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 2020

HIGHLIGHTS

- Revenue decreased 6.6% to RMB1,124.0 million
- Profit attributable to owners of the Company amounted to RMB212.7 million (2019: Loss of RMB83.5 million)
- Earnings per share amounted to RMB0.145 (2019: Loss per share of RMB0.057)
- No dividend was 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 2020 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 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
Revenue	*3*	**1,124,020**	1,204,057
Cost of sales		**(442,623)**	(412,677)
Gross profit		**681,397**	791,380
Other income, gains and losses		**103,296**	108,947
Selling and distribution costs		**(408,790)**	(427,239)
Administrative expenses		**(156,081)**	(145,226)
Interest and investment income	*5*	**54,825**	69,002
Share of profit of a joint venture		**24,211**	28,821
Share of profits/(losses) of associates		**221,879**	(491,284)
Finance costs	*6*	**(25,350)**	(32,649)
Profit/(loss) before taxation		**495,387**	(98,248)
Taxation	*7*	**(113,820)**	(83,370)
Profit/(loss) for the year	*8*	**381,567**	(181,618)
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**(143)**	5
Total comprehensive income/(expense) for the year		**381,424**	(181,613)
Profit/(loss) for the year attributable to:			
Owners of the Company		**212,748**	(83,516)
Non-controlling interests		**168,819**	(98,102)
		381,567	(181,618)
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**212,605**	(83,511)
Non-controlling interests		**168,819**	(98,102)
		381,424	(181,613)
Earnings/(loss) per share for profit/(loss) attributable to owners of the Company			
- Basic and diluted	*10*	**RMB0.145**	RMB(0.057)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment		**5,049,886**	4,816,760
Right-of-use assets		**2,576,030**	2,754,640
Investments in associates		**2,876,956**	2,747,368
Investment in a joint venture		**371,169**	378,532
Properties under development		**-**	1,228,242
Deferred tax assets		**3,356**	10,913
Other receivables	*11*	**1,534**	4,615
		10,878,931	11,941,070
Current assets			
Inventories		**69,490**	61,685
Properties under development		**1,346,322**	-
Trade and other receivables	*11*	**207,096**	355,189
Amount due from a joint venture		**-**	2
Amount due from an associate		**94,655**	-
Financial assets at fair value through profit or loss		**86,500**	480,980
Cash and cash equivalents		**1,906,907**	1,585,685
		3,710,970	2,483,541
Current liabilities			
Trade and other payables	*12*	**1,120,543**	1,035,755
Amount due to a joint venture		**33,227**	46,833
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	26,142
Tax payable		**31,550**	33,169
Bank borrowings – due within one year		**60,000**	30,000
Lease liabilities		**101,245**	98,479
Contract liabilities		**9,093**	8,830
		1,381,800	1,279,208

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2020

	2020	2019
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings – due after one year	**2,340,000**	2,400,000
Lease liabilities	**305,182**	474,844
Deferred tax liabilities	**31,220**	20,650
	2,676,402	2,895,494
	10,531,699	10,249,909
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**9,185,072**	8,972,467
Equity attributable to owners of the Company	**9,191,363**	8,978,758
Non-controlling interests	**1,340,336**	1,271,151
	10,531,699	10,249,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 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:

HKAS 1 and HKAS 8 (Amendments)	Definition of material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting
HKFRS 3 (Amendments)	Definition of a business
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting

The application of the amendments to HKFRSs 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.

3. **REVENUE**

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

	2020	2019
	RMB'000	*RMB'000*
Recognised at a point in time:		
Sales of goods - direct sales	**502,890**	465,752
Recognised over time:		
Income from concessionaire sales	**515,384**	616,263
Service income	**34,063**	38,007
Revenue from contracts with customers	**1,052,337**	1,120,022
Rental income	**71,683**	84,035
Total revenue	**1,124,020**	1,204,057

All the above revenue is derived in the People's Republic of China (the "PRC").

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's operations are located in the PRC. The Group's non-current assets are all located in the PRC. The Group has no customers that contributed over 10% of the total revenue of the Group for both years.

5. INTEREST AND INVESTMENT INCOME

	2020	2019
	RMB'000	*RMB'000*
Interest income on bank deposits	**45,547**	42,166
Interest income from a joint venture	**575**	958
Investment income from financial assets at fair value through profit or loss ("FVTPL")	**6,175**	20,323
Interest income from loan receivables	**2,528**	5,555
	54,825	69,002

6. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest expenses on:		
- Bank borrowings	**108,492**	104,101
- Lease liabilities	**25,350**	32,649
	133,842	136,750
Less: Amounts capitalised in construction in progress and properties under development	**(108,492)**	(104,101)
	25,350	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. 4.40% - 4.46% (2019: 4.41% - 4.46%).

7. TAXATION

	2020	2019
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**94,976**	120,977
Withholding tax	**716**	3,412
	95,692	124,389
(Over)/under provision in prior years:		
PRC Enterprise Income Tax	**(19)**	11
Withholding tax	**20**	(18,385)
	1	(18,374)
Deferred tax charge/(credit)	**18,127**	(22,645)
	113,820	83,370

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 both years.

8. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year has been arrived at after charging/(crediting):

	2020	2019
	RMB'000	*RMB'000*
Directors' remuneration:		
Fees	**714**	702
Salary and allowances	**4,832**	6,335
Bonus	**8,487**	-
Retirement benefits scheme contributions	**1**	4
	14,034	7,041
Other staff costs, excluding retirement benefits scheme contributions	**148,474**	151,635
Retirement benefits scheme contributions, net of forfeited contributions for staff	**7,125**	6,772
	155,599	158,407
Total staff costs	**169,633**	165,448
Auditor's remuneration	**3,486**	3,505
Depreciation of property, plant and equipment	**104,856**	104,728
Depreciation of right-of-use assets	**119,534**	122,854
Reversal of loss allowance on expected credit losses for trade receivables	**(345)**	(613)
Expenses related to variable lease payments to a joint venture	**30,483**	43,527
Loss on disposal of property, plant and equipment	**616**	338
Gain on lease modification	**(15,320)**	-
Expenses relating to low-value leases	**788**	16
Expenses relating to short-term leases	**294**	1,088
Cost of inventories recognised as expense	**410,504**	376,819

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2020 (2019: nil).

10. EARNINGS/(LOSS) PER SHARE

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

	2020	2019
	RMB'000	*RMB'000*
Earnings/(loss)		
Profit/(loss) for the year attributable to owners of the Company	**212,748**	(83,516)

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares	**1,464,449**	1,464,449

The diluted earnings/(loss) per share for the year ended 31 December 2020 equals to the basic earnings/(loss) per share as there were no potential dilutive ordinary shares issued during the year (2019: Same).

11. TRADE AND OTHER RECEIVABLES

	2020 *RMB'000*	2019 *RMB'000*
Trade receivables	**64,172**	61,022
Lease receivables	**7,234**	5,543
	71,406	66,565
Less: Loss allowance on expected credit losses	**(723)**	(1,068)
	70,683	65,497
Prepayments	**225**	204
Deposits paid	**1,534**	4,615
Value added tax ("VAT") receivable	**114,571**	106,069
Loan and interest receivables	**-**	140,875
Others	**43,870**	64,797
	160,200	316,560
Less: Provision of expected credit losses	**(22,253)**	(22,253)
	137,947	294,307
	208,630	359,804
Less: Non-current portion	**(1,534)**	(4,615)
	207,096	355,189

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 and lease receivables net of allowance for expected credit losses, if any, presented based on the invoice date:

	2020 *RMB'000*	2019 *RMB'000*
0 – 30 days	**67,976**	64,331
31 – 60 days	**1,135**	482
61 – 90 days	**712**	205
Over 90 days	**860**	479
	70,683	65,497

12. TRADE AND OTHER PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**54,988**	47,073
Construction payables	**252,850**	219,306
Concessionaire sales payables	**492,595**	481,675
Refundable prepaid card deposits	**131,174**	123,830
Rental deposits received	**81,908**	78,319
Accrued expenses	**64,425**	42,636
VAT payable	**9,783**	11,749
Interest payables	**3,228**	3,278
Others	**29,592**	27,889
	1,120,543	1,035,755

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

	2020	2019
	RMB'000	*RMB'000*
0 – 30 days	**46,036**	40,238
31 – 60 days	**3,848**	1,766
61 – 90 days	**969**	479
Over 90 days	**4,135**	4,590
	54,988	47,073

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.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Our qualified opinion

In our opinion, except for the 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 2020, 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 16 to the consolidated financial information, the Group holds certain equity interests in certain associated companies herein referred to as "Beiren Group". For the year ended 31 December 2020, the Group has recognised a share of profits of associates of RMB221.9 million and carried RMB2,876.9 million investments in associates on the consolidated statement of financial position as at 31 December 2020, of which RMB222.1 million of the share of profits of associates for the year and RMB2,873.2 million of the carrying value of investments in associates as at 31 December 2020 were attributable to the Beiren Group. The principal activities of the Beiren Group are operating of department stores and supermarkets. It was also engaged in auto trading business and sales were made to three PRC companies in China ("the Debtors") in prior years. The ultimate beneficial owner of the Debtors has provided personal guarantees over the Debtors' outstanding amounts to the Beiren Group (the "Guarantor").

During the year ended 31 December 2019, the Debtors have defaulted on settlement of the overdue trade balances due to the Beiren Group and the Guarantor has been detained by the relevant local authority in Hebei Province. The Group has concluded the likelihood of recovering any amounts from the Debtors or the Guarantor as remote and has made a full expected credit loss allowance, net of deferred tax credit ("full impairment"), against the whole overdue trade receivable balances due from the Debtors ("Trade Receivables"), for the purpose of recognising the Group's share of results of the Beiren Group for the year ended 31 December 2019. As set out in our auditor's report dated 23 March 2020 on the Group's consolidated financial statements for the year ended 31 December 2019, we have qualified our opinion due to a limitation on the scope of audit in relation to the Group's assessment of the recoverable amounts and full impairment of the Trade Receivables and its related deferred tax credit, as we were unable to obtain sufficient appropriate evidences on whether any adjustments were necessary to their recoverable amounts and which has consequential impacts (refer to note 16(a)) on (i) the Group's share of losses of associates for the year ended 31 December 2019 and its carrying value of the investments in associates as at that date; (ii) the Group's loss attributable to owners and loss 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.

During the year ended 31 December 2020 and up to the date of this report, the Group's management understood that the Guarantor was still being detained by the relevant local authority and there has been no additional information or development in relation to the recoverability of the Trade Receivables due from the Debtors. The Group's management considered the full impairment on the Trade Receivables of the Beiren Group that were made in the prior year still appropriate as at 31 December 2020.

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 up to the date of this report, including the latest financial information of the Debtors to date, 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 recoverable amounts and the appropriateness of the full impairment against the Trade Receivables, net of deferred tax credit in the Beiren Group as at 31 December 2020. Given these scope limitations, there were no other satisfactory procedures that we could perform to determine any adjustments were necessary to the carrying value of the Trade Receivables carried at nil balance, net of related tax credit of the Beiren Group as at 31 December 2020 which impact (i) the Group's share of profits of associates for the year ended 31 December 2020 and its carrying value of the investments in associates as at that date; (ii) the Group's profit attributable to owners and 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 2020; 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 2020.

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

The year 2020 was fraught with difficulties, with the global economy subjected to unprecedented challenges following the outbreak of the novel coronavirus (COVID-19) pandemic. In China, the adverse effects of the pandemic were particularly visible during the first few months of the year, when business operations across the board were suspended in order to effectively contain the spread of the virus. As a result, the country's retail sales for the first half year fell by 11.4% year-on-year, compared with a growth of 8.4% in the first half of 2019. However, government policies aimed at containing the virus proved effective and enabled China to become one of the first countries in the world to emerge from under the shadow of the pandemic. With a great deal of normality returning to business operations from April onwards, China's gross domestic product ("GDP") saw a year-on-year growth of 4.9% and 6.5% in the third and fourth quarter respectively, offsetting the 1.6% decrease seen during the first half year. Consequently, despite the impact of COVID-19, China's GDP increased by 2.3% in 2020 to approximately RMB101.6 trillion, exceeding RMB100 trillion for the first time. The overall consumer price index rose by 2.5% in 2020, cementing China's status as one of the largest economies to record positive growth amid the fallout from the pandemic.

Both the economy and consumer market in China saw a steady recovery from the second quarter of 2020, leading to positive growth in the second half of the year. Total retail sales of consumer goods in China in 2020 amounted to approximately RMB39.2 trillion, despite a year-on-year decline of 3.9%, primarily a result of the dramatic drop in sales during the first quarter. Positive growth was seen month by month from August 2020 onwards.

Financial Review

The Group managed to deliver a stable performance for the year ended 31 December 2020, despite a significant reduction of social and economic activities in the first quarter of the year due to the pandemic. With an enhanced product assortment and heightened marketing efforts, the Group's two department stores, Shanghai Jiuguang and Suzhou Jiuguang, both delivered a resilient set of financial results, with consumption sentiment picking up from the second half of the year onwards.

Revenue and Sales Proceeds

For the year ended 31 December 2020, the Group's revenue saw a mild drop of 6.6% to RMB1,124.0 million, compared with RMB1,204.1 million in 2019, primarily the result of the pandemic having disrupted business activities and undermined consumer spending. In spite of the challenging operating environment, the Group remained on a firm footing, underpinned by strong brand equity and sound business strategies. The Group actively introduced more mid-range and high-end products from internationally renowned brands into its two department stores during the year with the aim of enriching their respective product assortment. Total sales proceeds of the Group decreased 10.9% to RMB2,968.2 million from RMB3,332.1 million last year. With the COVID-19 pandemic having been brought under control in timely manner, the Group managed to record a 2.8% growth in total sales proceeds during the second half of 2020, compared with a 25.0% decline recorded in the first half of the year.

Gross Profit and Concessionaire Rate

The Group's gross profit amounted to RMB681.4 million in 2020 and the gross profit margin as a percentage of total sales proceeds was approximately 23.0%, compared with RMB791.4 million and 23.8% in 2019 respectively. Meanwhile, the Group's gross profit margin as a percentage of revenue decreased to 60.6%, from 65.7% in 2019 and the average concessionaire rate decreased to approximately 21.0% from the 21.6% recorded in 2019. These declines were mainly attributable to relief measures, including a waiver of the guaranteed commission, granted by the Group to business partners during the unprecedented and challenging business environment caused by the pandemic in the first half of 2020.

Net Profit Attributable to Shareholders

The Group recorded a profit of approximately RMB212.7 million for the year ended 31 December 2020, as compared to a loss of RMB83.5 million for 2019. The turnaround to profit was mainly attributable to share of profits rather than share of losses of associates as were the case in 2019, which were a direct result of the Company's decision for a full provision to be made against a share of an expected credit loss in respect of certain trade receivables held by Beiren Group, associates in Hebei Province, the People's Republic of China ("ECL Provision"). Excluding the ECL Provision, the Group would have reported a profit decrease of approximately 47.3% when compared with 2019, with such a decrease mainly being due to (i) sales decline amid the adverse effects of COVID-19; (ii) lower gross profit margin as a result of relief measures granted to business partners; (iii) a decrease in share of profit from Beiren Group; (iv) the absence of the withholding tax refund of RMB40.2 million recorded last year; and (v) a decrease in investment income of RMB14.2 million. The decrease was, however, slightly offset by a one-off gain from lease modification of RMB15.3 million.

Selling and Distribution Costs

The Group's aggregate selling and distribution costs for the year decreased by 4.3% to RMB408.8 million from RMB427.2 million in 2019, which was mainly attributable to a decrease in the turnover rent and local government-related taxes amid a fall in sales and lower utilities costs as a result of temporary closure of certain sections of the stores in adherence to virus containment measures imposed by the government in the first half of 2020. The Group's aggregate selling and distribution expenses as a percentage of total sales proceeds however increased slightly to approximately 13.8% this year from 12.8% in 2019.

Administrative Expenses

The Group's general administrative expenses increased 7.5% to approximately RMB156.1 million from the RMB145.2 million recorded in 2019. The increase was mainly attributable to higher repair and maintenance costs and the payment of a discretionary management bonus to the executive director.

Staff Costs

Staff costs (excluding directors' emoluments) slightly decreased by 1.8% year-on-year to approximately RMB155.6 million in 2020. The total number of full-time staff employed by the Group as at 31 December 2020 was 1,159, compared to 1,162 as at 31 December 2019.

Other Income, Gains and Losses

Other income, gains and losses, which comprise mainly management fees, credit card charges and other miscellaneous income received from the counters/tenants, other sundry income and exchange gains/losses, recorded a decrease of 5.2% to RMB103.3 million. The decrease was mainly attributable to a drop in credit card charges from counters amid the sales decline and an exchange loss being recorded, in contrast to the exchange gain last year. However, the decrease was partially offset by a one-off gain of RMB15.3 million from the lease modification in respect of the tenancy for the standalone Freshmart operation in Changning, Shanghai.

Interest and Investment Income

The Group's income from interest and investments decreased by 20.5% to RMB54.8 million (2019: RMB69.0 million) for the year, which was mainly attributable to lower investment income from the Group's bank deposits and structured deposits.

Finance Costs

The Group's finance costs consisted mainly of interest incurred on bank borrowings. The aggregate amount of finance costs and interest incurred for the year, before capitalization, was approximately RMB133.8 million (2019: RMB136.8 million). The finance costs charged to profit or loss account amounted to RMB25.4 million (2019: RMB32.6 million), representing finance charge in respect of the lease liabilities.

Liquidity and Financial Resources

The Group's adjusted EBITDA decreased to RMB313.8 million from RMB436.6 million in 2019 for the year, mainly due to the decrease in sales revenue and the margin squeeze. As at 31 December 2020, the Group's net debt (defined as cash and cash equivalents and amount due from an associate less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amount due to a joint venture) amounted to approximately RMB457.8 million, compared with RMB917.3 million as at 31 December 2019. The lower net debt position was mainly attributable to a decrease in bank borrowings in respect of the Group's Daning project, a decrease in amount due to a joint venture, an increase in bank balances and amount due from an associate.

The Group's cash and cash equivalents amounted to approximately RMB1,906.9 million as at 31 December 2020 (31 December 2019: RMB1,585.7 million), of which RMB14.8 million, denominated in Hong Kong dollars, was kept in Hong Kong. The remaining balance was kept in mainland China, of which approximately 4.2% was denominated in United States dollars and the remaining 95.8% in Renminbi. The increase in cash at banks as at the end of the year, compared with that at the end of 2019, was mainly a result of unwinding the Group's structured deposits of approximately RMB394.5 million into cash at banks.

As at 31 December 2020, the Group's banking facilities were fully utilized (31 December 2019: same), with secured bank loans amounted to RMB2,400 million (31 December 2019: RMB2,430 million), bearing interest calculated with reference to benchmark lending rates of the People's Bank of China. The Group's debt to equity ratio (defined as bank borrowings divided by equity attributable to owners of the Company) was 26.1% as at the end of the year (31 December 2019: 27.1%).

Foreign Exchange Management

The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi, in which the majority of the Group's transactions are denominated. As described in the "Liquidity and Financial Resources" section above, certain portions of the Group's monetary assets are denominated in foreign currencies, namely Hong Kong dollars and United States dollars. Given the fact that the 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 significant potential foreign currency risks, should the need arise.

Pledge of Assets

As at 31 December 2020, certain of the Group's (i) property, plant and equipment in the PRC with a book value of approximately RMB3,382 million (31 December 2019: RMB3,045 million) and (ii) right-of-use assets in the PRC with a book value of approximately RMB1,721 million (31 December 2019: RMB1,724 million); and property under development in the PRC with a book value of RMB1,346 million (31 December 2019: RMB1,228 million) were pledged to secure bank loan facilities of approximately RMB2,400 million (31 December 2019: RMB2,430 million) mainly for financing the development of the Daning project.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2020.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the year.

Review of Operations

In light of the health concerns posed by the pandemic since early 2020, a number of stringent preventive measures have been implemented at the Group's two department stores, including the mandatory wearing of masks and the provision of sanitizing stations conveniently located throughout the stores. Customers were also required to have their digital health codes available before entering the department stores, to ensure a safe and enjoyable shopping experience for all. In addition, the Group has increased the use of mobile internet-enabled applications on handsets and continued to digitalize its retail management system with the aim of enhancing customer engagement.

In order to adapt to the increasingly popular e-commerce trend amid the rapidly changing consumption patterns of the younger generation, the Group has managed to use effective mobile internet technology in its marketing and promotion activities which included live streaming, alongside leveraging other popular social media platforms in order to engage young and affluent middle-class consumers, who together form the Group's key target demographic. The aim of using digital marketing is to attract customers through online channels and encourage them to go offline by visiting the Group's department stores. This omni-channel marketing strategy is supported by the Group's mobile internet-enabled applications, which was first launched and made available to club members at Shanghai Jiuguang in September 2019, was also launched at Suzhou Jiuguang in August 2020, providing greater customer convenience by enabling reward points to be used at both locations.

The Group has also strived to further strengthen its brand equity as it remains one of its key competitive edges, and one that encourages customer loyalty and enables the Group to stand out from its peers. While efforts are being allocated to omni-channel marketing activities to enhance the unique positioning of the Shanghai Jiuguang and Suzhou Jiuguang stores, the Group also put additional efforts to meet the huge local demand from the middle and upper-class customer groups in Shanghai and Suzhou, who were unable to travel out of the country due to COVID-19 restrictions. This included introducing a number of new mid to high-end products from internationally renowned brands into the Group's department stores, which not only further enhanced the brand image but also enriched the product selection and ultimately drove sales.

Shanghai Jiuguang

As the COVID-19 epidemic was gradually being brought under control, the Group saw a notable recovery in the mainland economy. The business at the Shanghai Jiuguang store slowly recovered and managed to narrow the sales drop to only 1.7% in the second half of the year as compared with a drop of 26.9% in the first half of 2020, thanks to a surge in direct sales of cosmetic products and accessories in the second half of 2020. Total sale proceeds for the year amounted to RMB1,993.6 million, a drop of 14.1% as compared with RMB2,321.2 million recorded in 2019. While the average daily footfall dropped 24.5% to approximately 37,000 visitors, the stay-and-buy ratio on the other hand saw a year-on-year increase of 4.8 percentage points to 42.5% for 2020. The average ticket size remained stable at around RMB445 and the average concessionaire rate collected remained stable at around 23.3%. The store's average concessionaire rate did not change was due to the fact that while various relief concessions were granted to business partner that negatively affected the rate, the rate was however lifted by less sales being made from low concessionaire rate items due to their departure from the store during the year.

Suzhou Jiuguang

Sales at Suzhou Jiuguang experienced a speedier recovery than its Shanghai counterpart as its business is less dependent on non-local customers amid restrictions on inter-city travel during the year due to the pandemic. Although a 20.3% year-on-year decline in sales proceeds was seen in first half of 2020, the store managed to record positive year-on-year growth of 15.3% in the second half of 2020, which was primarily driven by the remarkable 41% sales growth of cosmetic products and luxury accessories in the second half of the year as affluent locals were willing to spend on luxury items, especially jewelry and watches, while they were unable to make expensive purchases overseas because of travel restrictions under the pandemic situation. Total sale proceeds of the Suzhou store recorded a small decrease of 2.4% to RMB927.1 million for the year as compared with RMB950.3 million recorded in 2019. The stay-and-buy ratio and average ticket size grew 10.1 percentage points to 55.6% and 15.0% to RMB476 respectively. Nonetheless, daily traffic footfall saw a 35.0% year-on-year decline to 13,000 visitors and that the average concessionaire rate collected by the store decreased to 16.8% from 18.1% in 2019 as more relief concessions were offered to business partners and lower-than-average concessionaire rates have been collected from luxury jewelry and watches items which sales outperformed the others.

Dalian and Shenyang Property

The Group's commercial properties in Dalian and Shenyang both remained vacant during 2020 and continued to incur negative cash outflows for the general upkeep and maintenance of the properties.

Standalone Freshmart Operation

Freshmart sells high-quality food and confectionery products and is a standalone operation of the Group at a rented premise in Changning, Shanghai. In 2020, the store recorded a 22.8% year-on-year decrease in sales proceeds which was largely due to a lack of footfall owing to the pandemic as the majority of the office workers in the building where Freshmart is located were working from home as part of pandemic preventive measures especially in the first half of the year. Although the pandemic situation steadily improved in the second half of the year, the Freshmart operation continued to suffer from negative operating cash flow due to insufficient sales revenue. In order to improve sales efficiency, the Group continued to increase the proportion of concessionaire sales while reducing the proportion of direct sales. In addition, adjustments were made to the product mix in order to better cater to the needs of office workers.

Investments in Associates

Beiren Group, a well-established Shijiazhuang-based retailer in which the Group maintains a strategic equity interest, encountered a similarly difficult operating environment under the pandemic. As a result, it recorded a year-on-year decrease of 15.9% in aggregate sales during 2020. While the majority of Beiren Group's operating segments saw a fall in sales during the year amid the pandemic, its supermarket segment achieved year-on-year sales growth of 4.0%. A share of profits in Beiren Group (after share of non-controlling interests) of RMB133.3 million was recorded for the year while it was a share of loss of RMB294.7 million in 2019. The share of loss in the Beiren Group recorded last year was a direct result of the ECL Provision in the amount of RMB812.4 million or RMB487.4 million (after non-controlling interest). If the said share of ECL Provision was excluded, the Group's share of profit this year would have recorded a drop of 30.9% when compared with last year, again due to the adverse effects caused to the business operations of the Beiren Group by the COVID-19 pandemic.

As detailed in the section "EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT", the Group made the ECL Provision against the full amount of outstanding trade receivable balances due from the Debtors during the year ended 31 December 2019.

The Group understood from management of the Beiren Group that there has not been any progress made in terms of recovering the outstanding trade receivable balances nor obtaining further financial information of the Debtors and the Guarantor. As at 31 December 2020, the Group considered that the ECL Provision made against the outstanding trade receivables due from the Debtors in the prior year remained the best estimate based on the information available.

The Audit Committee discussed and understood the concerns of the auditor that they were not able to obtain adequate evidence with respect to the current financial conditions of the Debtors and the Guarantor for there was no progress made in respect of the legal proceedings taken against the Debtors and/or the Guarantor. The Audit Committee agreed with the management's view regarding the qualified opinion issued by the auditor in the Independent Auditor's Report.

Nevertheless, in order to obtain from Beiren Group's management timely and relevant information, including but not limited to financial information and financial conditions of the Debtors and the Guarantor that could be pursued to settle the outstanding trade receivables, the Group continued during the year and will continue to make regular contact with Beiren Group's management to monitor the development of the situation closely, and to assess the possibility of recovering the outstanding trade receivables from the Debtors and will discuss the same with the auditor to address the issue in due course.

Business Expansion

Construction work on the Group's retail and commercial complex in Daning, Jingan District, Shanghai was completed during the year despite having encountered slight disruptions due to the impact of the COVID-19 outbreak. The interior renovation works are in progress while the recruitment of tenants and leasing works are continuing. It is scheduled to commence operations by the end of 2021 or early 2022, depending on the market situation and the possible prolonged impacts of the pandemic. With a gross floor area of approximately 348,300 square meters, the project comprises a large retail complex which will house the Group's second Jiuguang store in Shanghai, along with two office blocks. When it commences business, the complex is expected to not only provide several meaningful cash flows streams to the Group, but to also enhance the Group's market presence and brand equity in Shanghai.

Outlook and Plan

Looking into 2021, the rollout of different COVID-19 vaccines should finally cause the virus to subside. As a result, the downturn of the global economy is expected to bottom out soon, paving the way for a market recovery. As one of the few countries to have successfully achieved a timely containment of COVID-19, and thus record GDP growth in 2020 amid the turbulence, China's economy is expected to see further growth in the forthcoming year. In addition, as many countries around the world are still subject to COVID-19-related travel restrictions, China's "dual circulation" economic model has led and will continue to lead to a strong domestic consumption sentiment. This was most noticeable during the Chinese New Year period, and the two Jiuguang department stores in Shanghai and Suzhou had experienced a surge in sales even when compared with the same period in 2019 without the presence of the pandemic.

Despite a number of unexpected and uncontrollable factors having occurred over the past year, as well as the ever-increasing rivalry from new and rapidly growing retailers, the Group continues to show robust resilience in contrast to many of its peers, which can primarily be attributed to the strong brand equity and competitive edges it has built over the years. Although the traditional retailing sector continues to face fierce competition from the rising internet and new retail business model, we strongly believe that brick-and-mortar department stores can still hold a place in the hearts of consumers, owing to the provision of a one-stop shopping experience with attentive face-to-face customer service and strong brand recognition.

In order to capture the huge business opportunities arising from the rapidly changing consumption patterns of the middle class and high-spending younger generation, the Group will continue to make effective use of mobile internet technology and omni-channel marketing. The Group’s mobile internet-enabled application has been made available to customers at both Shanghai Jiuguang and Suzhou Jiuguang. The APP has a number of functions, including the conversion of reward points earned from purchases to coupons which can be used at the Group’s other businesses, advertising of products and services, and themed marketing and promotional activities. Such applications operate seamlessly with the Group’s retail management system and enable the collection of data relating to customers' consumption patterns and preferences, which in turn will allow the Group to adjust its marketing strategy and product mix accordingly.

With factors such as the central government’s “dual circulation” economic strategy, strong local demand, and government policies supporting the retail sector, the Group remains cautiously optimistic regarding the health of China’s retail sector and will continue to grow and enhance its business presence in order to achieve long-term growth and deliver valuable returns to its shareholders. The Group will also continue to actively seek new investment opportunities that have the potential to provide profitable and sustainable growth to the Group in the long run.

EMPLOYEES

As at 31 December 2020, the Group employed a total of 1,159 employees, with 1,154 stationed in mainland China and 5 in Hong Kong. The staff costs (excluding directors' emoluments) amounted to RMB155.6 million (2019: RMB158.4 million) for the year ended 31 December 2020. 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 2020, 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 2020 (2019: 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, 11 May 2021, the register of members of the Company will be closed from Thursday, 6 May 2021 to Tuesday, 11 May 2021, 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, 5 May 2021.

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 2020.

REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2020 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 2020 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 drafted 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 thank our staff for their hard work and dedication they have bestowed upon the Group over the past year, in spite of the challenging operating environment in the wake of the pandemic. We would also like to extend our gratitude to our customers, business partners and shareholders for their continued support.

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

Hong Kong, 23 March 2021

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.