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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Revenue amounted to RMB1,204.1 million, an increase of 1.7%
- Loss attributable to owners of the Company amounted to RMB83.5 million (2018: Profit of RMB338.1 million)
- Loss per share amounted to RMB0.057 (2018: Earnings per share of RMB0.222)
- No dividend has been declared by the board of directors

FINAL RESULTS

The board of directors ("Board") of Lifestyle China Group Limited ("Company") is pleased to announce the audited consolidated results for the year ended 31 December 2019 of the Company and its subsidiaries (collectively, "Group"), 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 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*3*	**1,204,057**	1,183,752
Cost of sales		**(412,677)**	(375,190)
Gross profit		**791,380**	808,562
Other income, gains and losses		**108,947**	100,866
Selling and distribution costs		**(427,239)**	(487,752)
Administrative expenses		**(145,226)**	(157,076)
Interest and investment income	*5*	**69,002**	69,234
Share of profit of a joint venture		**28,821**	34,390
Share of (losses)/profits of associates		**(491,284)**	339,760
Finance costs	*6*	**(32,649)**	-
(Loss)/profit before taxation		**(98,248)**	707,984
Taxation	*7*	**(83,370)**	(140,102)
(Loss)/profit for the year	*8*	**(181,618)**	567,882
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**5**	945
Total comprehensive (expense)/income for the year		**(181,613)**	568,827
(Loss)/profit for the year attributable to:			
Owners of the Company		**(83,516)**	338,074
Non-controlling interests		**(98,102)**	229,808
		(181,618)	567,882
Total comprehensive (expense)/income attributable to:			
Owners of the Company		**(83,511)**	339,019
Non-controlling interests		**(98,102)**	229,808
		(181,613)	568,827
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company			
Basic and diluted	*10*	**RMB(0.057)**	RMB0.222

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Non-current assets			
Property, plant and equipment		**4,816,760**	4,211,465
Right-of-use assets		**2,754,640**	-
Prepaid lease payments		**-**	2,224,965
Investments in associates		**2,747,368**	3,337,937
Investments in a joint venture		**378,532**	386,297
Properties under development		**1,228,242**	1,044,417
Deferred tax assets		**10,913**	-
Other receivables	*11*	**4,615**	139,958
		11,941,070	11,345,039
Current assets			
Inventories		**61,685**	49,574
Prepaid lease payments		**-**	65,775
Trade and other receivables	*11*	**355,189**	176,586
Amount due from a joint venture		**2**	30,584
Financial assets at fair value through profit or loss		**480,980**	540,860
Cash and cash equivalents		**1,585,685**	1,536,381
		2,483,541	2,399,760
Current liabilities			
Trade and other payables	*12*	**1,035,755**	931,992
Amount due to a joint venture		**46,833**	13,602
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	-
Tax payable		**33,169**	56,201
Bank borrowings – due within one year		**30,000**	10,000
Lease liabilities		**98,479**	-
Contract liabilities		**8,830**	7,378
		1,279,208	1,019,173

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 31 DECEMBER 2019

	2019	*2018*
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings – due after one year	**2,400,000**	2,099,000
Lease liabilities	**474,844**	-
Deferred tax liabilities	**20,650**	32,382
Amount due to a non-controlling shareholder of subsidiaries	**-**	44,296
	2,895,494	2,175,678
	10,249,909	10,549,948
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**8,972,467**	9,055,978
Equity attributable to owners of the Company	**8,978,758**	9,062,269
Non-controlling interests	**1,271,151**	1,487,679
	10,249,909	10,549,948

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 (“Stock Exchange”) and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HKFRSs

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

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

HKAS 19 (Amendment)	Plan amendment, curtailment or settlement
HKAS 28 (Amendment)	Long-term investments in associates and joint ventures
HKFRS 9 (Amendment)	Prepayment features with negative compensation
HKFRS 16	Leases
HK (IFRIC) - Int 23	Uncertainty over income tax treatments
Annual improvement project	Annual improvement 2015 – 2017 cycle

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 position for the current and prior year and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HKFRSs (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 "Leases" – Impact of adoption

The Group has adopted HKFRS 16 from 1 January 2019, resulting in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 16, the Group has adopted the simplified approach for transition to the new lease standard. The reclassification and the adjustments arising from the new rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2018, but are recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.9%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	861,700
Discounted using the lessee's incremental borrowing rate at the date of initial application	667,330
Less: short-term leases not recognised as a liability	(275)
Less: low-value leases not recognised as a liability	(733)
Lease liabilities recognised as at 1 January 2019	666,322

The adjustments on the consolidated statement of financial position as at 1 January 2019 are summarised below:

Consolidated Statement of Financial Position (extract)	31 December 2018 (as originally presented) RMB'000	Effect of adoption of HKFRS 16 RMB'000	1 January 2019 (restated) RMB'000
Non-current assets			
Right-of-use assets	-	2,926,075	2,926,075
Prepaid lease payments	2,224,965	(2,224,965)	-
Current assets			
Prepaid lease payments	65,775	(65,775)	-
Non-current liabilities			
Lease liabilities	-	(573,322)	(573,322)
Current liabilities			
Lease liabilities	-	(93,000)	(93,000)
Trade and other payables	(931,992)	30,987	(901,005)
	1,358,748	-	1,358,748

3. REVENUE

Revenue represents the amount received and receivable for goods sold by the Group to external customers, net of discounts and sales related taxes, income from concessionaire sales, service income and rental income during the year, and is analysed as follows:

	2019	2018
	RMB'000	*RMB'000*
Recognised at a point in time:		
Sales of goods - direct sales	**465,752**	453,950
Recognised over time:		
Income from concessionaire sales	**616,263**	608,908
Service income	**38,007**	39,053
Revenue from contracts with customers	**1,120,022**	1,101,911
Rental income	**84,035**	81,841
Total revenue	**1,204,057**	1,183,752

4. SEGMENT INFORMATION

The Group's operating activities are attributable to a single operating segment under HKFRS 8 "Operating Segments" focusing on operation of department stores, retailing and related business. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. the chief executive of the Company). The CODM regularly reviews revenue analysis and the profit for the year of the Group as a whole to make decisions about resource allocation. Accordingly, no separate segment information other than entity-wide information is presented.

The Group has no customers that contributed over 10% of the total revenue of the Group for the year (2018: Same).

Geographical Information

Analysis of the Group's revenue and non-current assets by geographical location are detailed below:

	2019	2018
	RMB'000	*RMB'000*
Revenue		
Hong Kong	**-**	33,951
The PRC	**1,204,057**	1,149,801
	1,204,057	1,183,752
Non-current assets (note)		
The PRC	**8,804,257**	7,616,170

Note: Non-current assets excluded investments in associates, investments in a joint venture and deferred tax assets.

5. INTEREST AND INVESTMENT INCOME

	2019	2018
	RMB'000	*RMB'000*
Interest income on bank deposits	**42,166**	21,341
Interest income from a joint venture	**958**	1,070
Change in fair value of financial assets at fair value through profit or loss ("FVTPL")	**-**	1,736
Dividend income from financial assets at FVTPL	**-**	250
Investment income from financial assets at FVTPL	**20,323**	39,283
Interest income from loan receivables	**5,555**	5,554
	69,002	69,234

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interests on:		
- Bank borrowings	**104,101**	77,832
- Lease liabilities	**32,649**	-
	136,750	77,832
Less: Amount capitalised as construction in progress and properties under development	**(104,101)**	(77,832)
	32,649	-

The capitalised borrowing costs represent the borrowing costs incurred on borrowings whose funds were specifically invested in the construction in progress and properties under development during the year. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the interest rate applicable to the Group's specific borrowings during the year, i.e. 4.41% (2018: 4.41%).

7. TAXATION

	2019	2018
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	**-**	1,369
PRC Enterprise Income Tax	**120,977**	114,631
Withholding tax	**3,412**	23,150
	124,389	139,150
Under /(over) provision in prior years:		
PRC Enterprise Income Tax	**11**	-
Withholding tax	**(18,385)**	-
	(18,374)	-
Deferred tax (credit)/charge	**(22,645)**	952
	83,370	140,102

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the current year (2018: Same).

No provision for taxation in other jurisdictions has been made as the Group has no assessable taxable profits arising from operations outside Hong Kong and the PRC.

8. (LOSS)/PROFIT FOR THE YEAR

	2019	2018
	RMB'000	*RMB'000*
(Loss)/profit for the year has been arrived at after charging/(crediting):		
Directors' remuneration		
Fees	**702**	673
Salary and allowances	**6,335**	6,070
Bonus	**-**	8,868
Retirement benefits schemes contributions	**4**	15
	7,041	15,626
Other staff costs, excluding retirement benefits schemes contributions	**151,635**	161,928
Retirement benefits schemes contributions, net of forfeited contributions for staff	**6,772**	6,752
	158,407	168,680
Total staff costs	**165,448**	184,306
Auditor's remuneration	**3,505**	3,271
Depreciation of property, plant and equipment	**104,728**	111,080
Depreciation of right-of-use assets	**122,854**	-
(Reversal of loss allowance)/ loss allowance on expected credit losses for trade receivables	**(613)**	1,681
Expenses related to variable lease payments to:		
- a joint venture	**43,527**	-
Rental expenses under operating lease in respect of leasehold land and buildings to:		
- a joint venture	-	160,574
- other parties	-	16,996
Loss/(gain) on disposal/write off of property, plant and equipment	**338**	(22)
Expenses relating to low-value leases	**16**	-
Expenses relating to short-term leases	**1,088**	-
Cost of inventories recognised as expense	**376,819**	333,888

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2019 (2018: nil)

10. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

(Loss)/earnings figures are calculated as follows:

	2019	2018
	RMB'000	*RMB'000*
(Loss)/profit for the year attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	**(83,516)**	338,074

Number of shares

	2019	2018
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**1,464,449**	1,520,780

The diluted (loss)/earnings per share for the year ended 31 December 2019 equals to the basic (loss)/earnings per share as there are no potential dilutive ordinary shares to issue during the year (2018: Same).

11. TRADE AND OTHER RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	**61,022**	60,801
Leases receivables	**5,543**	7,574
	66,565	68,375
Less: Loss allowance on expected credit losses	**(1,068)**	(1,681)
	65,497	66,694
Prepayments	**204**	250
Deposits paid	**4,615**	4,635
Value added tax ("VAT") receivable	**106,069**	96,967
Loan and interest receivables (note)	**140,875**	135,323
Others	**64,797**	34,928
	316,560	272,103
Less: Provision of expected credit losses	**(22,253)**	(22,253)
	294,307	249,850
	359,804	316,544
Less: Non-current portion	**(4,615)**	(139,958)
	355,189	176,586

Note: The amounts included the outstanding balance of loans to certain employees of 北國商城股份有限公司 ("Beiguo") for the purpose of enabling them to acquire shares of Beiguo. The loans were secured against the share interests in Beiguo held by the respective employees. The loans are for a period of three years from the date of grant in August 2017 and bear interests at a rate equivalent to the one-year RMB benchmark interest rate as quoted by the People's Bank of China.

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 and the lease receivables are normally settled 30 days in arrears. The following is an aged analysis of trade receivables net of allowance for expected credit losses, if any, presented based on the invoice date:

	2019 *RMB'000*	2018 *RMB'000*
0 – 30 days	**64,331**	64,235
31 – 60 days	**482**	659
61 – 90 days	**205**	169
Over 90 days	**479**	1,631
	65,497	66,694

12. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**47,073**	44,926
Construction payables	**219,306**	54,734
Concessionaire sales payables	**481,675**	499,573
Refundable prepaid card deposits	**123,830**	114,798
Rental deposits received	**78,319**	72,318
Accrued expenses	**42,636**	33,210
VAT payable	**11,749**	28,609
Interest payables	**3,278**	2,684
Others	**27,889**	81,140
	1,035,755	931,992

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

	2019	2018
	RMB'000	*RMB'000*
0 – 30 days	**40,238**	33,919
31 – 60 days	**1,766**	2,795
61 – 90 days	**479**	2,300
Over 90 days	**4,590**	5,912
	47,073	44,926

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

13. SUBSEQUENT EVENTS

Following the outbreak of Coronavirus Disease ("the COVID-19 outbreak) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing.

People were discouraged from going out to prevent the spread of the disease. Both Shanghai Jiuguang and Suzhou Jiuguang shortened their opening hours. This, coupled with the lower footfall caused by the pandemic outbreak, adversely affect business at the two department stores at the beginning of February 2020. As operator of department stores in China, the Group's revenue, cash flows and profit from the operation are expected to decrease as compared to the same period in 2019 due to the impact from the COVID-19 outbreak.

At this point in time, the Group cannot determine the duration of the coronavirus and therefore, the Group is not yet able to quantify the full financial impact. In the case of a prolonged coronavirus crisis, there may be a larger effect on the Group's 2020 financial results. The management of the Group will pay close attention to the development of the COVID-19 outbreak and perform further assessment of its financial impact.

The COVID-19 outbreak is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

As further detailed in note 17 to the consolidated financial statements, the Group holds certain equity interests in certain associated companies herein referred to as "Beiren Group" 北人集團, which are held via Wingold Limited and Ample Sun Group Limited, 60% owned subsidiaries of the Group. For the year ended 31 December 2019, the Group has recognised a share of losses of associates of RMB491.3 million and carried RMB2,747.4 million investments in associates on the consolidated statement of financial position as at 31 December 2019, of which RMB491.1 million of the share of losses of associates for the year and RMB2,743.4 million of the carrying value of investments in associates were attributable to the Beiren Group. Included in the Beiren Group's net loss for the year was a loss allowance on expected credit loss of RMB1,658.0 million, net of deferred tax credit, against certain overdue trade receivable balances of the Beiren Group. The impact of this net expected credit loss on the Group's share of losses of associates, loss attributable to owners and loss attributable to non-controlling interests for the year ended 31 December 2019 amounted to RMB812.4 million, RMB487.4 million and RMB325.0 million respectively, while its impact on the Group's carrying value of the investments in associates, equity attributable to owners of the Company and the non-controlling interests as at that date amounted to RMB812.4 million, RMB487.4 million and RMB 325.0 million respectively.

The principal activities of the Beiren Group are operating of department stores and supermarkets. It is also engaged in auto trading business and sales were made to three PRC companies in China ("the Debtors"). The ultimate beneficial owner of the Debtors has provided personal guarantees over the Debtors' outstanding amounts to the Beiren Group (the "Guarantor"). The Debtors have defaulted on settlement of trade balances due to the Beiren Group since April 2019. In addition, the Group became aware from public sources that the Guarantor has been detained by the relevant local authority in Hebei province in relation to alleged illegal activities in one of his businesses which was engaged in peer-to-peer lending. Based on public notices issued from the local authority in Hebei, management noted that all companies (including the Debtors) and assets which are located in Hebei Province and are directly or indirectly owned by the Guarantor have been seized by the local authority pending further investigations.

After obtaining an understanding from management of the Beiren Group in respect of the actions to be taken to recover the trade receivables from the Debtors and taking into consideration the advice from the Group's external legal advisers, the Group has concluded the likelihood of recovering any amount from the Debtors or the Guarantor as remote and has made a loss allowance on expected credit loss, net of deferred tax credit, against the whole overdue trade receivable balances due from the Debtors for the purpose of recognising the share of results of the Beiren Group.

However, the Group’s management was not able to provide us with adequate evidence with respect to the current financial conditions of the Debtors and the Guarantor, including the 2019 latest financial information of the Debtors, details of other assets (including nature, amounts, and claims or pledges against such assets, if any) of the Guarantor that could be pursued to settle the outstanding trade receivables due to the Beiren Group. We were therefore unable to obtain sufficient appropriate audit evidence we considered necessary to assess the appropriateness of management’s impairment assessment, net of deferred tax credit in the Beiren Group. Given these scope limitations, there were no other satisfactory procedures that we could perform to determine whether any adjustments were necessary in respect of the Group’s assessment of the impairment against the trade receivable balances due from the Debtors in the Beiren Group and its related deferred tax credit, which has consequential impacts on (i) the Group’s share of loss of associates for the year ended 31 December 2019 and its carrying value of the investment in associates as at that date; (ii) the Group’s loss profit attributable to owners and loss profit attributable to non-controlling interests in the Group’s consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019; and (iii) the Group’s equity attributable to owners of the Company and the non-controlling interests on the consolidated statement of financial position as at 31 December 2019.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

In 2019, China posted the slowest gross domestic product growth since 1991 of 6.1% amid its trade war with the United States. This has dampened China's consumer sentiment and resulted in deceleration of the country's retail sales growth to 8.0% in 2019 from the 9.0% in 2018. In response to the economic slowdown, the Chinese government has rolled out a series of measures and policies which included reducing taxes and fees with an aim to relieving cost pressure of corporates and stimulating domestic consumption.

A breakdown of growth in retail sales showed that retail sales for the department store sector rose by only 1.4% in 2019, down from the 3.2% growth in 2018. Meanwhile, retail sales growth for the supermarket sector in 2019 remained resilient and recorded 6.5%, as comparing to 6.8% growth in 2018.

Competition in the department store and supermarket sectors has been intensifying as opening of new shopping malls have been continuing. In addition, the growing popularity of electronic commerce, which is particularly popular among the younger generation consumers, also posed a big challenge to operators of conventional brick-and-mortar retailing. Retailers running physical stores however are fast adapting to this ever-evolving retail landscape by adopting technologies such as online shopping platforms, mobile internet-enabled applications and computerized retail management systems.

Financial Review

The Group managed to deliver stable performance for the year ended 31 December 2019 despite a slowing economy amid the Sino-United States trade dispute, thanks in part to the government's measures in reducing taxes to boosting domestic consumption. With enhanced promotional and marketing efforts, the Group's two department stores, Shanghai Jiuguang and Suzhou Jiuguang, both delivered a resilient set of financial results in 2019.

Revenue and Sales Proceeds

For the year ended 31 December 2019, the Group saw its revenue increase by 1.7% to RMB 1,204.1 million, comparing with RMB1,183.8 million in 2018. In spite of the lingering China-US trade dispute and a slowing Chinese economy, the Group remained on a firm footing, underpinned by strong brand equity and sound business strategies. The Group's two department stores, Shanghai Jiuguang and Suzhou Jiuguang, further consolidated their market positions as one of the most popular mid to high-end department stores in their respective region during the year. Both stores managed to record sales growth, thanks to their effective marketing initiatives and attractive product offerings. With strong sales performance, cosmetics products remained the main sales growth driver for both stores. Total sales proceeds of the Group rose 3.2% to RMB3,332.1 million this year from RMB3,228.7 million in 2018.

Gross Profit and Concessionaire Rate

The Group's gross profit amounted to RMB791.4 million in 2019 and the gross profit margin as a percentage of total sales proceeds was approximately 23.8%, comparing with 25.0% in 2018. Meanwhile, gross profit margin as a percentage of revenue decreased to 65.7%, from 68.3% in 2018 and average concessionaire rate decreased to approximately 21.6%, from 22.1% recorded in 2018, as a result of intensifying market competition.

Net (Loss)/Profit Attributable to Shareholders

The Group recorded a loss of approximately RMB83.5 million for the year ended 31 December 2019 as compared to a profit of RMB338.1 million for 2018. The unexpected loss was mainly attributable to the share of loss from Beiren Group (after non-controlling interests) of RMB294.7 million this year, whereas it was a share of profit of RMB204.0 million in 2018. The share of loss from Beiren Group was a result of a share of net expected credit loss in respect of a trade receivable held by the Beiren Group at the end of the reporting period, as more fully explained in the section headed "Extract of the independent auditor's report" above. Excluding the share of results of Beiren Group, the Group would have reported a profit after tax and non-controlling interest of RMB211.2 million, comparing to RMB134.1 million in 2018. The significant profit increase was mainly attributable to costs reduction and the receipt of a refund of withholding tax of RMB40.2 million relating to dividends distributed in 2017 and 2018 by the subsidiaries.

Selling and Distribution Costs

Aggregate selling and distribution costs of the Group decreased 12.4% to RMB427.2 million from RMB487.8 million in 2018, which was mainly attributable to (i) certain lease related expenses being accounted for as finance costs following adoption of the new accounting standard in relation to leases; (ii) lower frontline staff expenses, partly a result of cessation of the Japanese restaurant operation since second half of 2018; and (iii) lower repair and maintenance and property related expenses. The Group's aggregate selling and distribution expenses as a percentage of total sales proceeds decreased to approximately 12.8% in 2019 from 15.1% in 2018.

Administrative Expenses

The Group's general administrative expenses decreased 7.5% to approximately RMB145.2 million from RMB157.1 million recorded in 2018. The decrease was mainly attributable to lower staff costs.

Staff Costs

Staff costs (excluding those of the directors) of the Group decreased 6.1% to approximately RMB158.4 million during the year under review. The year-on-year decrease in staff costs was a result of a reduction in the overall headcounts, as well as reduced staff bonus expenses. The total number of full-time staff of the Group at the end of 2019 was 1,162 as compared with 1,216 at the end of 2018.

Other Income, Gains and Losses

Other income, gains and losses comprise mainly management fee, credit card charges and other miscellaneous income received from the counters/tenants, other sundry income and exchange gain/loss. The increase was mainly attributable to increase in credit card recharge and other miscellaneous income from counters/tenants as sales grew, as well as an increase in exchange gain on the Group's bank balances denominated in United States dollar and Hong Kong dollar which strengthened against the RMB during the year.

Interest and Investment Income

The interest and investment income from the Group's remained stable at RMB69.0 million (2018: RMB69.2 million) for the year, which was mainly arising from the Group's bank deposits and structured deposits

Finance Costs

The Group's finance cost consisted mainly of interests incurred on bank borrowings. The aggregate amount of finance cost and interests incurred, before capitalization, was approximately RMB136.8 million (2018: RMB77.8 million) for the year under review. The increase when comparing to last year was mainly due to increase in the total bank borrowings for funding the Daning project. The finance costs charged to the profit or loss account amounted to RMB32.6 million (2018: nil), representing the finance charge arising from the lease liability following adoption of the new accounting standard in respect of the Group's operating leases.

Liquidity and Financial Resources

The Group's adjusted EBITDA for the year increased 12.6% to RMB436.6 million (2018: RMB387.8 million), mainly due to reduction in costs as well as increase in sales revenue. As at 31 December 2019, the Group's net debt (defined as cash and cash equivalents less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amount due to a joint venture) amounted to approximately RMB917.3 million, while it was RMB630.5 million in 2018. The increase in net debt was mainly attributable to increased bank borrowings for funding the Daning project development.

The Group's cash and cash equivalents amounted to approximately RMB1,585.7 million (31 December 2018: RMB1,536.4 million) as at 31 December 2019, of which RMB19.6 million, denominated in Hong Kong dollars, was kept in Hong Kong, with the balance being kept in mainland China of which approximately 6.2% was denominated in United States dollars and the remaining 93.8% in Renminbi. The increase in cash at banks as compared to end of 2018 was a result of the Group's net proceed from disposal of structured deposits amounting to approximately RMB59.9 million.

As at 31 December 2019, the Group's secured bank loans amounted to approximately RMB2,430 million (31 December 2018: RMB2,109 million), bearing interest calculated with reference to benchmark lending rates of the People's Bank of China. As at 31 December 2019, the Group's banking facilities was fully utilized (31 December 2018: unutilised facilities of approximately RMB341 million). The Group's debt to equity ratio (defined as bank borrowings divided by equity attributable to owners of the Company) was 27.1% as at the end of the year (31 December 2018: 23.3%).

Foreign Exchange Management

The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi, in which majority of the Group's transactions are denominated. As described under the "Liquidity and Financial Resources" section above, certain portion of the Group's monetary assets are denominated in foreign currencies, namely Hong Kong dollar and United States dollar. Given the fact that majority of the Group's revenue and expenses as well as borrowings and capital expenditures are denominated in Renminbi, and the Hong Kong dollar cash balance kept in Hong Kong is for settling operating expenses outside of mainland China, the Group currently does not need a comprehensive foreign currency hedging policy. Management will however monitor the Group's foreign currency exposure and will consider taking appropriate measures to mitigate any potential significant foreign currency risks should the need arises.

Pledge of Assets

As at 31 December 2019, certain of the Group's (i) property, plant and equipment in the PRC at RMB3,045 million (31 December 2018: RMB2,337 million) and (ii) right-of-use in the PRC at RMB1,724 million (31 December 2018: prepaid lease payment in the PRC at RMB1,772 million); and property under development in the PRC at RMB1,228 million (31 December 2018: RMB1,044 million) were pledged to secure bank loan facilities of approximately RMB2,430 million (31 December 2018: RMB2,109 million) for the Daning project development.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2019.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the year.

Review of Operations

To cope with the intensifying competition, the Group leveraged its brand equity and reinforced the positioning of Shanghai Jiuguang and Suzhou Jiuguang towards catering to the middle-to upper-class with mid-range to high-end products. Product assortment was enriched with more high-end international brand and quality products. In addition, to adapt to the changes in consumption patterns and behaviour induced by electronic commerce, the Group also implemented mobile internet-enabled applications on handsets and computerized retail management system to enhance customer engagement. These collective efforts helped achieving steady business performance for 2019 amid the challenging operating environment.

Shanghai Jiuguang

Shanghai Jiuguang's sales proceeds recorded an increase of 4.5% in 2019 as the Group geared its product assortment further to cater to the mid-range and high-end markets. Cosmetic products and accessories, in particular, achieved remarkable sales performance with sales surged by 13.1%, the highest among all product categories. The store's average ticket size increased by 2.5% to RMB448, with the stay-and-buy ratio remained largely stable at around 37.7%. Nevertheless, keen competition from neighbouring area has caused the store's average daily footfall fallen by 2.0% to around 49,000 visitors. To deepen the engagement with customers, the store enriched during the year promotional activities and marketing campaigns for its club members. The average concessionaire rate collected by the store remained stable at approximately 23.2%, comparing with 23.4% in 2018.

Suzhou Jiuguang

To provide better services to its customers, which are mainly from the middle-class group, Suzhou Jiuguang has during the year enriched its product assortment by adding more higher-end international brands. The store's sales proceeds rose by 5.4% this year and the growth was mainly driven by the sales of cosmetic products and accessories, which jumped 13.9% from last year. On the other hand, other product categories that also contributed to the store's sales growth included high-end international branded fashion and accessories, household and babies' goods. During the year, a portion of the supermarket area has been converted for the operation of food stalls in order to increase the overall sales efficiency. The store's stay-and-buy ratio saw an increase of 3.1 percentage points to 45.5%, and the average ticket size remained stable at around RMB414. However, the average daily footfall fell by 2.6% to about 20,000 visitors due to the competition from a newly opened shopping mall in the neighbourhood. The average concessionaire rate collected by the store decreased to 18.1% from 18.8% in 2018.

Dalian and Shenyang property

Both the property in Dalian and Shenyang remained vacant throughout the year and continued incurring negative cash flows for up-keeping and the maintenance of the properties.

Standalone Freshmart Operation

Business of Freshmart, which sells high-quality food and confectionery products as a standalone operation of the Group at a rented premise in Changning, Shanghai, continued to struggle amidst fierce competition and low traffic footfall. During the year, its product assortment was adjusted to cater to the needs of office workers in the same building where the Freshmart is located. Meanwhile, the Group continued to reducing the portion of direct sales and increasing the portion of concessionaire sales with an aim to boosting its sales efficiency. The operation suffered from a negative cash flow in 2019 as the amount of operating expenses outweighed the sales revenue.

Investments in Associates

Beiren Group, a well-established Shijiazhuang-based retailer in which the Group maintains a strategic equity interest, recorded 8.1% drop in aggregate sales during the year (2018: increase of 2.6%), before counting the 80.6% sales drop of the auto trading business which ceased operation during the year. A share of net loss of RMB491.1 million or RMB294.7 million (after non-controlling interests) in Beiren Group (2018: share of net profit of RMB339.8 million or RMB204.0 million (after non-controlling interests)) was recorded for the year and the reverse from a share of profit to loss this year was mainly due to the Group's share of net expected credit loss of RMB812.4 million in respect of certain trade receivables held by the Beiren Group, as more fully explained in the section headed "Extract of the independent auditor's report" above. If the said share of net expected credit loss of the trade receivable balances was excluded, the Group would have recorded a share of profit of RMB321.3 million from the Beiren Group, a mild drop of 5.5% when compared to last year.

Business Expansion

Construction works of the Group's retail and commercial complex in Daning, Jingan District, Shanghai is at the final stage of completion. The project comprises a large retail complex, which will house the Group's second Jiuguang store in Shanghai, and two office blocks. The retail complex is expected to commence business in 2021, when it should start contributing cash flows to the Group and enhancing the Group's business footprint and brand equity in Shanghai.

Outlook and Plan

As trade tensions between China and the United States has somewhat abated following signing of phase one of the trade agreement in mid-January, which was expected to help lifting up again the world's economy. Unfortunately, the COVID-19 outbreak, which was first reported in early 2020 and recently announced as a pandemic, has caused significant health concerns and impact to China's economic activities. To prevent the spread of the virus, a series of preventive and control measures have been and continued to be implemented in China that people are discouraged from going out.

As a result, both Shanghai Jiuguang and Suzhou Jiuguang had to close certain sections of the store and shorten their operating hours. This, coupled with the lower footfall caused by the pandemic has adversely and significantly affected the business of the two department stores since the beginning of February 2020.

Although the COVID-19 outbreak seems to slowly getting under control in China recently, the situations in other countries round the globe are at their initial stage and may take a period of time to combat. While it is expected that the retail sector may pin its hope on the future release of pent-up demand after the pandemic dies out, it is difficult to estimate how much disruption it may cause to the economy and how long it will last. A possible rise in unemployment will further weaken the fragile consumer sentiment. As such, the management takes a pessimistic view about the economic growth and retail consumption outlook in 2020.

Other headwinds that the Group has to face, including competition from shopping malls in the localities of its department stores, intensifying competition from the e-commerce and the rapidly changing consumption patterns of the younger generation will remain.

To stay competitive, the Group's department stores will reinforce their positioning as the ones that cater to the daily needs of the middle to upper-class customer group. We will introduce more mid-range and higher-end products of internationally renowned brands to enrich the brand and product assortment. We will also continue to rationalize the operations by making adjustments to cater different types of retail operations.

To adapt itself to the new era of retailing and the consumption patterns of the young consumers, the Group has been conducting omni-channel marketing with the help of its mobile internet-enabled applications for the use of its members at Shanghai Jiuguang since September 2019 and the same systems will be made available for customers at Suzhou Jiuguang in the near future to create greater convenience for customers to shop and to enjoy sharing of reward points at both locations, which shall help to drive sales.

The mobile internet-enabled application enables a number of functions, including conversion of reward points earned from making purchases at the Group's department stores to redeem coupons for consumption at other businesses such as cafes or cinemas which form alliances with the Group, advertisement of products and services, and themed marketing and promotional activities. Such applications will operate seamlessly with the Group's retail management system that will enable collection of data about customers' consumption patterns and preferences so that the Group will be able to swiftly adjust its product assortment and conduct precision marketing and promotional activities accordingly. These measures will enable the Group to better serve its VIP club members, thus enhancing their shopping experience and ultimately customer loyalty.

The Group will continue to roll out measures with the aim to boosting its sales revenue and generating better returns to shareholders. It will also continue to seek investment opportunities that can bring sustainable and profitable growth to the Group.

EMPLOYEES

As at 31 December 2019, the Group employed a total of 1,162 employees, with 1,157 stationed in mainland China and 5 in Hong Kong. The staff costs (excluding directors' emoluments) amounted to RMB158.4 million (2018: RMB168.7 million) for the year ended 31 December 2019. The Group ensures that pay levels of its employees are competitive and in line with the market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

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 2019, except the following deviation:

The roles of the Chairman and Chief Executive Officer are not segregated but such arrangement facilitates the development and execution of the Group's business strategies and enhances efficiency and effectiveness of its operations.

DIVIDEND

The Board has resolved not to declare any dividend for the year ended 31 December 2019 (2018: nil).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting to be held on Monday, 4 May 2020, the register of members of the Company will be closed from Monday, 27 April 2020 to Monday, 4 May 2020, 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 Friday, 24 April 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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 2019.

REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2019 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF MESSRS. PRICEWATERHOUSECOOPERS

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

ACKNOWLEDGEMENT

We would like to express our gratitude to our management team and our staff for their great efforts and contributions to the Group's development, especially for their dedication to their duties despite the additional pressure exerted by the epidemic. Finally, we would also like to thank our customers, business partners and shareholders for their unswerving support.

On behalf of the Board
Lifestyle China Group Limited
Lau Luen Hung, Thomas
Chairman

Hong Kong, 23 March 2020

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.