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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- Completed of the spin-off from Lifestyle International Holdings Limited (stock code: 1212) and listed on the Main Board of The Stock Exchange of Hong Kong Limited since 15 July 2016
- Turnover amounted to HK$1,318 million, a decrease of 4.6%
- Profit attributable to owners of the Company increased 5.8% to HK$324 million*
- Earnings per share amounted to HK$0.202, an increase of 5.8%
- No dividend has been declared by the board of directors

**The amount was after deducting the one-off costs of approximately HK$22.3 million associating with the spin-off and separate listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited. Profit attributable to owners of the Company would have been 12.0% up from HK$308.8 million last year if this one-off costs were excluded.*

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 2016 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 2016

	NOTES	**2016** *HK$'000*	2015 *HK$'000*
Turnover	*3*	**1,317,982**	1,381,348
Cost of sales	*3*	**(362,329)**	(366,771)
Gross profit		**955,653**	1,014,577
Other income, gains and losses		**133,189**	118,249
Selling and distribution costs		**(649,569)**	(731,296)
Administrative expenses		**(134,597)**	(153,237)
Investment income	*4*	**51,405**	73,191
Share of profit of a joint venture		**39,837**	38,040
Share of profits of associates		**365,890**	370,237
Listing expenses		**(22,285)**	(2,845)
Finance costs	*5*	**(13,559)**	(26,908)
Profit before taxation		**725,964**	700,008
Taxation	*6*	**(146,553)**	(142,288)
Profit for the year	*7*	**579,411**	557,720
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**(11,365)**	(48,271)
Share of exchange differences of associates		**(32,638)**	(107,114)
Share of exchange difference of a joint venture		**(3,638)**	(14,136)
		(47,641)	(169,521)
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of functional currency to presentation currency		**(612,591)**	(331,243)
Other comprehensive expense for the year		**(660,232)**	(500,764)
Total comprehensive (expense) income for the year		**(80,821)**	56,956
Profit for the year attributable to:			
Owners of the Company		**323,636**	305,977
Non-controlling interests		**255,775**	251,743
		579,411	557,720
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(254,332)**	(145,384)
Non-controlling interests		**173,511**	202,340
		(80,821)	56,956
Earnings per share:			
Basic	*9*	**HK$0.202**	HK$0.191

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	NOTES	**2016** *HK$'000*	2015 *HK$'000*
Non-current assets			
Property, plant and equipment		**3,885,050**	3,934,012
Prepaid lease payments		**2,620,444**	2,855,712
Interests in associates		**3,213,020**	3,199,978
Interest in a joint venture		**433,939**	456,280
Properties under development	10	**870,836**	778,716
Deferred tax assets		**454**	360
		11,023,743	11,225,058
Current assets			
Inventories		**39,549**	38,090
Prepaid lease payments		**73,142**	80,204
Trade and other receivables	*11*	**158,669**	159,211
Dividend receivable from an associate		**100,918**	-
Amount due from a joint venture		**33,389**	35,400
Amount due from a fellow subsidiary	*13*	**-**	62
Financial assets at fair value through profit or loss		**84,489**	-
Bank balances and cash		**2,213,069**	2,291,965
		2,703,225	2,604,932
Current liabilities			
Trade and other payables	*12*	**1,102,064**	1,117,692
Amount due to a joint venture		**53,904**	40,101
Amounts due to fellow subsidiaries	*13*	**-**	8,198,280
Tax payable		**59,191**	44,361
Bank borrowings – due within one year		**157,510**	152,980
		1,372,669	9,553,414
Net current assets (liabilities)		**1,330,556**	(6,948,482)
Total assets less current liabilities		**12,354,299**	4,276,576

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 31 DECEMBER 2016

	NOTE	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Bank borrowings – due after one year		**1,049,161**	888,594
Deferred tax liabilities		**23,908**	23,922
Amount due to a non-controlling shareholder of subsidiaries		**99,735**	130,550
		1,172,804	1,043,066
		11,181,495	3,233,510
Capital and reserves			
Share capital	*14*	**8,013**	-
Reserves		**9,779,135**	1,913,799
Equity attributable to owners of the Company		**9,787,148**	1,913,799
Non-controlling interests		**1,394,347**	1,319,711
		11,181,495	3,233,510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. REORGANISATION AND BASIS OF PRESENTATION AND 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.

In preparation for the listing of the Company's shares on the Stock Exchange and pursuant to the Reorganisation ("Reorganisation") as set out in the section headed "Reorganisation" to the Company's listing document dated 30 June 2016 ("Listing Document"), the Company since 23 June 2016 has become the holding company of the companies now comprising the Group. The Company's shares were listed on the Stock Exchange on 15 July 2016 ("Listing").

The companies now comprising the Group were under the common ownership and control of the same shareholders of Lifestyle International Holdings Limited ("Lifestyle International") before and after the Reorganisation. As a result, the Reorganisation is regarded as a reorganisation under common control. The consolidated statements of profit or loss and other comprehensive income and the consolidated statements of cash flows which include the results and cash flows of the companies now comprising the Group have been prepared by applying the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the current group structure upon completion of the Reorganisation has been in existence since 1 January 2015 or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2015 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date.

2. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 - 2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amount received and receivable for goods sold by the Group to outside 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:

	2016	2015
	HK$'000	*HK$'000*
Sales of goods - direct sales	**443,283**	446,496
Income from concessionaire sales	**734,993**	769,655
Service income	**43,518**	55,804
Rental income	**96,188**	109,393
	1,317,982	1,381,348

The cost of sales are analysed as follows:

Cost of goods sold - direct sales	**293,291**	293,266
Other cost of sales	**69,038**	73,505
	362,329	366,771

The Group has no customers that contributed over 10% of the total revenue of the Group for both years.

Segment information

The Group's operating activities are attributable to a single operating segment 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 Officer of the Company). The CODM regularly reviews revenue analysis by location. Other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective locations.

The CODM reviews the profit for the year of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating segments" and accordingly no separate segment information other than entity level information is prepared.

Geographical Information

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

	2016	2015
	HK$'000	*HK$'000*
Hong Kong	**2,006**	3,074
People's Republic of China ("PRC")	**7,374,324**	7,565,366
	7,376,330	7,568,440

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

4. INVESTMENT INCOME

	2016	2015
	HK$'000	*HK$'000*
Interest income on bank deposits	**48,193**	69,671
Change in fair value of financial assets at FVTPL	**(813)**	-
Dividend income from financial assets at FVTPL	**141**	-
Other interest income	**3,884**	3,520
	51,405	73,191

5. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interests on:		
Bank borrowings	**56,659**	61,870
Amounts due to fellow subsidiaries	**77,356**	161,785
Others	**-**	375
	134,015	224,030
Less: Amount capitalised as construction in progress and properties under development	**(120,456)**	(197,122)
	13,559	26,908

The capitalised borrowing costs represent the borrowing costs incurred by the subsidiaries on borrowings whose funds were specifically invested in the construction in progress and properties under development during the year.

6. TAXATION

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**2,569**	2,700
PRC Tax	**143,132**	144,501
	145,701	147,201
Overprovision in prior years:		
Hong Kong Profits Tax	**(20)**	(20)
PRC Tax	**(138)**	-
	(158)	(20)
Deferred tax charge (credit)	**1,010**	(4,893)
	146,553	142,288

Provision for Hong Kong Tax provided in the consolidated financial statements is calculated at 16.5% of the assessable profits during both years.

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%.

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 PRC.

7. PROFIT FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	**414**	50
Other emoluments	**3,660**	3,600
Bonus	**7,000**	7,500
Retirement benefits scheme contributions	**9**	9
	11,083	11,159
Other staff costs, excluding retirement benefits scheme contributions	**186,222**	212,466
Retirement benefits scheme contributions	**8,832**	10,381
	195,054	222,847
Total staff costs	**206,137**	234,006
Release of prepaid lease payments	**74,036**	96,090
Less : Amount capitalised in construction in progress	**(54,023)**	(74,960)
	20,013	21,130
Auditor's remuneration	**3,339**	1,388
Depreciation of property, plant and equipment	**130,732**	145,951
Impairment of other receivables	**12,947**	-
Write-down of obsolete inventories	**61**	209
Rental payment paid under operating lease in respect of leasehold land and buildings to		
- A joint venture	**185,188**	195,421
- Other parties	**21,925**	16,752
Loss on disposal of property, plant and equipment	**71**	9,905
Cost of inventories recognised as expense	**293,291**	293,266
Gross rental income from sub-letting of commercial properties under an operating lease entered into with a joint venture	**(59,162)**	(66,102)
Less : Direct operating expenses in respect of sub-letting of commercial properties under an operating lease entered into with a joint venture (included in cost of sales)	**36,981**	39,084
	(22,281)	(27,018)

8. DIVIDENDS

No dividend was paid or proposed by the Company since its incorporation.

During the year ended 31 December 2015, subsidiaries of the Group, Global Top Limited and Excellent Global Limited, paid dividends of HK$13,300,000 and HK$10,224,000, respectively, to Vision Pilot Group Limited, the then immediate holding company of Global Top Limited and Lifestyle International. Dividend per share is not presented as its inclusion is not considered meaningful for the preparation of the consolidated financial statements of the Group.

No dividend was paid or proposed for ordinary shareholders of the Company during 2016, nor has any dividend been proposed since the end of the reporting period.

9. EARNINGS PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**323,636**	305,977

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (note)	**1,602,587**	1,602,587

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares during both years.

Note: The weighted average number of ordinary shares for the purpose of basic earnings per share has been taken into account the share issued pursuant to the Reorganisation and the capitalisation issue of 1,602,586,440 ordinary shares of HK$0.005 each of the Company at par value on 11 July 2016 as if it had been effective on 1 January 2015.

10. PROPERTIES UNDER DEVELOPMENT

Properties under development comprise two office towers of the Group's commercial complex development project in Shanghai, the PRC. During the year ended 31 December 2016, the Group had additions of HK$131,853,000 to properties under development, including eligible capitalised borrowing costs of HK$48,056,000. The Group intends to sell these two office towers in part or in whole when the sale permit is granted by relevant PRC authorities.

11. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**50,696**	42,694
Prepayments	**3,172**	2,974
Deposit paid	**2,082**	1,961
Value added tax ("VAT") receivable	**66,965**	65,776
Others	**35,754**	45,806
	158,669	159,211

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 rental income receivables are normally settled 30 days in arrears. The following is an aged analysis of trade receivables net of allowance for doubtful debts, if any, presented based on the invoice date, which approximates the respective revenue recognition dates:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**48,938**	38,196
31 – 60 days	**892**	1,507
61 – 90 days	**154**	668
Over 90 days	**712**	2,323
	50,696	42,694

12. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**61,478**	43,007
Construction payables	**120,652**	243,082
Concessionaire sales payables	**545,470**	517,203
Deferred income	**135,065**	120,407
Rental deposits received	**53,892**	51,905
Accrued expenses	**52,983**	53,816
VAT payable	**42,040**	11,784
Interest payables	**1,481**	1,155
Others	**89,003**	75,333
	1,102,064	1,117,692

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

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**49,903**	32,582
31 – 60 days	**3,267**	3,333
61 – 90 days	**2,227**	1,877
Over 90 days	**6,081**	5,215
	61,478	43,007

The average credit period of trade payables and concessionaire sales payables is within 45 days. All concessionaire sales payables are aged 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. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

The amount due from a fellow subsidiary was unsecured, non-interest bearing and repayable on demand.

Except for the amounts due to fellow subsidiaries of approximately HK$166.1 million at 31 December 2015 were of trade nature, the remaining balances were non-trade in nature. While the amounts due to fellow subsidiaries of approximately HK$3,081.6 million as at 31 December 2015 were interest bearing at 5.25% per annum, the remaining balances were non-interest bearing.

As part of the Reorganisation, except for the trade balance that was settled in cash, the non-trade balances of amounts due to fellow subsidiaries with aggregate amount of HK$8,086.3 million have been settled by way of issue of shares of the Company to Lifestyle International. Prior to the listing of the shares of the Company on the Stock Exchange, certain loan interest payables amounted to HK$41.4 million were also waived by Lifestyle International and recognised as deemed contribution from Lifestyle International in capital reserve.

14. SHARE CAPITAL

The share capital as at 31 December 2015 represented the aggregate amount of the share capital of Lifestyle China Holdings Limited, Excellent Global Limited, Global Top Limited and Majestic Eagle Limited which in aggregate was less than HK$1,000. Pursuant to the Reorganisation, the Company has become the holding company of Excellent Global Limited and Majestic Eagle Limited since 23 June 2016.

Details of the changes in the Company's share capital during the period from 4 January 2016 (date of incorporation) to 31 December 2016 are as follows:

	Number of shares	Amount *HK$'000*
Authorised:		
At 4 January 2016 (date of incorporation) (HK$0.10 each)	3,800,000	380
Increase in authorised share capital by sub-dividing each of the issued and unissued existing shares of HK$0.10 into 20 new shares of HK$0.005 each	72,200,000	-
Increase in authorised share capital	3,924,000,000	19,620
At 31 December 2016 (HK$0.005 each)	4,000,000,000	20,000
Issued and fully paid:		
At 4 January 2016 (date of incorporation) (HK$0.10 each)	1	-
Issue of shares	2	-
Share subdivision of HK$0.10 each being subdivided into 20 subdivided shares of HK$0.005 each	57	-
Issue of shares pursuant to the capitalisation issue	1,602,586,440	8,013
At 31 December 2016	1,602,586,500	8,013

A total of 1,602,586,440 shares of the Company were issued to Lifestyle International on 1 July 2016 pursuant to the Reorganisation. Accordingly, the number of shares in issue was increased to 1,602,586,500. Pursuant to the Reorganisation, on 11 July 2016, Lifestyle International paid a dividend by means of distribution in specie of the entire issued share capital of the Company to its shareholders. The distribution was made by way of allocating one share of the Company for every one share of Lifestyle International held by the shareholders of Lifestyle International at the close of business on the distribution record date on 11 July 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The global market experienced sharp bouts of volatility during 2016. Uncertainties surrounding the world economy presented stern challenges for emerging markets, with China posted in 2016 its slowest annual economic growth since 1990.

China, the world's second largest economy, saw the growth of its gross domestic product slowed from 6.9% in 2015 to 6.7% in 2016, though still meeting the country's target range of 6.5% to 7% of GDP growth. During the year under review, China continued struggling to rebalance its economy away from a reliance on manufacturing and exports with ongoing economic reforms and stimulus measures to drive domestic consumption. As faltering global growth and a weak RMB dampened consumer sentiment, retail sales in mainland China grew 10.4% to RMB33.23 trillion in 2016, marking a further slowdown from 10.7% growth in the previous year and a 12% rise in 2014.

During the year, the Group implemented a series of effective business measures to capture growth opportunities in the market and refined its store operation model for the long-term prosperity. During the year, the Group was spun-off from Lifestyle International, with a view to enhance our decision-making process and responsiveness towards market changes. The Company was successfully listed as a separate entity on the Main Board of the Hong Kong Stock Exchange on 15 July 2016. To strengthen its competitiveness, the Group took strategic steps to solidify its retail operations in mainland China. The Group believes its long-standing reputation in offering high quality products and services and top-notch shopping experience to customers will continue to enable it to withstand market challenges.

Financial Review 2016

Despite tough market conditions, the Group remained focused on consolidating its business strengths and brand equity. During the period under review, the Group strived to provide unparalleled shopping experience to customers by optimizing its brand and product assortments and enhancing the store environment. As a result, the Group's core department store operation in Shanghai and Suzhou managed to deliver a steady set of results amidst weak consumer sentiment and slowing economic growth. Dalian Jiuguang, however, continued to suffer from prolonged sluggish market conditions in the northeastern part of China. The Group's strategic investment in Beiren Group, a leading retailer in Shijiazhuang, Hebei Province, however reported healthy results in 2016 amidst intense competition.

Turnover and Sales Proceeds

For the year under review, the Group's turnover decreased 4.6% to HK$1,318.0 million from HK$1,381.3 million in the previous year. Net sales proceeds declined 5.2% to HK$3,595.7 million which was mainly a result of the translation difference brought about by a depreciation of the RMB against HKD, the Group's reporting currency, and absence of sales revenue during the year from the Shenyang store, which has been closed since December 2015.

Gross Profit and Concessionaire Rates

Gross profit margin as a percentage of net sales proceeds remained stable at approximately 26.6% as comparing to 26.7% in 2015. Gross profit amounted to HK$955.7 million, down 5.8% from HK$1,014.6 million in 2015, again mainly due to RMB depreciation. Gross profit margin as a percentage of turnover slid from 73.4% to 72.5%. With the Group's sound and effective business strategies together with enhancement in the stores' brand and product mix, the Group managed to maintain a stable average concessionaire rate in 2016.

Net Profit Attributable to Shareholders

Net profit attributable to owners of the Company for the year saw an increase of 5.8% from HK$306.0 million in 2015 to HK$323.6 million. If the one-off expenses incurred for the Company's spin-off and separate listing on the Stock Exchange were excluded, the Group would have reported a profit increase of 12%. The increase in profit was mainly attributable to savings from closure of the loss making Shenyang store and an exchange gain from the Group's bank deposits denominated in Hong Kong dollar. The Group's net profit margin as a percentage of turnover improved from 22.2% to 24.6%.

Selling and Distribution Costs

Aggregate selling and distribution costs of the Group dropped 11.2% to HK$649.6 million, mainly a result of savings from closure of the Shenyang store, as well as effect of the Group's costs control measures. The Group's aggregate selling and distribution expenses as a percentage of total sales proceeds remained stable at approximately 18.1%.

Administrative Expenses

The Group's general administrative expenses decreased 12.2% to approximately HK$134.6 million, as compared to HK$153.2 million recorded in 2015, again mainly a result of savings from closure of the Shenyang store.

Staff Costs

Staff costs (excluding those of the directors) decreased 12.5% to approximately HK$195.1 million during the year under review, which was mainly attributable to closure of the Shenyang store in December 2015. The salary and wage increase for the Group's existing staff during the year was largely in line with the market and general inflation. Total number of full-time staff of the Group at the end of 2016 was around 1,380.

Other Income, Gains and Losses

These comprise mainly management fee income, credit card charges and other miscellaneous incomes received from the counters/tenants, other sundry incomes/expenses and exchange gain/loss. The increase was mainly due to exchange gain as mentioned above but was partly offset by the impairment made for other receivables as well as absence of management fee income from the Shenyang store following its closure in December 2015.

Investment Income

Investment income comprises mainly interest income from the Group's bank deposits. The interest income decreased by 30.8% to HK$48.2 million for the year under review as a result of lower deposit rates and lower average bank balance during the year as comparing to the previous year.

Listing Expenses

Listing expenses of approximately HK$22.3 million represented professional fees and expenses incurred in connection with the spin-off and listing of the shares of the Company on the Stock Exchange during the year.

Finance Costs

The Group's finance costs consisted mainly of interests incurred on bank loans and borrowings from fellow subsidiaries. The aggregate amount of interests incurred, before capitalisation, was approximately HK$134.0 million (2015: HK$224.0 million) and the decrease comparing to the previous year was mainly due to savings from repayment of certain bank loans and settlement of amounts due to fellow subsidiaries during the year. The finance costs charged to the profit and loss account has hence decreased to approximately HK$13.6 million, from HK$26.9 million in 2015.

Liquidity and Financial Resources

The Group's EBITDA before share of results of associates and a joint venture and other non-recurring items for the year increased slightly from HK$428.5 million in 2015 to approximately HK$438.1 million, mainly due to savings from closure of the negative cash-generating Shenyang store.

As at the end of 2016, the Group's net cash (defined as cash and bank balances less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amount due to a joint venture) decreased from approximately HK$1,079.7 million at 31 December 2015 to HK$852.8 million, due primarily to the payment of capital expenditure in respect of the Group's commercial complex development project in Shanghai, PRC and settlement of consultancy fee payable to a subsidiary of Lifestyle International. The Group's cash at banks amounted to about HK$2,213.1 million (2015: HK$2,292.0 million) as at the end of 2016, of which HK$455.1 million, denominated in Hong Kong dollar, was kept in Hong Kong, with the balance being kept in mainland China, of which approximately 10.0% was denominated in United States dollar and the remaining 90.0% was in Renminbi.

As at the end of 2016, the Group's secured bank loans amounted to approximately RMB 1,085.1 million (equivalent to approximately HK$1,206.7 million) (2015: RMB 882.7 million (equivalent to approximately HK$1,041.6 million)), bearing interest calculated with reference to the PBOC lending rates. As at the year end, the Group had aggregate unutilised banking facilities in the amount equivalent to approximately HK$1,669.6 million (2015: HK$2,187.2 million). At 31 December 2016 and 2015, the Group was at net cash position.

Foreign Exchange Management
The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi, in which most of the Group's transactions are denominated, whereas the Group's reporting currency is Hong Kong dollar. As described under the "Liquidity and Financial Resources" section above, only a small portion of the Group's monetary assets and liabilities are denominated in foreign currencies (Hong Kong dollar and United States dollar) other than Renminbi. Given the fact that majority of the Group's revenue and expenses as well as borrowings and capital expenditures are denominated in Renminbi, 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 2016, certain of the Group's property, plant and equipment, properties under development and prepaid lease payment in the PRC with aggregate carrying value of approximately HK$5,187.3 million (2015: HK$5,760.9 million) have been pledged to secure loan facilities amounting to approximately RMB2,586.6 million (equivalent to HK$2,876.3 million) (2015: RMB2,736.2 million).

Contingent Liabilities
The Group did not have any material contingent liabilities as at 31 December 2016.

Material Acquisitions and Disposals
There were no material acquisitions and disposals during the year under review.

Review of Operations
For the year under review, while the retailing market in China was generally affected by slowing economic growth, intensifying competition and sluggish consumer sentiment, the Group's department store performance however painted a mixed picture as the market started to see diverging performance among different operators and retailers across different parts of China. In general, good operators in top tier cities with larger middle and upper class population tend to perform better. With the Group's strong brand capital and effective business strategies, our Shanghai and Suzhou store remained one of the most preferred shopping destinations within the cities they operate.

Shanghai Jiuguang
In spite of weak market sentiment and interruption caused by the renovation work at the store, Shanghai Jiuguang delivered solid results, with sales revenue in local currency term saw a growth of 6.5% comparing to the previous year as the growth in the second half of 2016 was more than offset the sales decline recorded in the first six months of the year. Apart from the improving consumer sentiment along with a stablisation in the overall economy, the turnaround was mainly attributable to the improvement in customer traffic footfall following enhancements made to the store layout which brings newer shopping experience. Established itself as an unparalleled one-stop shopping destination, Shanghai Jiuguang also ramped up focus on interactive marketing campaigns and personalised shopping experience which helped increase customer loyalty. The successful marketing campaign and promotions for the New Year's Eve has helped achieving record-breaking daily sales revenue on 31 December 2016.

While sales of premium branded apparels and accessories were under pressure, sales of cosmetics and skin care products remained the most resilient and saw double digit growth during the year. Traffic footfall rose 10.2% although stay-and-buy ratio decreased four percentage points when comparing to the previous year. Average ticket size increased to RMB386 from RMB369 in 2015.

Notwithstanding a challenging operating environment, the average concessionaire rate collected by the store remained stable at around 23.9%.

Suzhou Jiuguang

Despite strong market headwinds, Suzhou Jiuguang remained on a solid footing by providing a one-stop shopping convenience and experience for customers, especially those with families. The store reported 2.8% growth in sales revenue in RMB terms during the year, again off-setting a sales decline saw in the first half of the year. Traffic footfall remained stable while the stay-and-buy ratio edged up slightly to 37.7%. Average ticket size was RMB369, largely at par with RMB360 in 2015.

Similar to its counterpart in Shanghai, Suzhou Jiuguang also achieved record-breaking daily sales revenue on the Christmas Day by tapping the holiday spending with promotions tailored to customer needs. In light of the increasing competition in the local market, management has continued to monitor the market very closely and devised sound and sensible marketing and business strategies to respond promptly to changes in the market and at the same time to strengthening customer loyalty.

Dalian Jiuguang

Dalian Jiuguang in the Northeastern China continued to struggle against the backdrop of sluggish local market conditions during the year. Sales revenue dropped 60.8% from the previous year with falling traffic footfall. In view of the deteriorating operating conditions, management has decided to scale down the operation gradually and not to renew the lease agreements which are due for renewal during the year. The Group is working to reposition the property and considering realigning the product range and tenant mix with an aim to widen the appeal of the property.

Shenyang Jiuguang

The Shenyang Jiuguang ceased operation in December 2015 and this self-owned store premise has remained vacant since then. Management is working to reposition this retail premise but in view of the over-supply situation regarding retailing area in the local market and the sluggish economy and market conditions, it may take a while before a decision could be finalised.

Standalone "Freshmart" Operation

Performance of the Group's standalone "Freshmart" store located in Changning, Shanghai was also affected by stalled demand and increasing competition in neighboring area, with sales revenue slid 19.4%. The disappointing results were mainly due to falling traffic footfall and lower stay-and-buy ratio. The store, opened in July 2013, represented the Group's effort to replicate the success and broaden the presence of the "Freshmart" brand, whose high-quality food and confectionary products have been enjoying widespread popularity among customers at the Group's Shanghai Jiuguang store.

Interest in Associates

Beiren Group, a well-established Shijiazhuang-based retailer in which the Group has strategic investment, continued to deliver steady results despite slackening demand in the highly competitive local market. For the year under review, the investment contributed about HK$365.4 million in profit (including profit attributable to the 40% non-controlling interest) to the Group, as compared with HK$370.8 million in 2015. The net share of profit from this investment accounted for 67.7% of the Group's profit attributable to owners of the Company for the year.

The performance of Beiren Group remained resilient during the year as it implemented effective business and marketing strategies to boost store traffic. Sales of department store merchandises saw double-digit growth as comparing to the previous year while supermarket sales remained solid with single-digit positive growth. However, sales of luxury merchandises such as jewelry were hit by slowing economy, and the group's back-to-back auto trading business also saw double-digit decline year on year.

Both the gross and net profit margin remained largely stable.

Restaurant Business

Aggregate sales revenue of the Group's restaurant business declined 7.6%, which was mainly caused by the drop in sales revenue of the Wa San Mai restaurants at both Shanghai Jiuguang and Suzhou Jinguang whereas business of the restaurant in Hong Kong remained solid. Profit from restaurant business amounted to HK$5.7 million for the year, a 42.2% decline from 2015 as the losses sustained by the restaurants in Shanghai and Suzhou ate up profit of the Hong Kong restaurant.

Business Expansion

Construction work of the Group's project under development, namely the retail and commercial complex in Daning, Jingan District, Shanghai, is proceeding in accordance with the plan. The project, tentatively scheduled for completion in 2018, will feature a commercial complex comprising a large-scale retail venue, office blocks, and the Group's second Jiuguang store in Shanghai. Upon completion, the project is expected to boost the Group's market share and further enhance its brand equity in Shanghai.

Completion of the Spin-off

Following completion of all the reorganization steps, which are more fully described in the Listing Document of the Company dated 30 June 2016, the Group has been spun-off from and ceased to be subsidiaries of Lifestyle International. On 15 July 2016, shares of the Company started to trade on the Stock Exchange.

Outlook and Plan

While the near-term outlook for the retail sector remains challenging given lingering concerns over China's slowing economy, the country's ongoing economic reforms and the continuous expansion of middle and upper class population will propel growth in retail consumption in the long run.

As a reputable retailer dedicated to service excellence, Lifestyle China has established a sturdy foothold in Shanghai and Suzhou and nurtured a loyal clientele. Leveraging its strong brand capital and solid business fundamentals, the Group is well positioned to grasp opportunities in the changing market and drive consistent long-term growth.

The Group will further strengthen its relationship with concessionaires and continue to refine the brand and product assortments in all its stores. With unparalleled customer services, a pleasant shopping atmosphere and an enjoyable checkout experience, Lifestyle China is looking to create a unique in-store environment which will offer something different to its competitors and making a trip to its stores more inviting than simply shopping online. Innovative promotion measures will also be rolled out to strengthen customer loyalty and boost store traffic.

As part of its strategy to expand sensibly and sustain long-term profitable growth, the Group maintains its open stance on new investment opportunities and looks forward to generating better returns for shareholders in the long run.

EMPLOYEES

As at 31 December 2016, the Group employed a total of 1,379 employees, with 1,317 stationed in mainland China and 62 in Hong Kong. Staff costs (excluding directors' emoluments) amounted to HK$195.1 million (2015: HK$222.8 million) for the year ended 31 December 2016. 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 throughout the period from its listing on the Stock Exchange on 15 July 2016 to 31 December 2016 ("Review Period"), except the following deviation:

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

DIVIDEND

The Board has resolved not to declare any dividend for the year ended 31 December 2016.

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, 8 May 2017, the register of members of the Company will be closed from Tuesday, 2 May 2017 to Monday, 8 May 2017, 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, 28 April 2017.

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 Review Period.

REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2016 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

ACKNOWLEDGEMENT

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

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

Hong Kong, 13 March 2017

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.