	Lifestyle		
	3 Year Average	3 Year Average	2017	2018	2019
Stock Value	HK\$0.29	HK\$25.33	HK\$10.38	HK\$11.86	HK\$8.94
Earning per share (HK\$)	-0.12	1.72	2.06	1.05	1.26
Price-earning Ratio (Times)	-2.50	15.44	5.04	11.25	7.10
Dividend yield(%) payout ratio	-7.37%	5.1%	30.68%	59.54%	53.22%
EBITDA('000)	-HK\$80,108	HK\$1,971,290	HK\$3,802,561	HK\$2,629,641	HK\$2,802,798
EBITDA Ratio	N/A	86.70%	86.82%	64.27%	67.46%

Source : Construct by the writer (Appendix i)

According to table 2.10, the dividend yield payout ratio of lifestyle is relatively high compare to Wong On and Sincere, that means they will pay out more than 50% of their profit in 2018 and 2019. Wing On's ratio is 5.1% in 3-year average, only a small part of the earning will pay to the shareholder as a dividend. Compare to the year 2017's 5.04, the stock value of 2018 is overpriced, as their price-earning ratio is over 11.25 in 2018. If we are using the earning per share HK1.26 with the ratio 5.04 to calculate the stock price, the stock price of 2019 should be HK 6.35, instead of HK 7.10. The stock price is 10% overpriced.

3. Lifestyle Corporate Governance assessment

To review a corporate is different, it is important for us the discuss Lifestyle's corporate governance. Being a publicly listed company under The Stock of Hong Kong Exchange. Lifestyle needs to follow comprehensive corporate governance guidance for boards and directors. The latest guidance put a boundary on things and actions should be taken to protect shareholder interests.

3.1. Role and duties of directors

The board of directors for a listed company should have a balance of background, professional skill and diversity of perspectives appropriate to handle day to day challenge. A board member should attend regular meeting and attend continues learning section. According to the guidance issued by HKEX, they encourage more female to be directors for companies to better manage their risk and improve their effectiveness in operating business(HKEX, 2018).

TABLE 3.1 THE NUMBER OF MEETING AND ATTENDANCE

	2017	2018	2019
Number of meeting	5	5	4
Attended ratio	93%	96%	100%
AGM attendance	100%	67%	77.8%

Source : Lifestyle International Holdings Limited (2020f)

Lifestyle's board held 5 meetings in the year 2019 as shown in table 3.1, the attendance of the meeting had improved since 2017. According to the guidance of HKEX (HKEX, 2018). all directors should attend board meetings when they perform well. However, for the annual general meeting, in both

2018 and 2019, the attendance is not 100%. HKEX clearly stated that it is one of the major duties for directors to attend the annual general meeting and answer shareholder questions, or the absent notice should be true and sincere (HKEX, 2018). The chairman of the board should help to communicate and make sure all the directors come to meetings and annual general meeting, as this is one of the primary channels for executive director (ED) and INED to understand and monitor company decision.

The 9 directors of Lifestyle included experience from different background, Mr Doo Wai Hoi, William is expert on land and property as he is also the Independent non-executive directors (INED) of New World Group and Shanghai Industrial Urban Development Group Limited (New World Development Company Limited, 2020). Mr Hui Chiu Chung had strong experience in the securities and investment industry (Luk Fook Financial Services Limited, 2020), which can help the company make discussion in different investment project related to shareholder's benefit.

For improvement, there are 4 directors of the company are related to each other, Mr Lau Kam Sen, Ms Lau Kam Shim, Mr Lau Luen Hung, Thomas and Ms. Lau Yuk Wai, Amy (Lifestyle International Holdings Limited, 2020h). As they have 4 out of 9 votes in the board of directors, they might overlook the benefits of other shareholders. Another improvement is the ratio of female directors can be increased, there are only 2 females, it is suggested to add at least 1 more female member to balance the male and female ratio.

3.2. The importance of risk management and internal audit

A systematical integrated and disciplined approach can help corporate to effectively manage risk and create maximise value for stakeholders (Razali and Tahir, 2011). In 2019 and 2020, there are different risks from the social movement, the China-US relationship and the COVID-19.

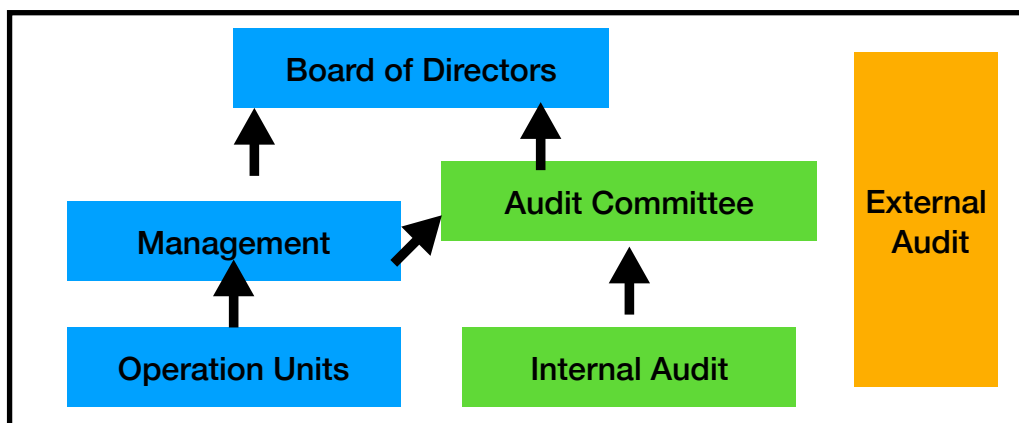


FIGURE 3.1 COMPANY STRUCTURE

Source : Lifestyle International Holdings Limited (2020f)

Being a market player in the department store industry, Lifestyle had different risk under the current business environment. Currently shown in figure 3.1 their management will perform risk management regularly and report to both audit committee and board of directors.

According to a news report (MingPao, 2017), 60% of their sales are contributed by its Thankful week events. under the COVID-19 pandemic, it will be a risk for holding a Thankful week for all employee. However, if they decided to cancel the thankful week, their sales might be affected.

For the credit risk under current business environment from a vendor, as their business model in cash base (Lifestyle International Holdings Limited, 2020g)

and Average Collection Period is performing pretty well compared to other market players, the risk is relatively low.

For major customers risk, the five largest customers of Lifestyle accounted for less than 30% of the sales in 2019, the risk of business having sufficient impact by major customers bankruptcy is low (Lifestyle International Holdings Limited, 2020i).

In the organisational structure of Lifestyle, their internal audit team is directly reported to the audit committee. The internal audit duties are to provide an independent appraisal on the company risk management and internal control system.

3.3. Other improvement

Although Lifestyle fulfils the corporate governance requirement by HKEX (Hong Kong Exchanges and Clearing Limited, 2018), there are some other improvements that can be made to help the director better protect shareholder risks.

There are several committees, including an audit committee, a remuneration committee and a nomination committee in Lifestyle. However, all the members of the above three committees are the same. The arrangement might not be the best, as there is no diversity in committee, some point of views might be ignored.

For all directors, in order to make the best decision for the public, keep learning up-to-date information is important. There are 5 directors on the

board haven't attended training related to the director's duties and responsibilities in 2019 (Lifestyle International Holdings Limited, 2020f).

4. Investment project Appraisal

Lifestyle plans to launch a new investment in Hong Kong to increase its market share and profit for shareholder. The new project included building a new department store in San Po Kong, located in East Kowloon, Hong Kong. The company target to buy a new building to build their new department store, the size of the store will be 8% of its main business unit, Causeway Bay Sogo. They target to use the building for 40 years and we will use different financial ratios to examine the profitability of the project. There store in Tsim Sha Tsui is about 13,000 m² stores will be used as a sample for sales projection.

4.1. Project background information

TABLE 4.1 PROJECT COST

(HKD)	Estimation	Remarks
Building area (m²)	2968.9	31945 ft ² ÷ 10.76 (ft ² to m ²) (Appendix ii)
Building Price	HK\$360,000,000	Selling price of seller (Appendix ii)
Rebuild cost cost / m²	HK\$10,850	HKD 7,646,082,000/744,000 m ² * 105.58% average real estate development cost * 2018-2019 infraction rate (Appendix iii)
Building Development cost	HK\$32,212,198	Area * Real estate development cost / m ²
Decoration (HKD)	HK\$32,077,822	HKD 100,000,000/13000 m ² * 2968.9m ² *140.46% The depreciation of TST store divided by size of TST Store = decoration cost per m ² x total area x accumulated infraction rate 2009-2019 (Appendix iv)
Total Cost	HK\$424,290,020	Building cost + Rebuild cost + Decoration

Source : Construct by the writer

For the new project, Lifestyle will rebuild the 2968.9 m² building to fit its brand image. The average of building Multi-purpose commercial premises is HK\$10,850 (Census and Statistics Department HKSAR, 2018). By using the information of the Sogo Store at Tsim Sha Tsui state in the annual report, the annual decoration of the store in Tsim Sha Tsui is HKD 20,000,000, multiply the deception period of Lifestyle, we can estimation the original decoration cost of the 13,000 m² is 100,000,000. As the information is 8 years ago, by adding 140.46%, the accumulated infraction rate 2009-2019 and multiply by the size of the building, 2968.9m², we can estimate the cost of decoration for the new building is HK\$32,077,822 which shown in table 4.1.

TABLE 4.2 LIFESTYLE INFORMATION ON NEW PROJECT

(HKD)	Value	Remarks
Building depreciation (Year)	40	Lifestyle Annual report ((Lifestyle International Holdings Limited, 2020k)
Depreciation period (Year)	5	Lifestyle Annual report (Lifestyle International Holdings Limited, 2020k)
Depreciation (Total/ year)	HK\$16,220,869	(Building Cost + Rebuild Cost) / Building depreciation + Decoration / Deception period
Sales growth rate	-11.46%	2017-2019 average (Table 2.8)
Ultimate growth rate	2.72%	Inflation Rate average of Hong Kong 2015-2019 (Appendix v)
Ebitda (%)	67.46%	Table 2.13
Operating Period (Days)	66.6	Operating period (days) = Inventory period (days) + Collection period (days) 15.857+50.747

Source : Construct by the writer

In table 4.2, we can see the ultimate growth rate set as the inflation rate of Hong Kong from 2015 to 2019 because of the sales growth rate is negative. The building depreciation period and depreciation period is 40 years and 5

years (Lifestyle International Holdings Limited, 2020k). The new project has a depreciation of HKD 16,220,869 depreciation each year.

4.2. New Project Sales

TABLE 4.3 NEW PROJECT FIRST YEAR PROJECTION

(HKD)	Value	Remarks
Sales Per m²	HK\$47,136.27	Sales * 17.3% (TST Store percentage) / 13000 (TST store m ²)
Total sales for first year	HK\$139,941,283	Sales Per m ² * project m ²

Source : Construct by the writer

For the sales of the first year, according to table 4.3, by multiply the area of the new project and the sales per m², estimation of the sales will be HKD 139,941,283.

TABLE 4.4 NEW PROJECT PROFIT FOR FIRST 7 YEAR PROJECTION

HKD ('000)	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	139,941	143,747	147,657	151,674	155,799
EBITA	94,404	96,972	99,610	102,319	105,102
Depreciation	16,221	16,221	16,221	16,221	16,221
EBIT	78,183	80,751	83,389	86,098	88,881
Tax Cost(16.5%)	12,900	13,324	13,759	14,206	14,665
Profit	65,283	67,427	69,630	71,892	74,216

Source : Construct by the writer (Appendix vi)

Table 4.4 shows the projection of sales and profit for the first 5 years of the new project. The profit of the new project will grow from HKD 65,283,000 to HKD 74,216,000 at the end of the 5 years.

4.3. Financial analyse

In this section, we will use different tools to evaluate the profitability of the projects. By using cash flow analysis, ARR, NPV, Payback period and IRR, we will have an overall project financial state to make further suggestion.

TABLE 4.5 CASHFLOW OF THE NEW PROJECT

HKD ('000)	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
EBITA		94,404	96,972	99,610	102,319	105,102
Tax Cost(16.5%)		12,900	13,324	13,759	14,206	14,665
CashFlow	-424,290	81,504	83,648	85,850	88,113	90,437

Source : Construct by the writer (Appendix vi)

TABLE 4.6 ARR FOR THE NEW PROJECT

ARR	HKD('000)
Total income for 40 year	HK\$5,038,463
Average income	HK\$125,962
Initial cost	HK\$424,290
ARR	29.7%

Source : Construct by the writer (Appendix vi)

TABLE 4.7 NPV FOR THE NEW PROJECT

HKD ('000)	Cashflow	PV
Initial Cost	-424,290	
Year 1	81,504	73,873
Year 2	83,648	68,718
Year 3	85,850	63,924
Year 4	88,113	59,465
Year 5	90,437	55,319
Year 6-10	489,315	223,875
Year 11-20	1,193,480	264,910
Year 21-30	1,552,625	128,933
Year 31-40	2,022,326	62,831
NPV		577,558

Source : Construct by the writer (Appendix vi)

TABLE 4.8 PAYBACK PERIOD

Payback period	HKD ('000)
Cost	424,290
1-6th Profit	425,051
Payback	5 years 11 months
IRR	21.83%

Source : Construct by the writer (Appendix vi)

Form the results performing different analysis tools, the projects are creating positive growth for the company. According to table 4.5, The first year of net cash flow is HKD 81,504,000. The project is expected to pay back after 5 years and 11 months. In a new project that buying a new building, the payback period is relative low, the company can use less than 6 years to break even. This

amusing the sales growth rate in positive for these six years but because of the COVID-19, Lifestyle is highly likely to have a negative growth rate in 2020.

Using the data from 2017-2019, the net present value of the project is positive with the IRR is 21.83% which is higher than companies ROA, 10.33%. Together with the ARR 29.7%, Lifestyle is recommended execute the project.

TABLE 4.9 THE DIFFERENT BETWEEN DIFFERENT EBITA RATIO

HKD ('000)	Profit under 67.46% ratio	Profit under 86.82% ratio
Sales	139,941	139,941
EBITA	94,404	121,497
Depreciation	16,221	16,221
EBIT	78,183	105,276
Tax Cost(16.5%)	12,900	17,371
Profit	65,283	87,905
Difference	22,622	
Difference in %	35%	

Source : Construct by the writer (Appendix vi)

In the table shown in 4.9, there are several financial data will heavily affect the profit. The profit and EBITA projection is using the EBITA ratio of the company, the EBITA ratio can be changed from time to time, take 86.82% in 2017 as an example, compare to 67.44% in 2019, the profit can have 35% different.

Similar to EBITA ratio, the ROA can affect the calculation. for the appraisal, the IRR is 21.83% compare to ROA of 2017, is around 17%. The ROA will be changed by the value of the asset, the change of company asset will also impact the ROA and the analysis using IRR.

The project NPV value is positive according to table 4.7. Company will have positive cash flow benefit be the positive NPV if they decided to take the project to action.

4.4. Cashflow management

To start the project, Lifestyle will need to invest HKD 424,290,040 for buying the building and rebuild it. Company has a health cash ratio which is over 1.27(Table 2.4) with over 7 billion, they have enough cash to support the initial cost of the project. The initial cost is around 5.9% of the cash flow.

5. Financing

In the section, different methods of financing will be discussed to provide a different point of view for management to balance the pros and cons of investment.

5.1. Cash

Cash seems a simple way to use as a way to settle the project cost. The project cost HKD 424,290,040, around 5.9% of their total cash at the end of 2019. For the last 3 year, their cash ratio drop from 1.8 to 1.27, if they invest 420 million into the project, the ratio will further drop to 1.19, that might create risk for the company.

5.2. Bank loan

TABLE 5.1 TOTAL DEBT RATIO OF THREE COMPANIES

Company Name	Sincere	Wing On	Lifestyle		
Year	3 Year Average	3 Year Average	2017	2018	2019
Total Debt Ratio	0.706	0.067	0.81	0.86	0.84

Source : Construct by the writer (Table 2.4)

According to table 5.1, Lifestyle's total debt ratio increased from 0.81 to 0.87. Compare to Sincere and Wing On, their ratio is also higher than average. Lifestyle finance cost is 3.5% in 2019 and 2.7% in 2018, that means they need to pay HKD15,698,731 interest for the first year, which will affect their profit by 24%. Their payback period will extend and ARR will be affected. .

5.3. Withdraw from other investing activities

In Lifestyle's investing activities they had a time deposit of over 1billion (Lifestyle International Holdings Limited, 2020l), time deposit had an interest rate of 1.03% (ET Net Limited, 2020). The opportunity cost of using a time deposit to further investment will be around 4 million, which is a possible financing method.

5.4. Bonds

There are three bonds issued by Lifestyle, they due in 2022, 2024 and 2025, the amount is between USD 10,000,000 to USD 30,000,000. The bonds are guaranteed bonds with an interest rate from 4.25 to 4.875 (Lifestyle International Holdings Limited, 2020j). Since the interest rate is higher than the bank loan, the cost of interest will be too high for the project, which will affect the return.

5.5. Issue new share

The investment amount is only 3.33% compare to their current asset, 5.9% of their cash and 3% of their market capitalisation, issuing new share for this specific project will lead to negative brand image for shareholder and public cause unnecessary risk for company stock price.

5.6. Suggestion

Lifestyle can combine two different approaches to withdraw cash for the new project. They can use both cash and withdraw from other investing activities. Depends on the starting day's business situation, they can use 50% of the

cash and 50% from the time deposit. Under the combination, they can keep their cash ratio above 1.23 and only need to bear HKD 2,000,000 opportunity cost, only will affect 0.3% of their total investment income.

6. Project execution recommendation

In this section, there are advised by a different point of view including exceptional, Corporate governance and financial point of view.

6.1. Project timeline

The planning stage of the new project is crucial, it is suggested that the new project committee have regular update in the director meeting and provide the latest update to avoid unpredictable risk.

By making good use of the expertise of directories, Lifestyle should face less risk in buying the new building and rebuild it. However, during the economic cycle downturn, Lifestyle needs to pay more attention to the cash and investment payback from time to time.

Winter is the traditional peak season for retails and department store industry, in the ideal to the new project, can launch in the summertime so that employee can provide the best customer experience with a 3-month adopting period.

6.2. Cashflow

For buying a new building a rebuild it, there are lots of costs involved, in section 3, we are using a simplified concept of cash flow to do the projection. The actual financial control method will depend on the building schedule and government approval. The first income period can delay up to 2-3 years.

With the uncertain of the business environment of Hong Kong, the cost of decoration might fluctuate, internal control team should make sure the project team use the latest quotation from vendors to forecast their cost.

6.3. Corporate governance

Setting up a new concept store in East Kowloon a strategic move for Lifestyle, the company should keep it secret to avoid competition from another market player. However, the shareholder should be informed when the timing is right. A special meeting should be held for directories to expend and answer questions from the public, maintain transparency to the shareholder.

6.4. Keep updating the forecast

The project profitability is calculated according to Lifestyle past three year's performance, including but not limited to ROA, EBITA ratio and earning per m². The project team should regularly update the forecast using the latest data available. With the most accurate data, the internal audit will be able to form the independent risk management report for the board of director to take action and avoid risk.

7. Conclusion

Since Lifestyle International Holdings Limited first IPO, the company put afford in develop several large projects, including expanding China market. After their latest spin-off, Lifestyle International Holdings Limited is now focusing on manage and expend the market in Hong Kong.

By undertaking a thorough and comprehensive review of the annual reports of the year 2017-2019,

Lifestyle International Holdings Limited is a financial health company with better-performed ratios, like EBITA ratio and sales turnover ratio. They have successfully managed to limit the average collection period to 16 days and at the same time extend their payment period to 339 days.

The corporate governance of the company fulfil the HKEX recommendation, their board of director has a different background and professional experience. They design and implement effective company structure to provide enough independence for the internal auditor to perform regular risk management exercise and internal control.

This report assumed Lifestyle will invest to buy and rebuild a new department store located in San Po Kong. Different tools and figure support that the project is worth to invest, with 5 years 11 months payback period and 21.83% IRR. It is suggested that the company can invest 50% from cash and 50% time deposit mad in 2018 to fund the project.

Several recommendations including better cost control, remind transparency to shareholder and update the forecast regularly had been made. With the above action and plan, Lifestyle International Holdings Limited shall remind the market leader in the department store in Hong Kong.

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Appendix i Information of three company

Company Name	Sincere	Wing On	Lifestyle		
Year	3 Year Average	3 Year Average	2,017	2,018	2,019
Net Current Asset (HKD'000)	18,405	3,351,715	6,856,596	4,917,286	6,466,150
Total Assets (HKD'000)	494,897	21,249,879	21,631,777	20,567,503	24,501,539
Retained earnings (HKD'000)	-294,986	1,317,780	4,036,471	2,923,874	3,833,794
EBIT (HKD'000)	-116,257	1,902,532	3,640,428	2,444,563	2,531,414
Stock value (HKD)	0.29	25.33	10.38	11.86	8.94
Number of Stock ('000)	1,050,582	293,349,667	1,602,587	1,602,587	1,501,916
Total Liabilities (HKD'000)	347,341	1,420,781	17,587,293	17,636,119	20,660,235
Sales (HKD'000)	310,347	1,441,249	4,898,605	4,358,010	3,542,032
Sales growth rate	N/A	N/A	-5%	-11%	-19%
Accumulate growth rate	N/A	N/A	95%	85%	69%
Fixed Asset to Long Term Liability Ratio	0.521	18.299	0.609	0.692	0.585
Current Liabilities to Net Asset Ratio	2.526	0.029	0.597	0.934	0.866
Current Liabilities to Stock Ratio	4.112	5.385	108.972	102.585	145.089
Employee Costs (HKD'000)	N/A	0.322	0.050	0.060	0.065
Other operating expenses (HKD'000)	3.69%	28.41%	N/A	N/A	N/A
Total Assets Turnover	65.87%	6.83%	22.65%	21.19%	14.46%
Average Collection Period (days)	N/A	20.42	13	16	11
Day's Sales in Inventory (days)	172	73.81	6	14	16
Payment period (days)	138	311	223	334	339
Net Profit (HKD'000)	-125,625	1,709,045	3,301,350	1,690,070	1,890,676
Retained yield (times)	0.00	0.75	1.22	1.73	2.03
Self-sustainable Growth Ratio (%)	-281.8%	7.1%	99.8%	99.7%	99.8%
EBITDA (HKD'000)	-80,108,333	1,971,290	3,802,561	2,629,641	2,802,798
Earning per share (HK\$)	-0.12	2	2.06	1.05	1.26
Price-earning Ratio (Times)	-2.50	15	5.04	11.25	7.10
Dividen yield (%) payout ratio	-7.37%	5.1%	30.68%	59.54%	53.22%
Stock Value (HKD)	0.29	25.33	10.38	11.86	8.94

Sources : Lifestyle International Holdings Limited, (2018a); Lifestyle International Holdings Limited, (2019a); Lifestyle International Holdings Limited, (2020a); The Sincere Company, Limited, (2020a) ; Wing on company international limited, (2020a)

Appendix ii Information by new building

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Source : <http://www.citilandsurveyors.com/hk/index.php>

Appendix iii Inflation rate 2018-2019

Accumulated inflation rate 2018-2019		
		100%
2018	2.6%	102.60%
2019	2.9%	105.58%

Source: <https://www.focus-economics.com/country-indicator/hong-kong/inflation>

Appendix iv Inflation rate 2015-2019

Accumulated inflation rate 2015-2019

		100.00%
2015	4%	104.00%
2016	2.4%	106.50%
2017	1.7%	108.31%
2018	2.6%	111.12%
2019	2.9%	114.34%

Source: <https://www.focus-economics.com/country-indicator/hong-kong/inflation>

Appendix v Inflation rate 2009-2019

Accumulated inflation rate 2009-2019

		100.00%
2009	0.5%	100.50%
2010	2.4%	102.91%
2011	5.3%	108.37%
2012	4.1%	112.81%
2013	4.3%	117.66%
2014	4.4%	122.84%
2015	4%	127.75%
2016	2.4%	130.82%
2017	1.7%	133.04%
2018	2.6%	136.50%
2019	2.9%	140.46%

Source: <https://www.focus-economics.com/country-indicator/hong-kong/inflation>

Appendix vi Sales and Profit Table for new project in HKD ('000)

Yr	Sales	EBITA	Depreciation	EBIT	Tax Cost(16%)	Profit	Cashflow	PV
0		0		0	0	0	-424,290	-424,290
1	139,941	94,404	16,221	78,183	12,900	65,283	81,504	81,504
2	143,747	96,972	16,221	80,751	13,324	67,427	83,648	83,648
3	147,657	99,610	16,221	83,389	13,759	69,630	85,850	85,850
4	151,674	102,319	16,221	86,098	14,206	71,892	88,113	88,113
5	155,799	105,102	16,221	88,881	14,665	74,216	90,437	90,437
6	160,037	107,961	16,221	91,740	15,137	76,603	92,824	92,824
7	164,390	110,897	16,221	94,677	15,622	79,055	95,276	95,276
8	168,861	113,914	16,221	97,693	16,119	81,574	97,794	97,794
9	173,454	117,012	16,221	100,791	16,631	84,161	100,382	100,382
10	178,172	120,195	16,221	103,974	17,156	86,818	103,039	103,039
11	183,019	123,464	16,221	107,243	17,695	89,548	105,769	105,769
12	187,997	126,823	16,221	110,602	18,249	92,352	108,573	108,573
13	193,110	130,272	16,221	114,051	18,818	95,233	111,454	111,454
14	198,363	133,816	16,221	117,595	19,403	98,192	114,412	114,412
15	203,758	137,455	16,221	121,234	20,004	101,231	117,452	117,452
16	209,300	141,194	16,221	124,973	20,621	104,353	120,573	120,573
17	214,993	145,035	16,221	128,814	21,254	107,559	123,780	123,780
18	220,841	148,979	16,221	132,759	21,905	110,853	127,074	127,074
19	226,848	153,032	16,221	136,811	22,574	114,237	130,458	130,458
20	233,018	157,194	16,221	140,973	23,261	117,713	133,934	133,934
21	239,356	161,470	16,221	145,249	23,966	121,283	137,504	137,504
22	245,867	165,862	16,221	149,641	24,691	124,950	141,171	141,171
23	252,555	170,373	16,221	154,152	25,435	128,717	144,938	144,938
24	259,424	175,007	16,221	158,787	26,200	132,587	148,808	148,808
25	266,480	179,768	16,221	163,547	26,985	136,562	152,782	152,782
26	273,729	184,657	16,221	168,436	27,792	140,644	156,865	156,865
27	281,174	189,680	16,221	173,459	28,621	144,838	161,059	161,059
28	288,822	194,839	16,221	178,618	29,472	149,146	165,367	165,367
29	296,678	200,139	16,221	183,918	30,346	153,572	169,792	169,792
30	304,748	205,583	16,221	189,362	31,245	158,117	174,338	174,338
31	313,037	211,175	16,221	194,954	32,167	162,786	179,007	179,007
32	321,551	216,919	16,221	200,698	33,115	167,583	183,803	183,803
33	330,298	222,819	16,221	206,598	34,089	172,509	188,730	188,730
34	339,282	228,879	16,221	212,659	35,089	177,570	193,791	193,791
35	348,510	235,105	16,221	218,884	36,116	182,768	198,989	198,989
36	357,990	241,500	16,221	225,279	37,171	188,108	204,329	204,329
37	367,727	248,069	16,221	231,848	38,255	193,593	209,814	209,814
38	377,729	254,816	16,221	238,595	39,368	199,227	215,448	215,448
39	388,003	261,747	16,221	245,526	40,512	205,014	221,235	221,235
40	398,557	268,867	16,221	252,646	41,687	210,959	227,180	227,180

Total PV								5,687,298
Total cash Flow							5,687,298	
Total Profit						5,038,463		
IRR							21.83%	
NPV							577,558	577,558
PI								13.40
Average profit						125,962		
ROA	10.33%							

Source : Construct by the writer