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LIFESTYLE CHINA GROUP LIMITED

利福中國集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2136)

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF ANNUAL CAPS

SHANGHAI TENANCY AGREEMENT

On 26 November 2004, Shanghai Ongoing entered into the Shanghai Tenancy Agreement as tenant with Shanghai Joinbuy as landlord in relation to the Shanghai Premises. The annual caps in respect of the amounts payable by Shanghai Ongoing under the Shanghai Tenancy Agreement will expire on 31 December 2018. Further details of the Shanghai Tenancy Agreement were set out in the listing document of the Company dated 30 June 2016. This announcement is to provide information on the New Annual Caps for each of the three years ending 31 December 2021.

LISTING RULES IMPLICATION

Shanghai Ongoing is a 65% indirectly owned subsidiary of the Company and the remaining 35% equity interest is owned as to 5% by Joinbuy Group and 30% by Joinbuy Investment. The joint venture, Shanghai Joinbuy, is owned as to 50% by the Company, 12% by Joinbuy Group and 38% by Joinbuy Investment.

Joinbuy Group and Joinbuy Investment (whose controlling shareholder is Joinbuy Group), being substantial shareholders of Shanghai Ongoing, are connected persons of the Company at the subsidiary level. As Shanghai Joinbuy is owned as to 12% by Joinbuy Group and 38% by Joinbuy Investment, Shanghai Joinbuy is an associate of Joinbuy Investment and a connected person of the Company at the subsidiary level. The transaction contemplated under the Shanghai Tenancy Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

By virtue of Rule 14A.101 of the Listing Rules, since (i) Shanghai Joinbuy is a connected person of the Company at the subsidiary level; (ii) the Board has approved the New Annual Caps; and (iii) the independent non-executive Directors have confirmed that the New Annual Caps are fair and reasonable, and are on normal commercial terms and in the interests of the Company and its shareholders as a whole, the New Annual Caps are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

SHANGHAI TENANCY AGREEMENT

On 26 November 2004, Shanghai Ongoing as tenant and Shanghai Joinbuy as landlord entered into the Shanghai Tenancy Agreement in respect of the lease of the Shanghai Premises with a gross construction floor area of approximately 92,000 square metres for a period of 20 years commencing from 1 October 2004, at a basic rental of RMB125 million and with adjustment for additional turnover rent calculated at the rate of 3.5% on the amount of the annual turnover over and above RMB1,500 million. Shanghai Ongoing has an option to renew the tenancy for a further period of 10 years upon expiry of the initial term. Management fee of the Shanghai Premises will be charged by Shanghai Joinbuy to Shanghai Ongoing at cost. On 15 March 2017, the parties entered into a supplemental agreement confirming that the exact gross construction floor area for the Shanghai Premises as shown in the property ownership certificate is 91,833.16 square metres.

The annual caps in respect of the amounts payable by Shanghai Ongoing under the Shanghai Tenancy Agreement will expire on 31 December 2018.

BASIS OF DETERMINATION OF THE NEW ANNUAL CAPS

The amount of the rental and management fee paid or payable by Shanghai Ongoing for the two years ended 31 December 2016 and 2017 and the eleven months ended 30 November 2018 are as follows:

	For the year ended 31 December		For the eleven months ended 30 November
	2016	2017	2018
	(RMB '000)	(RMB '000)	(RMB '000)
Rental paid/payable	80,174 (Note)	160,874	145,364
Management fee paid/ payable	19,280 (Note)	39,171	36,699

Note: The amount of rental and management fee paid was for the period from 15 July 2016 (being the date of listing of the Shares on the Stock Exchange) to 31 December 2016.

Under the new Hong Kong accounting standard- HKFRS 16 “Leases” (“**HKFRS 16**”) for lease arrangements which will become effective from 1 January 2019, the lessee shall recognize on a present value basis a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the obligation to make lease payments. Upon the HKFRS 16 for property lease arrangements being effective, rental expenses currently charged to the profit and loss will be replaced by (i) depreciation charge over the life of the right-of-use asset, (ii) finance costs amortized from lease liability and (iii) turnover/variable rent (if applicable).

For the purpose of the Listing Rules and after taking into account effects of the new HKFRS 16 as mentioned above, the new annual caps in respect of the lease/rental expenses and management fee under the Shanghai Tenancy Agreement to be incurred/payable by Shanghai Ongoing for the three years ending 31 December 2019, 2020 and 2021 (the “**New Annual Caps**”) are set out as follow:

	For the year ending 31 December		
	2019 <i>(RMB '000)</i>	2020 <i>(RMB '000)</i>	2021 <i>(RMB '000)</i>
New annual caps in respect of lease/rental expense	187,000	188,000	189,000
New annual caps in respect of management fee	43,000	46,000	48,000

If the actual amount incurred/payable by Shanghai Ongoing to Shanghai Joinbuy under the Shanghai Tenancy Agreement shall exceed the New Annual Caps or upon the expiry of the New Annual Caps on 31 December 2021, the Company will re-comply with all applicable requirements under the Listing Rules, including (where required) the obtaining of approval of its independent shareholders.

The new annual caps following adopting the new HKFRS 16 with respect to lease/rental expenses will consist of depreciation charge, interest charge and turnover rent. The depreciation and interest charge are determined with reference to the value of right-to-use asset, which in turn is calculated by discounting, using the Group’s estimated borrowing rate, the total basic annual rental for the remaining term of the lease, and the remaining lease term. The turnover rent payable pursuant to the Shanghai Tenancy Agreement however is arrived at based on the Company’s estimated sales growth of Shanghai Jiuguang in future years, after taking into account its historical sales trend and the expected market conditions and retail sales growth in Shanghai and the PRC. The new annual caps with respect to the management fees are based on budgets prepared by the property management branch company of Shanghai Joinbuy for each of the three years ending 31 December 2021 after taking into account historical cost trends and projected inflation rates.

REASONS FOR AND BENEFITS OF THE NEW ANNUAL CAPS

The entering into the Shanghai Tenancy Agreement was to secure a sizable retailing space for a sufficiently long period to enable the Group’s operation of a department store in Shanghai, the PRC, with an aim to becoming a leading department store operator.

The Directors (including the independent non-executive Directors) consider that the New Annual Caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION OF THE GROUP AND THE CONNECTED PERSON

The Group

The Group is principally engaged in the operation of department stores and related retailing business in the PRC. The Group mainly operates its full-fledged lifestyle department stores, with middle to upper-end market positioning, through its retail brand name “Jiuguang” in the PRC.

Shanghai Ongoing

Shanghai Ongoing is a 65% indirectly owned subsidiary of the Company and the remaining 35% equity interest is owned as to 5% by Joinbuy Group and 30% by Joinbuy Investment. Shanghai Ongoing operates the “Jiuguang” store in Jingan district, Shanghai.

Shanghai Joinbuy

Shanghai Joinbuy is a joint venture owned as to 50% by the Company, 12% by Joinbuy Group and 38% by Joinbuy Investment. The principal business of Shanghai Joinbuy is the holding of the Shanghai Premises, a retail property situated in Jingan district, Shanghai, which is being leased to Shanghai Ongoing for the operation of its “Jiuguang” store.

LISTING RULES IMPLICATION

Joinbuy Group and Joinbuy Investment (whose controlling shareholder is Joinbuy Group), being substantial shareholders of Shanghai Ongoing, are connected persons of the Company at the subsidiary level. As Shanghai Joinbuy is owned as to 12% by Joinbuy Group and 38% by Joinbuy Investment, Shanghai Joinbuy is an associate of Joinbuy Investment and a connected person of the Company at the subsidiary level. The transaction contemplated under the Shanghai Tenancy Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

By virtue of Rule 14A.101 of the Listing Rules, since (i) Shanghai Joinbuy is a connected person of the Company at the subsidiary level; (ii) the Board has approved the New Annual Caps; and (iii) the independent non-executive Directors have confirmed that the New Annual Caps are fair and reasonable, and are on normal commercial terms and in the interests of the Company and its shareholders as a whole, the New Annual Caps are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has material interest in the renewal of the annual caps under the Shanghai Tenancy Agreement and none of them is required to abstain from voting on the relevant Board resolution to approve the New Annual Caps.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:

“Board”	the board of directors of the Company;
“Company”	Lifestyle China Group Limited (利福中國集團有限公司), a company incorporated in the Cayman Islands whose shares are listed on the Main Board of the Stock Exchange;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Joinbuy Group”	上海九百(集團)有限公司 (Shanghai Joinbuy Group Co., Ltd.*), a company established in the PRC, which holds 12% of the equity interest in Shanghai Joinbuy and 5% of the equity interest in Shanghai Ongoing;
“Joinbuy Investment”	上海九百股份有限公司 (Shanghai Joinbuy Co., Ltd.*), a company established in the PRC, which holds 38% of the equity interest in Shanghai Joinbuy and 30% of the equity interest in Shanghai Ongoing;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“Shanghai Jiuguang”	the department store operated and owned by Shanghai Ongoing at the Shanghai Premises under the name of “Shanghai Jiuguang Department Store (上海久光百貨)”;
“Shanghai Joinbuy”	上海九百城市廣場有限公司 (Shanghai Joinbuy City Plaza Co. Ltd.*), a sino-foreign equity joint venture enterprise established in the PRC with limited liability, of which the Group owns an effective equity stake of 50%;

“Shanghai Ongoing”	Shanghai Ongoing Department Store Limited (上海久光百貨有限公司), a sino-foreign equity joint venture enterprise established in the PRC with limited liability, of which the Group owns an effective equity stake of 65%;
“Shanghai Premises”	the entire building (including open space, external wall and roof top of the building) situates at 1618 Nanjing Xi Road, Shanghai, the PRC known as Shanghai Joinbuy City Plaza (上海久百城市廣場);
“Shanghai Tenancy Agreement”	the tenancy agreement entered into between Shanghai Ongoing as tenant and Shanghai Joinbuy as landlord in relation to the Shanghai Premises dated 26 November 2004;
“Share(s)”	the share(s) of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“RMB”	Renminbi, the lawful currency of the PRC;
“%”	per cent.

* *For identification purpose only*

By order of the Board
Lifestyle China Group Limited
Poon Fuk Chuen
Company Secretary

Hong Kong, 18 December 2018

As at the date of this announcement, the Board comprises Mr. Lau Luen Hung, Thomas as executive director; Ms. Chan Chor Ling, Amy as non-executive director; and Ms. Cheung Mei Han, Mr. Cheung Yuet Man, Raymond and Mr. Lam Kwong Wai as independent non-executive directors.