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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Revenue decreased 19.3% to RMB486.6 million
- Profit attributable to owners of the Company decreased 48.0% to RMB99.2 million
- Earnings per share amounted to RMB0.068, a decrease of 47.7%
- No interim dividend has been declared by the Board

INTERIM RESULTS

The board of directors ("Board") of Lifestyle China Group Limited ("Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, "Group") for the six months ended 30 June 2020, together with comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**486,554**	602,996
Cost of sales		**(203,697)**	(209,966)
Gross profit		**282,857**	393,030
Other income, gains and losses		**59,417**	47,425
Selling and distribution costs		**(184,120)**	(209,714)
Administrative expenses		**(68,636)**	(69,588)
Interest and investment income	*4*	**29,106**	35,316
Share of profit of a joint venture		**10,871**	15,757
Share of profits of associates		**100,864**	197,343
Finance costs	*5*	**(13,086)**	(16,325)
Profit before taxation		**217,273**	393,244
Taxation	*6*	**(47,373)**	(73,486)
Profit for the period	*7*	**169,900**	319,758
Other comprehensive income/(expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**32**	(25)
Other comprehensive income/(expense) for the period, net of tax		**32**	(25)
Total comprehensive income for the period		**169,932**	319,733
Profit for the period attributable to:			
Owners of the Company		**99,181**	190,772
Non-controlling interests		**70,719**	128,986
		169,900	319,758
Total comprehensive income attributable to:			
Owners of the Company		**99,213**	190,747
Non-controlling interests		**70,719**	128,986
		169,932	319,733
Earnings per share attributable to owners of the Company - Basic and diluted	*9*	**RMB0.068**	RMB0.130

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2020

	Notes	**30 June 2020 (Unaudited) *RMB'000***	31 December 2019 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**4,876,101**	4,816,760
Right-of-use assets		**2,659,986**	2,754,640
Investments in associates		**2,848,232**	2,747,368
Investments in a joint venture		**389,404**	378,532
Properties under development		**-**	1,228,242
Deferred tax assets		**4,711**	10,913
Other receivables	*10*	**1,549**	4,615
		10,779,983	11,941,070
Current assets			
Inventories		**55,196**	61,685
Properties under development		**1,293,783**	-
Trade and other receivables	*10*	**283,328**	355,189
Amount due from a joint venture		**-**	2
Financial assets at fair value through profit or loss		**269,585**	480,980
Cash and cash equivalents		**1,565,966**	1,585,685
		3,467,858	2,483,541
Current liabilities			
Trade and other payables	*11*	**860,927**	1,035,755
Amount due to a joint venture		**10,369**	46,833
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	26,142
Tax payable		**25,219**	33,169
Bank borrowings – due within one year		**45,000**	30,000
Lease liabilities		**98,671**	98,479
Contract liabilities		**11,146**	8,830
		1,077,474	1,279,208

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 30 JUNE 2020

	30 June 2020	31December 2019
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Non-current liabilities		
Bank borrowings – due after one year	**2,370,000**	2,400,000
Lease liabilities	**355,805**	474,844
Deferred tax liabilities	**24,721**	20,650
	2,750,526	2,895,494
	10,419,841	10,249,909
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**9,071,680**	8,972,467
Equity attributable to owners of the Company	**9,077,971**	8,978,758
Non-controlling interests	**1,341,870**	1,271,151
	10,419,841	10,249,909

NOTES TO THE INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2020 ("interim financial information") has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The interim financial information have been prepared on a historical cost basis, except for the financial assets and liabilities at fair value through profit or loss which are measured at fair value. The preparation of financial statements in conformity with Hong Kong Financial Reporting Standards ("HKFRSs") requires the use of certain critical accounting estimates.

The accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019.

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current period:

HKAS 1 and HKAS 8 (amendments)	Definition of material
HKAS 39, HKFRS 7 and HKFRS 9 (amendments)	Hedge accounting
HKFRS 3 (amendment)	Definition of a business
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting
HKFRS 17	Insurance Contracts
HKFRS 10 and HKAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture

The application of the new and amendments to HKFRSs and the interpretation in the current period has had no material impact on the Group's financial performance and position for the current and prior period and/or on the disclosures set out in these consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Recognised at a point in time:		
Sales of goods - direct sales	**227,228**	236,356
Recognised over time:		
Income from concessionaire sales	**214,341**	303,075
Service income	**15,257**	19,330
Revenue from contracts with customers	**456,826**	558,761
Rental income	**29,728**	44,235
Total revenue	**486,554**	602,996

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

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 period 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 based in the PRC. The Group has no customers that contributed over 10% of the total revenue of the Group for both periods.

4. INTEREST AND INVESTMENT INCOME

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank deposits	**22,202**	20,879
Investment income from financial assets at fair value through profit or loss	**4,127**	11,528
Interest income from loan receivables	**2,777**	2,777
Other interest income	**-**	132
	29,106	35,316

5. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interests expenses on:		
- Bank borrowings	**54,225**	50,733
- Lease liabilities	**13,086**	16,325
	67,311	67,058
Less: Amount capitalised as construction in progress and properties under development	**(54,225)**	(50,733)
	13,086	16,325

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 period.

6. TAXATION

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**43,303**	61,516
Deferred tax charge	**4,070**	11,970
	47,373	73,486

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rates of the PRC subsidiaries are 25% for both periods.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging/(crediting):		
Staff costs	**73,252**	78,874
Depreciation of property, plant and equipment	**52,660**	51,475
Depreciation of right-of-use assets	**60,533**	85,718
Less: Amount capitalized in construction in progress	**(34,531)**	(24,291)
	78,662	112,902
Gain on lease modification	**(15,320)**	-
Reversal of loss allowance on expected credit losses for trade receivables	**(301)**	(509)
Expenses related to variable lease payments to a joint venture	**8,997**	21,738
Cost of inventories recognised as expense	**188,917**	192,234

8. DIVIDEND

No dividend was paid or declared by the Company for the six months ended 30 June 2020 (2019: nil).

9. EARNINGS PER SHARE

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

	Six month ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit for the period attributable to owners of the Company	**99,181**	190,772
	30 June 2020	30 June 2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares	**1,464,449**	1,464,449

Diluted earnings per share were the same as the basic earnings per share as there were no dilutive equity instruments throughout the six months ended 30 June 2020 and 2019 respectively.

10. TRADE AND OTHER RECEIVABLES

	30 June 2020 (Unaudited) *RMB'000*	31 December 2019 (Audited) *RMB'000*
Trade receivables	**8,490**	61,022
Lease receivables	**7,134**	5,543
	15,624	66,565
Less: Loss allowance on expected credit losses	**(767)**	(1,068)
	14,857	65,497
Prepayments	**164**	204
Deposits paid	**1,549**	4,615
Value added tax ("VAT") receivable	**101,047**	106,069
Loan and interest receivables (note)	**143,652**	140,875
Others	**45,861**	64,797
	292,273	316,560
Less: Provision of expected credit losses	**(22,253)**	(22,253)
	270,020	294,307
	284,877	359,804
Less: Non-current portion	**(1,549)**	(4,615)
	283,328	355,189

Note: The balance of RMB143,652,000 as at 30 June 2020 (31 December 2019: RMB140,875,000) 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.

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:

	30 June 2020 (Unaudited) *RMB'000*	31 December 2019 (Audited) *RMB'000*
0 – 30 days	**12,063**	64,331
31 – 60 days	**1,619**	482
61 – 90 days	**892**	205
Over 90 days	**283**	479
	14,857	65,497

11. TRADE AND OTHER PAYABLES

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	RMB'000	*RMB'000*
Trade payables	**36,451**	47,073
Construction payables	**168,428**	219,306
Concessionaire sales payables	**388,646**	481,675
Refundable prepaid card deposits	**127,271**	123,830
Rental deposits received	**76,319**	78,319
Accrued expenses	**31,824**	42,636
VAT payable	**3,732**	11,749
Interest payables	**2,961**	3,278
Others	**25,295**	27,889
	860,927	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:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
	RMB'000	*RMB'000*
0 – 30 days	**28,640**	40,238
31 – 60 days	**2,319**	1,766
61 – 90 days	**843**	479
Over 90 days	**4,649**	4,590
	36,451	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 REVIEW REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the interim financial information of the Group for the six months ended 30 June 2020.

Basis for Qualified Conclusion

The Group holds certain equity interests in certain associated companies herein referred to as "Beiren Group". For the period ended 30 June 2020, the Group has recognised a share of profit of associates of RMB100.9 million and carried RMB2,848.2 million investments in associates on the interim condensed consolidated statement of financial position as at 30 June 2020, of which RMB101.1 million of the share of profit of associates for the six-month period and RMB2,844.5 million of the carrying value of investments in associates 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"). The ultimate beneficial owner of the Debtors has provided personal guarantees over the Debtors' outstanding amounts to the Beiren Group (the "Guarantor"). As at 31 December 2019, the Group has made a full impairment against the whole overdue trade receivable balances due from the Debtors for the purpose of recognising the share of results of the Beiren Group as the Debtors have defaulted on settlement of the trade balances due to the Beiren Group and the Guarantor has been detained by the relevant local authority in Hebei Province. 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 previously qualified our opinion due to a limitation on the scope of audit in relation to the carrying value of the trade receivables due from the Debtors which were fully impaired as of 31 December 2019 as we were unable to obtain sufficient appropriate evidences on whether any adjustments were necessary to their recoverable amounts , net of deferred tax credit.

During the six months ended 30 June 2020 and as at 30 June 2020, 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. Management considered the full impairment on the trade receivables of the Debtors that were made in the prior year still appropriate as at 30 June 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 evidence we considered necessary to assess the recoverable amounts and the appropriateness of the full provision against these trade receivables, net of deferred tax credit in the Beiren Group as at 30 June 2020. Any adjustment of the full provision against these trade receivables will have a consequential impact to the share of profit of associates in the consolidated income statement for the six month ended 30 June 2020. Given these scope limitations, there were no other satisfactory procedures that we could perform to determine any adjustments were necessary to the carrying values of these trade receivable carried at nil balance, net of related tax credit of the Beiren Group as at 30 June 2020 which impact the Group's investment in associates, equity attributable to owners of the Company and equity attributable to non-controlling interests as at 30 June 2020, and the corresponding impact to the Group's share of profit of associates, profit attributable to owners and to non-controlling interests for the period then ended.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

In the first half of 2020, the escalating tension between China and the United States, coupled with the outbreak of the novel coronavirus (COVID-19) pandemic, weighed on China's economy, which contracted by 6.8% year-on-year in the first quarter but managed to recover with year-on-year growth of 3.2% in the second quarter. The rebound came after the country brought the pandemic under control in a timely manner.

During the first quarter of 2020 when the pandemic was at its peak in China, economic activities were suspended or curtailed. It was not until April that businesses were gradually returning to normal. Renewed US-China tensions and financial market volatility also dampened consumer sentiment in China. As a result, the country's retail sales dropped by 11.4% year-on-year in the first half of 2020 comparing to a growth of 8.4% in the first half of 2019, despite the government measures to stimulate domestic consumption and reduce costs for corporations since 2019.

Retail sales of the department store sector in China fell by 23.6% year-on-year in the first half of 2020, in contrast to the year-on-year growth of 1.5% in the first half of 2019. Meanwhile, the year-on-year retail sales growth of the country's supermarket sector decelerated to 3.8% in the first half of 2020 from 7.4% in the first half of 2019.

Financial Review

Revenue and Sales Proceeds

For the six months ended 30 June 2020 (the "Period"), the Group's revenue decreased 19.3% to approximately RMB486.6 million comparing with RMB603.0 million recorded in the same period of 2019, as the COVID-19 pandemic disrupted business activities and undermined consumer spending. In spite of the challenging operating environment, the Group's two department stores, Shanghai Jiuguang and Suzhou Jiuguang, remained focused on executing their sound business strategies and optimizing their operations in order to further enhance their long-term competitiveness and solidify their leading market positions. As a result of the pervasive business disruption to the department store retail business and significant decline in customer foot traffic caused by the pandemic during the Period, both stores saw a decline in sales. Total sales proceeds of the Group decreased 25.0% to RMB1,235.1 million during the Period, when comparing to the same period last year.

Gross Profit and Concessionaire Rate

Gross profit amounted to RMB282.9 million for the Period and the gross profit margin as a percentage of total sales proceeds decreased slightly to 22.9% from 23.9% in the same period of 2019. Gross profit margin as a percentage of revenue decreased to 58.1% from 65.2% and average concessionaire rate also decreased to 20.8% from 21.6% as the Group offered relief measures, including waiver of guaranteed commission granted to business partners with an aim to support each other during the unprecedented challenging business environment caused by the COVID-19 pandemic.

Net Profit Attributable to Shareholders

Net profit attributable to owners of the Company for the Period decreased 48.0% to RMB99.2 million, from RMB190.8 million for the same period last year. The decrease in profit was mainly attributable to pervasive business disruptions caused by the COVID-19 outbreak since early 2020, which resulted in (i) a decline in sales revenue as a result of a significant fall in customer foot traffic and (ii) a 48.7% drop in share of profit from the Beiren Group, an associate of the Group based in Hebei Province, the PRC. For the Period under review, the Group's net profit margin as a percentage of revenue dropped to 20.4%, comparing to 31.6% for the first half of 2019.

Selling and Distribution Costs

Aggregate selling and distribution costs of the Group for the Period decreased by 12.2% to RMB184.1 million (2019: RMB209.7 million), which was mainly attributable to a decrease in the turnover rent amid sales fall and lower utilities costs as a result of closure of the certain sections of the stores during certain periods caused by virus containment measures imposed in the first half of 2020. The Group's aggregate selling and distribution expenses as a percentage of total sales proceeds increased to approximately 14.9% during the Period from 12.7% for the same period in 2019.

Administrative Expenses

The Group's general administrative expenses decreased by 1.4% to RMB68.6 million for the Period (2019: RMB69.6 million), which was mainly helped by a lower staff cost.

Staff Costs

Staff costs (excluding directors' emoluments) decreased by 7.1% year-on-year to approximately RMB73.3 million during the Period. The decrease was a result of decrease in social security contribution under the government's relief measures and a reduction in the headcounts. The total number of full-time staff of the Group as at 30 June 2020 was 1,150, compared to 1,162 as at 31 December 2019.

Other Income, Gains and Losses

Other income, gains and losses , which mainly comprise management fee income, credit card charges and other miscellaneous income received from the counters/tenants, other sundry incomes/expenses and exchange gain, recorded an increase of 25.3% to RMB59.4 million. The increase was mainly attributable to an one-off gain of RMB15.3 million on lease modification following a change of terms of the tenancy for the Freshmart, supermarket in Shanghai. This gain was however partially offset by a decrease in the credit card charges from counters amid sales decline.

Interest and Investment Income

The Group's interest and investment income decreased by 17.6% to RMB29.1 million during the Period, which was mainly due to lower investment income from bank deposits and structured deposits.

Finance Costs

The Group's finance costs consisted mainly of interests incurred on bank borrowings. The aggregate amount of finance cost and interests incurred for the Period, before capitalisation, was approximately RMB67.3 million (2019: RMB67.1 million), of which RMB54.2 million (2019: RMB50.7 million) was capitalised in respect of Group's Daning project in Shanghai. The finance costs charged to profit and loss account amounted to RMB13.1 million (2019: RMB16.3 million), representing the finance charge on the lease liabilities.

Liquidity and Financial Resources

The Group's adjusted EBITDA for the Period decreased to RMB126.8 million, from RMB205.6 million recorded in the same period of 2019, mainly due to the decrease in sales revenue and the margin squeeze. As at 30 June 2020, the Group's net debt (defined as cash and cash equivalents less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amount due to a joint venture) amounted to approximately RMB885.5 million, compared with RMB917.3 million as at 31 December 2019. The lower net debt position was mainly attributable to decreased bank borrowings in respect of the Group's Daning project and a decrease in the amount due to joint venture.

The Group's cash and cash equivalents as at 30 June 2020 amounted to approximately RMB1,566.0 million (31 December 2019: RMB1,585.7 million), of which RMB11.3 million, denominated in Hong Kong dollars was kept in Hong Kong, with the balance, which included approximately 94.5% denominated in Renminbi and the remaining 5.5% in the United States dollars, were kept in mainland China. The decrease in cash at banks as compared to 31 December 2019 was due to repayment of bank borrowing in the amount of RMB15.0 million during the Period.

As at 30 June 2020, the Group's secured bank loans amounted to approximately RMB2,415 million (31 December 2019: RMB2,430 million), bearing interest calculated with reference to benchmark lending rates of the People's Bank of China. As at 30 June 2020, the Group's banking facilities was fully utilized (31 December 2019: same). The Group's debt to equity ratio (defined as bank borrowings divided by equity attributable to the owners of the Company) was 26.6% as at the Period end (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 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 are denominated in foreign currencies (Hong Kong dollars and United States dollars) other than Renminbi and is subject to foreign currency changes depending on the strength of the RMB from time to time. Given the fact that majority of the Group's revenue and expenses as well as borrowings and capital expenditures are denominated in Renminbi, and that the Hong Kong dollar cash balance kept in Hong Kong is for settling expenses incurred outside mainland China, the Group currently does not require 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 30 June 2020, the Group pledged certain of its (i) property, plant and equipment of RMB3,156 million (31 December 2019: RMB3,045 million); (ii) right-of-use assets of RMB1,746 million (31 December 2019: RMB1,724 million); and (iii) property under development of RMB1,294 million (31 December 2019: RMB1,228 million) in the PRC to secure bank loan facilities amounting to RMB2,415 million (31 December 2019: RMB2,430 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2020.

Material Acquisitions and Disposals

There were no material acquisitions and disposals during the Period.

Review of Operations

In light of the COVID-19 outbreak since the early 2020, the Group's two department stores, which form its mainstay business, had to shorten their opening hours or close some of their sections for a short while during February and March 2020 when the pandemic was at its peak. To cope with the difficult situation, the Group increased the use of mobile internet-enabled applications on handsets and continued to digitalize its retail management system to enhance customer engagement. This was to strengthen its brand equity and reinforce the positioning of Shanghai Jiuguang and Suzhou Jiuguang as department stores that meet the changing consumer demands, especially the Group's targeted middle class group. In order to ride through the difficult time together, the Group provided various relief measures to its business partners to help them staying afloat during the Period.

Shanghai Jiuguang

Shanghai Jiuguang's sales proceeds decreased by 26.9% in the first half of 2020 as its business was affected by the local government's anti-pandemic measures, which included restrictions on inter-city and inter-province traveling. Shanghai as a metropolitan city is particularly susceptible to these measures as migrant workers, tourists and business travelers from home and abroad contribute significantly to its retail market. Sales proceeds of the store decreased by 42.2% year-on-year in the first quarter amid shorten business hours and temporary closure of some sections of the store during February and March. A notable recovery was seen in May and June with the sales drop narrowing to 9.5% year-on-year in the second quarter of 2020 when the pandemic was gradually being brought under control.

For the first half of 2020, the average daily footfall fell by 42.9% year on year to approximately 28,000 visitors. The stay-and-buy ratio and average ticket size, however, saw a year-on-year increase by 11.3 percentage points to 49.0% and 1.3% to RMB456 respectively. The Group continued to gear its product assortment to cater to the mid-range and high-end markets. The average concessionaire rate collected by the store was 22.8% in the Period compared with the approximately 23.1% in the first half of 2019.

Suzhou Jiuguang

Amid the COVID-19 outbreak, the Group's Suzhou Jiuguang had also to shorten its business hours and temporarily closed certain sections of the store in February and March. Sales as a result fell by 20.3% year-on-year in the first half of 2020. Suzhou Jiuguang recorded a speedier recovery when compared with the Shanghai store in May and June as its customers are mainly the local citizens and therefore less dependent on visitors and travelers. The Suzhou store recorded a drop of 38.5% in sales proceeds in the first quarter of 2020 but managed to achieve a sales growth of 1.9% in the second quarter. Despite the adverse effects from the COVID-19 outbreak, direct sales of cosmetic products and accessories grew 16.5% during the Period. Comparing to the same period last year, the average daily footfall dropped by 48.9% to 10,000 visitors while the stay-and-buy ratio and average ticket size grew by 19.1 percentage points and 12.5% to 64.7% and RMB459 respectively. The average concessionaire rate collected by the department store decreased to 17.0% in the Period from 18.3% in the first half of 2019.

Dalian and Shenyang Property

The Group's commercial properties in Dalian and Shenyang remained vacant during the Period and continued to incur negative cash flows for up-keeping and the maintenance of the properties.

Standalone Freshmart Operation

Freshmart, which sells high-quality food and confectionery products as a standalone operation of the Group at a rented premise in Changning, Shanghai, recorded a year-on-year decrease of 25.2% in sales proceeds during the first half of 2020 as the pandemic badly hit its customer foot traffic. Many office workers in the same building where the Freshmart is located had to work from home to help to prevent the spread of the disease. To improve its sales efficiency, the Group continued to increasing the portion of concessionaire sales and reducing the portion of direct sales. The Group had also fine-tuned its product assortment to cater to the needs of office workers in order to cope with the fierce competition and planned to hold more marketing activities to stimulate sales when the COVID-19 outbreak receded. Freshmart suffered from a negative cash flow in the first half of 2020 as the amount of operating expenses exceeded the sales revenue.

Investments in Associates

Beiren Group, a well-established Shijiazhuang-based retailer in which the Group maintains a strategic equity interest, recorded a year-on-year decrease of 28.7% in aggregate sales during the first half of 2020 because of the pandemic outbreak. While sales of most segments in Beiren Group declined amid the COVID-19 outbreak, the supermarket segment recorded year-on-year growth of 7.5% in sales for the Period. Net profit (after share of non-controlling interests) attributable to the Group was RMB60.7 million in first half of 2020, comparing with RMB118.3 million in the same period last year. The share of profit from this investment accounted for 61.3% of the profit attributable to owners of the Company for the Period.

As detailed on section "Basis for Qualified Conclusion", the Group recognised a loss allowance of expected credit loss against the full amount of trade receivable balance of the auto trading business with a group of companies (the "Debtors") in Hebei Providence during the year ended 31 December 2019. The Debtors have defaulted on settlement of their outstanding trade balances and their ultimate owner who is also their guarantor (the "Guarantor") has been detained by the local relevant authority.

The Group understood from management of the Beiren Group that there has not been any progress made in terms of recovering the outstanding trade receivables nor obtaining further financial information of the Debtors and the Guarantor. As at 30 June 2020, the Group considered that the expected credit loss assessment to making full provision against the outstanding trade receivables of the Debtors remained the best estimate based on the information currently 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 as no progress was 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 conclusion issued by the auditor in the Report on Review of Interim Financial Information.

In order to obtain from the 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 makes regular contact with the Beiren Group's management to monitoring development of the situation closely, and to assessing 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 works of the Group's retail and commercial complex in Daning, Jingan District, Shanghai is at the final stage of completion. The project comprises a large retail complex, which will house the Group's second Jiuguang store in Shanghai, and two office blocks. Although the progress was slightly delayed due to COVID-19 outbreak, the retail complex is scheduled to be opened in 2021. When it commences business, it is expected to start contributing to the Group's cash flows and enhance the Group's business presence and brand equity in Shanghai.

Outlook and Plan

The Group cautiously looks forward to a gradual recovery in the second half of 2020 as it can benefit from the government's policies on stimulating domestic consumption and supporting the businesses. However, it remains uncertain when the COVID-19 pandemic will be completely brought under control in both China and the rest of the world. In China, concern on further outbreak of the disease has been reported in Beijing in June 2020. Meanwhile, the raging pandemic in other countries had already affected the prospect of China's exports. Moreover, the escalation of the Sino-United States trade and political tensions can also exacerbate the already difficult operating environment for China's export-oriented businesses. All these, in turn, will cast uncertainty over the job market in the country and thus may dampen consumer sentiment.

To adapt itself to the growing trend towards e-commerce and the rapidly changing consumption patterns of the younger generation, the Group has already deployed mobile internet technology to its marketing activities. It has been conducting omni-channel marketing with the help of its mobile internet-enabled applications, which are available for the use of members of our customers club at Shanghai Jiuguang since September 2019 and the same applications will be launched to customers at Suzhou Jiuguang in August 2020. This will provide greater shopping convenience for customers by enabling them to share reward points at both locations. The mobile internet-enabled applications can attract more customers to the Group's brick-and-mortar stores and thus helps to boost sales. The Group's department stores will reinforce their positioning as the ones that cater to the daily needs of the middle and upper class customer groups. More mid-range and higher-end products of internationally renowned brands will be introduced to enrich the brand and product assortment.

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

EMPLOYEES

As at 30 June 2020, the Group employed a total of 1,150 employees, with 1,145 stationed in mainland China and 5 in Hong Kong. Staff costs (excluding directors' emoluments) amounted to RMB73.5 million (2019: RMB78.9 million) for the six months ended 30 June 2020. The Group ensures that the 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.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: nil).

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 of Hong Kong Limited during the six months ended 30 June 2020, except the following deviation:

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

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 six months ended 30 June 2020.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 June 2020 have been reviewed by the audit committee, and by the auditors of the Company in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

ACKNOWLEDGEMENT

We would like to thank the management and all of our staff for their hard work and dedication, as well as our shareholders, business partners 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, 10 August 2020

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