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 2018

HIGHLIGHTS

- Turnover amounted to RMB1,183.8 million, a decrease of 3.2%
- Profit attributable to owners of the Company increased 25.4% to RMB338.1 million
- Earnings per share amounted to RMB0.222, an increase of 32.1%
- 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 2018 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 2018

	Notes	2018 RMB'000	2017 RMB'000
Turnover	3	**1,183,752**	1,222,785
Cost of sales	3	**(375,190)**	(357,409)
Gross profit		**808,562**	865,376
Other income, gains and losses		**100,866**	75,480
Selling and distribution costs		**(487,752)**	(576,606)
Administrative expenses		**(157,076)**	(99,564)
Interest and investment income	4	**69,234**	52,806
Share of profit of a joint venture		**34,390**	37,451
Share of profits of associates		**339,760**	289,272
Finance costs	5	**-**	(3,344)
Profit before taxation		**707,984**	640,871
Taxation	6	**(140,102)**	(156,345)
Profit for the year	7	**567,882**	484,526
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**945**	(4,129)
Total comprehensive income for the year		**568,827**	480,397
Profit for the year attributable to:			
Owners of the Company		**338,074**	269,590
Non-controlling interests		**229,808**	214,936
		567,882	484,526
Total comprehensive income attributable to:			
Owners of the Company		**339,019**	265,461
Non-controlling interests		**229,808**	214,936
		568,827	480,397
Earnings per share:			
- Basic	9	**RMB0.222**	RMB0.168

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
Non-current assets			
Property, plant and equipment		**4,211,465**	3,796,539
Prepaid lease payments		**2,224,965**	2,290,740
Interests in associates		**3,337,937**	3,069,343
Interest in a joint venture		**386,297**	391,247
Properties under development		**1,044,417**	924,368
Deferred tax assets		-	378
Other receivables	*10*	**135,323**	127,684
		11,340,404	10,600,299
Current assets			
Inventories		**49,574**	42,555
Prepaid lease payments		**65,775**	65,775
Trade and other receivables	*10*	**181,221**	172,836
Dividend receivable from an associate		-	2,465
Amount due from a joint venture		**30,584**	30,000
Financial assets at fair value through profit or loss		**540,860**	856,615
Bank balances and cash		**1,536,381**	1,280,755
		2,404,395	2,451,001
Current liabilities			
Trade and other payables	*11*	**931,992**	1,031,890
Amount due to a joint venture		**13,602**	44,836
Tax payable		**56,201**	56,905
Bank borrowings – due within one year		**10,000**	5,000
Contract liabilities		**7,378**	-
		1,019,173	1,138,631
Net current assets		**1,385,222**	1,312,370
Total assets less current liabilities		**12,725,626**	11,912,669

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

	2018	2017
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings – due after one year	**2,099,000**	1,370,202
Deferred tax liabilities	**32,382**	31,424
Amount due to a non-controlling shareholder of subsidiaries	**44,296**	89,795
	2,175,678	1,491,421
	10,549,948	10,421,248
Capital and reserves		
Share capital	**6,291**	6,884
Reserves	**9,055,978**	9,059,969
Equity attributable to owners of the Company	**9,062,269**	9,066,853
Non-controlling interests	**1,487,679**	1,354,395
	10,549,948	10,421,248

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

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HKFRSs

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

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

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

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

2. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 15 "Revenue from Contracts with Customers"

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised to consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

The Group has applied the modified retrospective method of transition to HKFRS 15.

	Note	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
		RMB'000	RMB'000	RMB'000
Trade and other payables (included deferred income)	a	1,031,890	(3,738)	1,028,152
Contract liabilities	a	-	3,738	3,738

Note:

(a) At the date of initial application, included in trade and other payables was an amount of RMB2,879,000 and RMB859,000 related to unredeemed balance of the Group's loyalty points under loyalty reward programs and gift certificates purchased by customers, respectively. These balances were reclassified to contract liabilities upon application of HKFRS 15 as it represented the Group's performance obligation to transfer goods or services to customers in the future.

2. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	As reported	Adjustments	Amounts without application of HKFRS 15
		RMB'000	*RMB'000*	*RMB'000*
Trade and other payables (included deferred income)	b	931,992	7,378	939,370
Contract liabilities	b	7,378	(7,378)	-

Note:

(b) Upon application of HKFRS 15, the amount RMB7,378,000 in relation to balance of unredeemed loyalty points under loyalty reward programs and gift certificates purchased by customers had been reclassified from deferred income to contract liabilities as at 31 December 2018.

There is no impact of applying HKFRS 15 on the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

2. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 9 "Financial Instruments"

The Group had early applied HKFRS 9 issued in November 2009 and revised in October 2010 regarding classification and measurement of financial assets and disclosure requirements in previous years. In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

Except for the 2010 versions of HKFRS 9 that were early adopted by the Group in previous years, the Group has applied the remaining sections of HKFRS 9 and the related consequential amendments to other HKFRSs in the current year, whereas the introduction of new requirements for ECL for financial assets is relevant to the Group. The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the requirements for ECL retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

The following adjustments were made to the amounts recognised to statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	Carrying amounts previously reported at 31 December 2017	Reclassification Adjustments	Carrying amounts under HKFRS 9 at 1 January 2018
		RMB'000	*RMB'000*	*RMB'000*
Interest in associates	c	3,069,343	19,052	3,088,395
Reserves	c	9,059,969	11,431	9,071,400
Non-controlling interests	c	1,354,395	7,621	1,362,016

Note:

(c) Upon adoption of HKFRS 9, the expected credit loss on trade and other receivables held by associates of the Group decreased by RMB19,052,000 based on the result of internal credit assessment performed by the Group's management. The net effect arising from the initial application of HKFRS 9 resulted in an increase in the carrying amount of interest in associates and non-controlling interests of RMB19,052,000 and RMB7,621,000 respectively with corresponding adjustment to retained profits by RMB11,431,000 as at 1 January 2018.

2. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 9 "Financial Instruments"(continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the measurement of financial assets and financial liabilities and other items of the Group and its associates (which are held by non-wholly owned subsidiary of the Group) subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Interest in associate	Non-controlling interests	Reserves
	RMB'000	*RMB'000*	*RMB'000*
Closing balance at 31 December 2017 – HKAS 39	3,069,343	1,354,395	9,059,969
Effect arising from initial application of HKFRS 9			
- Impact under ECL model	19,052	7,621	11,431
Opening balance at 1 January 2018	3,088,395	1,362,016	9,071,400

3. TURNOVER AND SEGMENT INFORMATION

Turnover 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:

Disaggregation of revenue from contracts with customers

	2018	2017
	RMB'000	*RMB'000*
Types of goods or service		
Sales of goods - direct sales	**453,950**	439,427
Income from concessionaire sales	**608,908**	666,143
Service income	**39,053**	36,188
Total goods and service (under HKFRS 15)	**1,101,911**	1,141,758
Rental income (under HKAS 17)	**81,841**	81,027
	1,183,752	1,222,785
By geographical locations		
Hong Kong	**33,951**	59,258
The People's Republic of China (the "PRC")	**1,149,801**	1,163,527
	1,183,752	1,222,785
Timing of revenue recognition		
At point in time		
Sales of goods - direct sales	**453,950**	439,427
Over time		
Income from concessionaire	**608,908**	666,143
Service income	**39,053**	36,188
	647,961	702,331
Rental income	**81,841**	81,027
	1,183,752	1,222,785

The cost of sales are analysed as follows:

Cost of goods sold - direct sales	**333,888**	297,969
Other cost of sales	**41,302**	59,440
	375,190	357,409

3. TURNOVER AND SEGMENT INFORMATION (Continued)

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 by location.

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 and accordingly no separate segment information other than entity-wide information is presented.

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

Geographical Information

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

	2018	2017
	RMB'000	*RMB'000*
Turnover		
Hong Kong	**33,951**	59,258
PRC	**1,149,801**	1,163,527
	1,183,752	1,222,785
Non-current assets (note)		
Hong Kong	**-**	1,165
PRC	**7,616,170**	7,138,166
	7,616,170	7,139,331

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

4. INTEREST AND INVESTMENT INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income on bank deposits	**21,146**	17,588
Interest income from a joint venture	**1,070**	1,065
Change in fair value of financial assets at fair value through profit or loss ("FVTPL")	**1,736**	5,576
Dividend income from financial assets at FVTPL	**250**	1,645
Investment income from financial assets at FVTPL	**39,283**	22,676
Imputed interest income from loan receivables (included in other receivable due after one year)	**5,554**	2,085
Other interest income	**195**	2,171
	69,234	52,806

5. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interests on bank borrowings	**77,832**	53,969
Less: Amount capitalised as construction in progress and properties under development	**(77,832)**	(50,625)
	-	3,344

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.

6. TAXATION

	2018	2017
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	**1,369**	2,200
PRC Enterprise Income Tax	**114,631**	119,582
Withholding tax	**23,150**	24,615
	139,150	146,397
(Over) under provision in prior years:		
Hong Kong Profits Tax	-	(17)
PRC Enterprise Income Tax	-	40
	-	23
Deferred tax charge	**952**	9,925
	140,102	156,345

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%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for 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 the PRC.

7. PROFIT FOR THE YEAR

	2018	2017
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	**673**	694
Other emoluments	**6,070**	6,259
Bonus	**8,868**	8,481
Retirement benefits schemes contributions	**15**	16
	15,626	15,450
Other staff costs, excluding retirement benefits schemes contributions	**161,928**	161,636
Retirement benefits schemes contributions	**6,752**	7,655
	168,680	169,291
Total staff costs	**184,306**	184,741
Release of prepaid lease payments	**65,775**	65,775
Less : Amount capitalised in construction in progress	**(48,582)**	(48,582)
	17,193	17,193
Auditor's remuneration	**3,271**	2,682
Depreciation of property, plant and equipment	**111,080**	114,024
Rental payment paid under operating lease in respect of leasehold land and buildings to		
- a joint venture	**160,574**	160,874
- other parties	**16,996**	18,729
(Gain) loss on disposal/write-off of property, plant and equipment	**(22)**	484
Cost of inventories recognised as expense	**333,888**	297,969

8. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2018 (2017: nil)

9. EARNINGS PER SHARE

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

	2018	2017
	RMB'000	*RMB'000*
Earnings figures are calculated as follows:		
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**338,074**	269,590

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,520,780**	1,602,587

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

10. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables		
- goods and services (under HKFRS 15)	**60,801**	44,631
- operating leases receivables (under HKAS 17)	**7,574**	11,611
	68,375	56,242
Less: Allowance for credit losses	**(1,681)**	-
	66,694	56,242
Prepayments	**250**	1,989
Deposits paid	**4,635**	1,638
Value added tax ("VAT") receivable	**96,967**	83,168
Loan receivables (note)	**135,323**	127,684
Others	**12,675**	29,799
	316,544	300,520
Less: Non-current portion (note)	**(135,323)**	(127,684)
	181,221	172,836

Note: The balance represented 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.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB60,801,000 and RMB44,631,000 respectively.

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 credit losses, if any, presented based on the invoice date, which approximates the respective revenue recognition dates:

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**64,235**	53,944
31 – 60 days	**659**	998
61 – 90 days	**169**	611
Over 90 days	**1,631**	689
	66,694	56,242

11. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**44,926**	46,513
Construction payables	**54,734**	136,900
Concessionaire sales payables	**499,573**	499,156
Deferred income	**114,798**	122,631
Rental deposits received	**72,318**	56,241
Accrued expenses	**33,210**	41,368
VAT payable	**28,609**	43,742
Interest payables	**2,684**	1,853
Others	**81,140**	83,486
	931,992	1,031,890

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

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**33,919**	38,867
31 – 60 days	**2,795**	1,603
61 – 90 days	**2,300**	1,393
Over 90 days	**5,912**	4,650
	44,926	46,513

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 settled within the credit timeframe.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The outbreak during the year of the Sino-U.S. trade disputes has brought negative impact to China's economy, causing the country's gross domestic product growth to decelerating to 6.6% in 2018 from 6.9% in 2017. This, coupled with the Chinese government's measures aimed for deleveraging, has dampened consumer sentiment in China. As such, the country's retail sales growth has slowed to 9% in 2018 from 10.2% in 2017 and retail sales for China's department store segment rose by 3.2% in 2018, decelerating from the 6.7% growth in 2017. Meanwhile, retail sales growth in the supermarket segment also slowed down to 6.8% in 2018 from 7.3% in 2017.

In addition to the macroeconomic challenges, conventional brick-and-mortar business of retailing has been facing intensifying competition from electronic or mobile commerce, which has been gaining popularity rapidly from consumers, especially the younger generation. The young people, who are more conscious on trends, have become an important consumer group. This also means consumer preferences and patterns are changing rapidly. To cope with this situation, conventional retailers have been stepping up marketing and promotional efforts and adopting different measures to try differentiating themselves from competitors, including enhancing market positioning and product assortment, and also embracing the online-to-offline business model.

Financial Review for 2018

During the financial year ended 31 December 2018, the business performance of the Group remained steady compared with that for 2017 despite the downward pressure exerted by China's economic slowdown. The resilient performance of the Group was attributable to the Group's promotional and marketing efforts in an attempt to boost consumer sentiment and, ultimately ended up spending more at its department stores. This inevitably required higher budgets on sales and marketing expenses. During the year, the Group also rationalized its operations by closing down its loss-making China-based restaurants and selling its Hong Kong-based restaurant to Lifestyle International Holdings Limited in July 2018 to allow management to focus resources on the department store operations.

Turnover and Sales Proceeds

For the year ended 31 December 2018, turnover of the Group remained relatively flattish at RMB1,183.8 million when compared to 2017 amid China's credit tightening measures and escalating China-U.S. trade tensions in the second half of 2018. The Group was able to deliver solid performance thanks to its seasoned management team and strong brand equity. With effective marketing and promotions and optimized product mix, the Group's two department stores, namely Shanghai Jiuguang and Suzhou Jiuguang managed to grow the average ticket size notwithstanding the intensifying market competition and decelerating growth of China's economy during the year. In particular, the strong sales of cosmetics products remained a key driver to the turnover growth. The Group's net sales proceeds remained stable at RMB3,228.7million.

Gross Profit and Concessionaire Rate

The Group's gross profit amounted to RMB808.6 million in 2018 and the gross profit margin as a percentage of net sales proceeds was approximately 25.0%, comparing to 26.1% in 2017. Gross profit margin as a percentage of turnover decreased slightly to 68.3%, comparing to 70.8% in 2017. Average concessionaire rate was stable at approximately 22.1%, similar to that in 2017, as the Group implemented precision marketing strategies and enhanced its brand assortment and merchandise mix to provide customers with the ultimate shopping experience.

Net Profit Attributable to Shareholders

The Group's net profit attributable to the owners of the Company for 2018 increased 25.4% to RMB338.1 million. While the Group's operating profit from core department store operations was down slightly from last year, the increase in profit was mainly attributable to (i) growth in share of profit from investment in associate (after share of non-controlling interests) of approximately RMB30.4 million, (ii) increase in interest and investment income of approximately RMB16.4 million and (iii) last year's profit was weighed down by an exchange loss of RMB36.6 million whereas it was an exchange gain of about RMB0.5 million this year.

Selling and Distribution Costs

Aggregate selling and distribution costs of the Group decreased by 15.4% to RMB487.8 million from RMB576.6 million in 2017, which was largely attributable to certain staff costs being reallocated from selling costs to administrative expenses. The Group's aggregate selling and distribution expenses as a percentage of total sales proceeds however remained relatively stable at approximately 15.1% in 2018 (2017: 17.4%) although the marketing and promotion expenses have increased due to market competition.

Administrative Expenses

The Group's general administrative expenses increased by 57.7% to approximately RMB157.1 million, as compared to RMB99.6 million recorded in 2017. The increase was largely attributable to the reallocation of staff costs from selling and distribution expenses to administrative expenses..

Staff Costs

Staff costs (excluding directors' emoluments) remained stable at RMB168.7 million during the year. While increase in salary and wages during the year was largely in line with the market trend, the stable staff cost was a result of a reduction in the headcounts. The total number of full-time staff of the Group at the end of 2018 was 1,216 as compared to 1,371 at the end of 2017.

Other Income, Gains and Losses

Other income, gains and losses comprise mainly management fee, credit card charges and other miscellaneous incomes received from the counters/tenants, other sundry incomes and exchange gain/loss. The increase was mainly attributable to the turnaround from the exchange loss of RMB36.6 million in 2017 to an exchange gain of RMB0.5 million during the year on the Group's bank balances which are denominated in United States Dollars and Hong Kong dollars as RMB has weakened against these two currencies towards the end of the year as comparing to the beginning of the year.

Interest and Investment Income

The interest and investment income increased by 31.1% to RMB69.2 million (2017: RMB52.8 million) for the year was mainly as a result of the increase in deposit rates and higher yields from the Group's bank deposit and structured deposits.

Finance Costs

The Group's finance cost consisted mainly of interests incurred on bank borrowings. The aggregate amount of interests incurred, before capitalization, was approximately RMB77.8 million (2017: RMB54.0 million) for the year under review. The increase comparing to the previous year was mainly due to increase in the total bank borrowings for funding capex of the Daning project. No finance costs has been charged to the profit and loss account (2017: RMB3.3 million) as all the interests incurred were qualified for capitalization purpose.

Liquidity and Financial Resources

The Group's EBITDA before share of results of associates and a joint venture and fair value change of financial investments, exchange gains or losses and other non-recurring items for the year decreased from RMB427.5 million in 2017 to approximately RMB387.8 million, mainly due to decrease in business turnover and margin pressure. As at 31 December 2018, the Group's net debt (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) amounted to approximately RMB630.5 million, while it was RMB229.1 million in 2017. The higher net debt position was mainly attributable to increased bank borrowings for funding capex for Daning project.

The Group's bank balances and cash amounted to approximately RMB1,536.4 million (31 December 2017: RMB1,280.8 million) as at 31 December 2018, of which RMB19.1 million, denominated in Hong Kong dollars, was kept in Hong Kong, with the balance being kept in mainland China of which approximately 11.2% was denominated in United States dollars and the remaining 88.8% was in denominated in Renminbi. The increase in cash at banks as compared to end of 2017 was a result of the Group's net proceed from disposal of structured deposits and listed equity securities in Hong Kong amounting to approximately RMB315.6 million, which was classified as financial assets.

As at 31 December 2018, the Group's secured bank loans amounted to approximately RMB2,109.0 million (31 December 2017: RMB1,375.2 million), bearing interest calculated with reference to benchmark lending rates of the People's Bank of China. As at 31 December 2018, the Group had aggregate un-utilised banking facilities of approximately RMB341.0 million (31 December 2017: RMB1,074.8 million). The Group's debt to equity ratio (defined as bank borrowings divided by equity attributable to the owners of the Company) was 23.3% (31 December 2017: 15.2%) as at the year end.

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. As described under the "Liquidity and Financial Resources" section above, certain 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, 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 2018, certain of the Group's property, plant and equipment and prepaid lease payment in the PRC with aggregate carrying values of approximately RMB2,337.1 million and RMB1,772.3 million (2017: RMB1,813.1 million and RMB1,820.9 million), respectively, have been pledged to banks to secure loan facilities amounting to approximately RMB2,450.0 million (2017: RMB2,450.0 million).

Contingent Liabilities

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

Material Acquisitions and Disposals

To streamline the structure of the Group for better utilisation of available resources, on 31 July 2018, the Group discontinued its restaurant business by ceasing its restaurant operation in the PRC and disposing of its 100% interest in Global Top Limited, an indirect wholly-owned subsidiary which operated Wa San Mai, a Japanese restaurant in Hong Kong, to a subsidiary of Lifestyle International Holdings Limited at a cash consideration of HK$52.0 million (equivalent to approximately RMB43.8 million). The transaction was completed on the same date and the net proceed from the disposal was used for general working capital to develop its core department stores and retail relating business in the PRC. The gain on the disposal amounted in aggregate to approximately RMB43.2 million and has been treated as a contribution from the ultimate controlling shareholder of the Company as both the Company and Lifestyle International Holdings Limited are under common control of the same ultimate controlling shareholder.

Save for the disposal mentioned above, there was no other material acquisition or disposal during the year.

Review of Operations

To cope with the weakened consumer sentiment, competition from neighbouring shopping malls and changes to the consumption pattern induced by new technology, the Group pressed on with its promotional and marketing campaigns, further oriented its product assortment towards the mid-range and high-end markets, and leveraged mobile internet-enabled applications on handsets to attract footfall to its department stores. All these measures are aimed at reinforcing its brand image as an operator of department stores that better meet the needs of a burgeoning middle class in economically vibrant cities, thus differentiating the Group from its competitors.

Shanghai Jiuguang

The Group's Shanghai Jiuguang recorded a 2.2% decrease in sales proceeds in 2018. The average daily footfall decreased by 1.6% to around 50,100 visitors as the opening of a new shopping mall nearby drew away some consumers. While the stay-and-buy ratio decreased by 2.6 percentage points to 37.1%, the average ticket size increased by 8.4% to RMB437 as the Group stepped up its effort to orient its product assortment to the mid-range and high-end markets. Among different product categories, turnover from direct sales of cosmetics products were notably the strongest and rose by 30%. The Group also pressed ahead with promotional and marketing campaigns, including activities for its club members, to boost up sales, especially during major festive periods. The moves proved to be successful as we saw revenue at Shanghai Jiuguang rose to a record high of RMB50.9 million on the New Year Eve. In 2018, the average concessionaire rate collected by the store remained stable at approximately 23.4% (2017: 23.7%).

Suzhou Jiuguang

Suzhou Jiuguang, which is positioned as a department store that meets the needs of a growing middle class in a second-tier city, stepped up its effort to orient its product assortment to the local lifestyle. It also continued to conduct promotional activities on festivals to boost sales and revenue hit a record high of RMB12.9 million on the Singles' Day on 11 November. In 2018, average ticket size saw an increase of 4.0% to RMB416 while the average daily footfall has dropped 11.4% to about 20,200 visitors. The decline in the foot traffic was caused by the opening of a new shopping mall in the city center of Suzhou. Business of the Suzhou Jiuguang remained stable and recorded 0.7% decrease in sales proceeds in 2018. While the stay-and-buy ratio saw an increase of 3.2 percentage points to 42.4%, the average concessionaire rate collected by the store dropped to 18.8% from 19.3% in the year 2017.

Dalian Jiuguang

Dalian Jiuguang ceased operation at the end of 2016 and by the end of 2018, all leases had ended and there were no more tenants in the premises. While it will continue to incur negative cash flows in up-keeping the property, the Group is closely monitoring viable opportunities to improve the return on the property.

Standalone Freshmart Operation

Freshmart, which sells high-quality food and confectionary products as a standalone operation of the Group at a rented premise in Changning, Shanghai, continued to face growing competition in the neighboring area. By reducing the portion of direct sales and increasing the portion of concessionaire sales, the Group managed to achieve a similar level of sales revenue in 2018 comparing to 2017 but the operation continued to suffer from negative cash flows in 2018 due to increase in rental.

Interest in Associates

Beiren Group, a well-established Shijiazhuang-based retailer in which the Group maintains a strategic equity interest, recorded a low single digit growth in sales proceeds in 2018, with a slight increase in its gross profit margin. Net profit (after share of non-controlling interests) attributable to the Group saw an increase of 18.1% to RMB204.0 million and the share of profit from this investment remained important to the Group as it accounted for 60.3% of the profit attributable to owners of the Company in 2018.

Restaurant Business

The Group during the year rationalized its operations by closing its two loss-making Japanese restaurants under the brand of “Wa San Mai”, which were respectively located in Shanghai and Suzhou. The Group also sold its Hong Kong-based Japanese restaurant under the same brand to Lifestyle International Holdings Limited in July 2018. The Group’s restaurant business in aggregate recorded sales revenue of RMB41.9 million for the first seven months before the operations were ceased on 31 July 2018..

Business Expansion

The construction of the Group’s retail and commercial complex in Daning, Jingan District, Shanghai is expected to be completed around the end of 2019. The project comprises a large retail complex, which will house the Group’s second Jiuguang store in Shanghai, and two office blocks. The commercial complex, at completion, is expected to boost the Group’s business presence and further enhance its brand equity in Shanghai.

Outlook and Plan

The escalating Sino-U.S. trade tensions has caused a slowdown in the global economy and China in particular has been hard hit, affected also the country’s retail sales in 2018. While the Chinese government has lately implemented counter measures to help enterprises and to restore market confidence, the prospect for business in 2019 is still far from clear and clouded by the development of the Sino-U.S. trade disputes and other external uncertainties in the global market.

Apart from the unfavourable macroeconomic headwinds, the Group’s business is facing industrial risks that its department stores are constantly under the threats of growing competition from other newly opened shopping malls in their localities. Moreover, the Group also needs to adapt itself to the changes in consumption pattern induced by the emergence of the younger consumer group that is particularly and increasingly tech-savvy. However, China’s consumption upgrade also presents opportunities to the Group as a leading market participant.

To take on the challenges and grasp the opportunity, the Group will forge ahead with its ongoing efforts, namely promotional activities to increase footfall at its stores, precision marketing to increase both the efficiency and effectiveness of its sales and marketing campaigns geared towards different targeted consumer groups, as well as enriching the product assortment to better meet the needs of the targeted markets for mid-range and high-end products. To serve its VIP club members better and to further enhance their shopping experience, the Group is preparing to launch a mobile internet-enabled application that runs on a social media platform enabling a number of functions including conversion of consumption points earned from purchases to coupons, advertisement of products and services, and themed marketing and promotional activities. This will also fit in the Group's plan for a retail management system that will enable collection of data about customers' consumption pattern and preferences so that it will be able to adjust its product assortment and carry out precision marketing and promotional activities. Such measures are aimed to help the Group to closely engage with its existing VIP club members and to ultimately enhance customer loyalty.

The Group will continue to roll out measures with the aim to boosting the Group's sales revenue and generating better returns to shareholders. It will also continue to seek opportunities for investment that can lead to sustainable growth of the Group.

EMPLOYEES

As at 31 December 2018, the Group employed a total of 1,216 employees, with 1,210 stationed in mainland China and 6 in Hong Kong and the staff costs (excluding directors' emoluments) amounted to RMB168.7 million (2017: RMB169.3 million) for the year ended 31 December 2018. 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 2018, 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 2018 (2017: 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 Tuesday, 30 April 2019, the register of members of the Company will be closed from Thursday, 25 April 2019 to Tuesday, 30 April 2019, both days inclusive. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificate(s) must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 24 April 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2018, the Company repurchased a total of 138,138,000 shares of the Company on the Stock Exchange for enhancing net asset value and earnings per share of the Company. All the repurchased shares were subsequently cancelled. Details of the repurchases of shares are as follows:

Month	**Number of shares Repurchased**	**Price paid per share**		**Aggregate consideration (excluding expenses)**
		Highest (HK$)	**Lowest** (HK$)	(HK$'000)
April 2018	28,494,500	3.09	2.20	77,408
May 2018	60,287,500	3.99	3.38	224,387
June 2018	29,708,500	3.89	3.37	111,483
August 2018	19,647,500	3.73	3.13	70,368
	138,138,000			483,646

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2018.

REVIEW OF ANNUAL RESULTS

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

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

ACKNOWLEDGEMENT

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

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

Hong Kong, 4 March 2019

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.