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 2023

HIGHLIGHTS

- Revenue increased 36.7% to RMB695.2 million
- Profit attributable to owners of the Company increased 357.7% to RMB127.6 million
- Earnings per share increased 357.7% to RMB0.087
- 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 2023, together with comparative figures for the corresponding period in 2022, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**695,235**	508,514
Cost of sales		**(301,165)**	(220,263)
Gross profit		**394,070**	288,251
Other income, gains and losses		**109,828**	104,877
Selling and distribution costs		**(301,619)**	(282,457)
Administrative expenses		**(114,491)**	(109,614)
Interest and investment income	*4*	**30,406**	13,156
Share of profit of a joint venture		**14,428**	9,558
Share of profits of associates		**255,196**	197,050
Finance costs	*5*	**(84,129)**	(58,398)
Profit before taxation		**303,689**	162,423
Taxation	*6*	**(38,078)**	(31,506)
Profit for the period	*7*	**265,611**	130,917
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**34**	111
Other comprehensive income for the period, net of tax		**34**	111
Total comprehensive income for the period		**265,645**	131,028
Profit for the period attributable to:			
Owners of the Company		**127,622**	27,884
Non-controlling interests		**137,989**	103,033
		265,611	130,917
Total comprehensive income attributable to:			
Owners of the Company		**127,656**	27,995
Non-controlling interests		**137,989**	103,033
		265,645	131,028
		RMB	*RMB*
Earnings per share attributable to owners of the Company			
- Basic and diluted	*9*	**0.087**	0.019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2023

	Notes	**30 June 2023 (Unaudited) *RMB'000***	31 December 2022 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**5,153,574**	5,267,550
Right-of-use assets		**3,641,873**	2,237,164
Investment property		**1,246,254**	1,261,645
Investments in associates		**3,527,850**	3,272,654
Investment in a joint venture		**374,485**	360,057
Deferred tax assets		**16,927**	5,298
Other receivables	*10*	**5,371**	5,352
		13,966,334	12,409,720
Current assets			
Inventories		**94,355**	109,471
Trade and other receivables	*10*	**171,250**	211,378
Amounts due from associates		**105,520**	108,994
Cash and cash equivalents		**2,740,164**	1,609,097
		3,111,289	2,038,940
Current liabilities			
Trade and other payables	*11*	**949,701**	1,094,625
Amount due to a joint venture		**19,655**	12,580
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	26,142
Tax payable		**18,534**	23,984
Bank borrowings – due within one year		**30,000**	1,120,000
Lease liability		**185,066**	105,447
Contract liabilities		**13,049**	9,691
		1,242,147	2,392,469
Net current assets/(liabilities)		**1,869,142**	(353,529)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 30 JUNE 2023

	30 June 2023	31December 2022
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings – due after one year	**3,260,000**	1,120,000
Lease liability	**1,449,573**	82,960
Deferred tax liabilities	**61,394**	54,367
	4,770,967	1,257,327
	11,064,509	10,798,864
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**9,432,158**	9,304,502
Equity attributable to owners of the Company	**9,438,449**	9,310,793
Non-controlling interests	**1,626,060**	1,488,071
	11,064,509	10,798,864

NOTES TO THE INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2023 ("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 ("Listing Rules") 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. 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 2022.

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

HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies
HKAS 8 (Amendments)	Definition of Accounting Estimates
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
HKAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules

The application of the amendments to HKFRSs 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 condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for goods sold by the Group to 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	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Recognised at a point in time:		
Sales of goods - direct sales	**281,139**	199,457
Recognised over time:		
Income from concessionaire sales	**251,249**	199,350
Service income	**19,168**	13,711
Revenue from contracts with customers	**551,556**	412,518
Rental income	**143,679**	95,996
Total revenue	**695,235**	508,514

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 as well as property investment in the PRC. 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 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 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	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank deposits	**30,406**	13,156

5. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interests expenses on:		
- Bank borrowings	**62,148**	51,319
- Lease liabilities	**21,981**	7,079
	84,129	58,398

6. TAXATION

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**42,680**	28,053
Deferred tax (credit)/charge	**(4,602)**	3,453
	38,078	31,506

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	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging:		
Staff costs	**99,888**	93,637
Depreciation of property, plant and equipment	**123,053**	131,642
Depreciation of investment property	**15,391**	15,391
Depreciation of right-of-use assets	**76,880**	83,852
Loss allowance on expected credit losses for lease receivables	**3,719**	548
Expenses related to variable lease payments	**19,567**	7,676
Cost of inventories recognised as expense	**240,109**	168,206

8. DIVIDEND

No dividend was paid or declared by the Company for the six months ended 30 June 2023 (2022: 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	
	2023	2022
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit for the period attributable to owners of the Company	**127,622**	27,884
	30 June	30 June
	2023	2022
Number of shares	***'000***	*'000*
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 potential dilutive equity instruments throughout the six months ended 30 June 2023 and 2022 respectively.

10. TRADE AND OTHER RECEIVABLES

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
	RMB'000	*RMB'000*
Trade receivables	**8,236**	25,929
Lease receivables	**62,513**	74,862
	70,749	100,791
Less: Loss allowance on expected credit losses	**(6,376)**	(2,657)
	64,373	98,134
Prepayments	**230**	257
Deposits paid	**5,371**	5,352
Value Added Tax ("VAT") receivable	**75,850**	88,457
Others	**53,050**	46,783
	134,501	140,849
Less: Loss allowance on expected credit losses	**(22,253)**	(22,253)
	112,248	118,596
	176,621	216,730
Less: Non-current portion	**(5,371)**	(5,352)
	171,250	211,378

The Group's retail sales to customers are mainly conducted in cash, through debit card payments or third party payment platform. Trade receivables mainly arising from sales through third party payment platform are normally settled in one to two business days,whereas lease receivables are normally settled 30 days in arrears. The following is an aged analysis of trade and lease receivables net of allowance for expected credit losses, if any, at the end of the reporting period presented based on the invoice date:

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
	RMB'000	*RMB'000*
0 – 30 days	**40,807**	56,742
31 – 60 days	**9,524**	20,944
61 – 90 days	**2,948**	6,696
Over 90 days	**11,094**	13,752
	64,373	98,134

11. TRADE AND OTHER PAYABLES

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
	RMB'000	*RMB'000*
Trade payables	**44,049**	47,548
Construction payables	**83,917**	252,516
Concessionaire sales payables	**374,473**	325,970
Refundable prepaid card deposits	**131,486**	139,191
Rental deposits received	**209,193**	204,819
Accrued expenses	**56,541**	73,417
VAT payable	**1,653**	7
Interest payables	**328**	2,940
Others	**48,061**	48,217
	949,701	1,094,625

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

	30 June 2023 (Unaudited)	31 December 2022 (Audited)
	RMB'000	*RMB'000*
0 – 30 days	**32,584**	32,825
31 – 60 days	**1,537**	5,898
61 – 90 days	**1,480**	1,800
Over 90 days	**8,448**	7,025
	44,049	47,548

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 2023.

Basis for Qualified Conclusion

The Group holds equity interests in certain associated companies herein referred to as "Beiren Group". For the period ended 30 June 2023, the Group recognised a share of profit of associates of RMB255.2 million and carried RMB3,527.9 million investments in associates on the interim condensed consolidated statement of financial position as at 30 June 2023, of which RMB254.4 million of the share of profit of associates for the six-month period ended 30 June 2023 and RMB3,522.1 million of the carrying value of investments in associates as at 30 June 2023 were attributable to the Beiren Group.

In 2019, the Group made a full expected credit loss allowance, net of deferred tax credit ("Full Impairment") against the entire overdue trade receivable balances due from three PRC companies ("Debtors") of the Beiren Group ("Trade Receivables"), for the purpose of recognising the Group's share of results of the Beiren Group. Such Trade Receivables are guaranteed by the ultimate beneficial owner of the Debtors (the "Guarantor"). The impact of the Full Impairment on the Group's share of losses of associates, loss attributable to owners and loss attributable to non-controlling interests for the year ended 31 December 2019 amounted to RMB812.4 million, RMB487.4 million and RMB325.0 million respectively.

We have previously qualified our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2022 due to a limitation of scope as we were unable to obtain sufficient appropriate evidences on whether any adjustments were necessary to the carrying amount of the Trade Receivables of nil balance and the related deferred tax credit in respect of the Full Impairment, which had consequential impact on (i) the Group's share of profits of associates for the year ended 31 December 2022 and the carrying value of its investments in associates as at that date; (ii) the Group's loss 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 2022; and (iii) the equity attributable to owners of the Company and the non-controlling interests on the Group's consolidated statement of financial position as at 31 December 2022.

During the six-month period ended 30 June 2023 and up to the date of this report, there has been no additional information or development in relation to the recoverability of the Trade Receivables due from the Debtors. Accordingly, the Group's management considered the Full Impairment of the Trade Receivables of the Beiren Group brought forward is still appropriate as at 30 June 2023.

However, the Group's management was not able to provide us with adequate evidence with respect to the financial conditions of the Debtors and the Guarantor up to the date of this report, including the 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 of the Trade Receivables. Given the abovementioned scope limitations, there were no other satisfactory procedures that we could perform to determine whether any adjustments were necessary to the Trade Receivables of nil balance and the related deferred tax credit in respect of the Full Impairment as at 30 June 2023 which consequentially impact (i) the Group's share of profits of associates for the period ended 30 June 2023 and the carrying value of its 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 condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2023; and (iii) the Group's equity attributable to owners of the Company and the non-controlling interests on the condensed consolidated statement of financial position as at 30 June 2023.

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 DISCISSION AND ANALYSIS

Market Overview

During the first half of 2023, China's economy gradually stabilized and rebounded, with a 5.5% year-on-year growth in gross domestic production being recorded. Since the beginning of the year, pent-up consumer demand has been gradually released in many parts of China. While some consumers tended to be cautious in their spending given the uncertain economic outlook, the majority chose to rediscover the joys of shopping in-store and offline entertainment experiences. With the help of local supporting policies to stimulate consumer spending, consumption expenditure continued to expand and the national retail sales saw a 8.2% year-on-year growth in the first half of 2023, notably in dining and sales of gold ornaments and jewelry, and apparel and footwear. In the retail store sector, retail sales in department stores increased by 9.8% year-on-year for the first half of 2023 while retail sales in supermarkets retracted by 0.4% as compared to the first half of 2022.

Meanwhile, consumption target of the Chinese consumers also changed, as they not only focused the quality and prices of products or services they paid for, but also on the emotional added value adhering to the goods and services, hoping to gain better life experience through premium products and services. As such, it was extremely important to design marketing activities that would create immersive scenarios to bring enjoyment to consumers while encouraging in-store spending. In particular, demand for eco-friendly and health products has further increased in the post-pandemic era. In response to the increasingly popular new trend of pursuing healthy lifestyle, retailers are actively exploring sustainable development opportunities to drive growth in consumer spending.

Financial Review

To seize the opportunities amid the economic rebound and enhance its overall competitiveness, the Group continued to optimize its store operations by creating unique marketing scenarios and organizing various cultural and sporting events to attracting consumers to experience and shop at its stores, thereby boosting foot traffic and sales. For the six months ended 30 June 2023 (the "Period"), the two well-established department stores of the Group, namely Shanghai Jiuguang and Suzhou Jiuguang, as well as the shopping mall known as Shanghai Jiuguang Center ("JGC"), recorded considerable sales growth.

Revenue and Sales Proceeds

The Group's revenue increased 36.7% year-on-year to RMB695.2 million for the Period, compared with RMB508.5 million for the same period last year. Such growth was mainly attributable to the resumption of normal store operations of the Group during the first half of 2023, in contrast to the store closures or shortened business hours for part of the same period last year. For the Period, total sales proceeds of the Group increased by 50.7% year-on-year to RMB1,638.6 million from RMB1,087.4 million recorded in the previous year.

Gross Profit and Concessionaire Rate

During the Period, the Group's gross profit increased by 36.7% year-on-year to RMB394.1 million. Gross profit margin as a percentage of revenue was largely unchanged at approximately 56.7%, while gross profit margin as a percentage of total sales proceeds was 24.0%, compared with 26.5% for the same period last year. The average concessionaire rate on the other hand edged up to 19.6% during the Period from 19.2% for the same period last year.

Net Profit Attributable to Shareholders

Net profit attributable to shareholders of the Company increased 357.7% year-on-year to RMB127.6 million for the Period. The increase was primarily attributable to (i) the substantial growth in sales revenue and other income following the Group's resumption of normal business operations; and (ii) a 28.6% increase to RMB152.7 million in the share of profit of the Beiren Group. If the share of profits of associates and a joint venture were excluded, the Group would have recorded a profit before tax of RMB34.1 million for the Period, as compared to a loss before tax of RMB44.2 million in 2022.

Selling and Distribution Costs

The Group's aggregate selling and distribution costs for the Period amounted to RMB301.6 million, an increase of 6.8% as compared with RMB282.5 million for the same period last year. The increase was primarily attributable to an increase in operating costs and staff costs during the Period as the business operations resumed normal, as well as the increase in rental expense which is calculated based on turnover and related tax. The Group's aggregate selling and distribution costs as a percentage of total sales proceeds decreased to approximately 18.4% for the Period, compared with approximately 26.0% for the same period of 2022, as percentage increase in sales was much higher than the increase in costs.

Administrative Expenses

The Group's general administrative expenses increased moderately by 4.4% year-on-year to approximately RMB114.5 million from RMB109.6 million recorded for the first half of 2022 and the increase was mainly attributable to the rise in staff costs following the resumption of normal business operations during the Period.

Staff Costs

Staff costs (excluding directors' emoluments) for the Period increased 6.7% year-on-year to approximately RMB99.9 million from RMB93.6 million for the same period of 2022, which was mainly attributable to resumption to normal business operations during the Period and the overall salary adjustments this period. As at 30 June 2023, the total number of full-time staff employed by the Group was 1,164, compared with 1,160 as at 30 June 2022.

Other Income, Gains and Losses

Other income, gains and losses, which mainly comprise management fees, third-party payment platform charges and other miscellaneous income from counters/tenants, other sundry income and foreign exchange gains/losses, increased 4.7% year-on-year to RMB109.8 million for the Period. The increase was primarily attributable to the increase in third-party payment platform fees received from counters in line with the increase in sales, as well as an increase in carpark income.

Interest and Investment Income

During the Period, the Group's income from interest and investment increased by 131.1% year-on-year to RMB30.4 million as a result of an increase in bank interest income from higher bank balance following the approximately RMB1,050 million net drawdown of the bank loan as well as increased cash from the operation.

Finance Costs
The Group's finance costs mainly consisted of interest incurred on bank borrowings and lease liabilities. Total finance costs for the Period amounted to approximately RMB84.1 million (2022: RMB58.4 million) and the increase was attributable to the increased loan amount following full drawdown of the RMB3,300 million facility and higher financial expenses relating to lease liabilities following renewal of the lease for the Shanghai Jiuguang premises.

Liquidity and Financial Resources
The Group's adjusted EBITDA for the Period increased to RMB242.4 million from RMB170.0 million in the first half of 2022, mainly due to increase in sales and revenue following resumption of normal operations. As at 30 June 2023, the Group's net debt (defined as cash and cash equivalents and amounts due from associates less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amounts due to a joint venture) decreased to approximately RMB490.1 million from approximately RMB560.6 million as at 31 December 2022 as cash from operation increases.

As at 30 June 2023, the Group's cash and cash equivalents amounted to approximately RMB2,740.2 million (31 December 2022: RMB1,609.1 million), of which RMB16.4 million was denominated in Hong Kong dollars and held in Hong Kong. The remaining cash balance was held in Mainland China, of which approximately 3.3% was denominated in United States dollars and the remaining 96.7% in Renminbi. The increase in cash at banks, as compared with that at 31 December 2022, was mainly due to the full drawdown by the Group in January 2023 of the RMB3,300 million new 15-year bank facility for repayment of the RMB2,240 million project loan with the balance of approximately RMB1,060 million held as cash at bank. The new bank facility is secured by the retail portion (including the basement) of the JGC and interest is calculated with reference to a few basis points below the Loan Prime Rate in China. As at the end of the Period, the Group's debt to equity ratio (defined as bank borrowings divided by equity attributable to owners of the Company) rose to 34.9% (31 December 2022: 24.1%) as a result of increase in bank borrowings.

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, a small portion of the Group's monetary assets are denominated in foreign currencies, namely Hong Kong dollars and United States dollars. Given that the majority of the Group's revenue and expenses, as well as its borrowings and capital expenditures, are denominated in Renminbi, and the Hong Kong dollar cash balance held in Hong Kong is for settling operating expenses outside Mainland China, the Group currently does not require a comprehensive foreign currency hedging policy. Nevertheless, the management will monitor the Group's foreign currency exposure and will consider taking appropriate measures to mitigate any significant potential foreign currency risk if necessary.

Pledge of Assets
As at 30 June 2023, certain of the Group's (i) property, plant and equipment in the PRC with a book value of approximately RMB3,711 million (31 December 2022: property, plant and equipment and investment property in the PRC of RMB3,786 million and RMB 1,262 million respectively); and (ii) right-of-use assets in the PRC with a book value of approximately RMB1,595 million (31 December 2022: RMB1,620 million) were pledged to secure bank facility of RMB3,300 million (31 December 2022: RMB2,240 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2023.

Significant Investments, Material Acquisitions and Disposals

During the period, the Group had no significant investments, nor were there any material acquisitions or disposals of subsidiaries.

Review of Operations

In the first half of 2023, with the gradual release of the consumer pent-up demand, coupled with the government's policy to promote domestic consumption and a relatively low base last year, the retail market improved significantly compared with the same period last year. The Group continued to leverage its online channels to regularly livestream new products and services to cultivate consumers to visit our physical stores. We also optimized our product and service portfolio by introducing non-traditional retail and service tenants such as fitness studios, and carried out various themed marketing activities to enrich consumption scenarios and customer experiences, thereby boosting sales through increased customer traffic.

Shanghai Jiuguang Center

As a high quality commercial complex and positioned as a leisure experience and lifestyle hub, JGC launched a series of medium-and large-scale marketing activities during the Period, encouraging customers to prioritize visiting our shopping mall to experience the fun of in-store shopping through social interaction. Back in March, JGC ingeniously arranged thousands of pots of flowers on the big steps and the pedestrian street to echo, the Tulip Flower Expo in the Jing'an District under the theme of "Flowers • Jiuguang". Taking advantage of its unique spatial layout, JGC later also collaborated with artist Aka Uncle to depict interesting stories through cartoon characters with succinct lines. In June, JGC launched a series of summer-themed activities, including 100-people pop-up dances, open-air movies, sports events, etc., to meet the consumption needs of the younger generation who appreciate fun, novelty and relaxing experiences. Through actively and regularly creating lifestyle consumer scene, JGC has become a new landmark for young consumers in North Shanghai.

In the first half of 2023, sales proceeds and rental income of JGC increased by 49.0% and 55.4% year-on-year to RMB162.2 million and RMB90.5 million respectively, with notable sales growth particularly in fashion and cosmetics categories. Average daily footfall was approximately 27,800 visitors and the stay-and-buy ratio rose by 12.9 percentage points to 77.2%, while the average ticket size remained at around RMB208.

During the Period, JGC continued its efforts to leasing out office space at the two office towers. Despite the weak commercial property market environment, the occupancy rate of the East Tower was close to 50% by the end of June 2023, with tenants spanning logistics, professional services, e-commerce and other industries. Leasing work has commenced for the West Tower since the second quarter and discussions with potential interested parties are underway.

Shanghai Jiuguang

In the first half of 2023, Shanghai Jiuguang stepped up its omnichannel marketing efforts to strengthen Jiuguang's brand equity as consumer enthusiasm continued to escalate. Through a variety of marketing activities, customers were attracted to visit the store in person and to spend more time there. Among them, Shanghai Jiuguang collaborated with the "The Museum of Creative Minds" to hold its first PRC exhibition of "tutuhulu兔兔葫蘆" – "Red Rabbit (大展紅兔) ", created by Austrian artist Jan Dornig, and also the trendy "Jump into the Rabbit Hole Together (一起闖入兔子洞)" art exhibition, both events became popular photo taking spots in the Jing'an District. For more than a month since late April, both the interior and exterior of the Shanghai Jiuguang mall was decorated for displaying a sea of flowers in Spring, echoing the theme of "Flowers • Jiuguang", and complementing the promotion of nature-based fun and related tourism products. To celebrate Mother's Day, Shanghai Jiuguang also organized an oil painting experience class and held exhibitions of artists' works, etc. These events have brought leisure experiences, excitement and surprises to customers while at the same time enhancing loyalty of existing Jiuguang VIP members and attracted new customers to become members of the Jiuguang loyalty program that should bring new growth opportunities to the Group.

In the first half of 2023, the average daily footfall of Shanghai Jiuguang rose to 49,000 visitors from 17,000 visitors in the same period last year. Although the average ticket size and the stay-and-buy ratio decreased by 14.0% to RMB404 and 16.0 percentage points to 38.7% respectively, total sales revenue rose sharply by 71.3% year-on-year to RMB995.6 million. During the Period, the average concessionaire rate collected by the store was approximately 22.8% (2022: 23.0%).

Suzhou Jiuguang

The retail sales market in Suzhou gradually recovered in the first half of 2023. With a collection of the world's renowned branded jewelry and watches, Suzhou Jiuguang has become one of the Mecca for local consumers to buy jewelry. During the Period, Suzhou Jiuguang once again partnered with its branded jewelry retailers to organize a large-scale jewelry exhibition to further attract customer traffic and boost sales, with sales of watches and jewelry outperforming all other product categories in the store. In addition, the menswear section and the medical aesthetic center meticulously created by Suzhou Jiuguang also successfully attracted more footfall and boosted consumption for the department store during the Period.

During the Period, total sales revenue of Suzhou Jiuguang increased by 22.2% year-on-year to RMB469.5 million, and the average daily footfall grew by 11.8% year-on-year to approximately 12,300 visitors, while the stay-and-buy ratio and the average ticket size decreased by 2.7 percentage points and 12.1% to 60.8% and RMB496 respectively. The average concessionaire rate during the Period remained stable at approximately 15.3%.

Dalian and Shenyang Property

The Group's commercial properties in Dalian and Shenyang remained vacant during the Period and continued to record cash outflow aggregating approximately RMB10.6 million for the general upkeep and maintenance of these 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. During the Period, sales revenue of Freshmart decreased slightly compared with the first half of 2022, mainly due to the hoarding of daily necessities by consumers last year during the pandemic.

Investments in Associates
The Group holds a strategic equity interest in Beiren Group, a leading retail group headquartered in Shijiazhuang, Hebei Province, the PRC. Unlike the Group's business in Shanghai, Beiren Group's business did not rebound as much and remained relatively stable as this part of China was not affected too seriously by the pandemic in the first half of last year. Profit from retailing operation dropped slightly as comparing to last year for the increase in costs and expenses was much higher than the growth in sales and revenue. However, thanks to a one-off gain on disposal of a piece of land that lifted up Beiren's net profit for the Period and the share of profits (after share of non-controlling interests) by the Group rose 28.6% to RMB152.7 million for the Period, compared with RMB118.7 million for the same period in 2022.

As detailed in the section "Basis for Qualified Conclusion", the Group made Full Impairment against the full amount of Trade Receivable balances due by the Debtors.

The Group understands from the management of the Beiren Group that no progress has been made in recovering the outstanding receivables and no further financial information relating to the Debtors and Guarantor has been obtained. Based on the information currently available, the Group believes that the full impairment of the Debtors' outstanding receivables made in 2019 remains the best estimate.

With a non-controlling interest in Beiren Group, the Group can only rely on the management of Beiren Group to (i) take appropriate and necessary actions to collect the receivables from the Debtors and/or Guarantor; and (ii) obtain up-to-date and relevant information, including but not limited to financial information and financial position of the Debtors and Guarantor, and the progress of legal proceedings, if any, against the Debtors and/or Guarantor.

During the Period, the Group's Chief Financial Officer ("CFO") continued to implement the Company's plan in response to the qualified opinion, as detailed in the Company's supplemental announcement dated 5 May 2020, by engaging with the management of Beiren Group on a quarterly basis to obtain updates on the progress of the legal action against the Debtors and the criminal case against the Guarantor.

As of now, the Group's CFO was not able to obtain any updated information as all assets, records and information of the Debtors and/or Guarantor remain in the custody of the local authorities in the PRC. As a result, it has not been possible to obtain the relevant information on the Debtors and/or Guarantor as requested by the auditors for resolving the qualified opinion.

As the Group only holds a non-controlling interest in Beiren Group, the Board understands the reliance on the management of Beiren Group to take the necessary legal action and monitor progress through regular contact with the relevant authorities. The Board is also aware of the challenges faced by Beiren Group's management in obtaining up-to-date information.

In view of the above, despite the lack of progress in obtaining updated information requested by the auditors in relation to the Debtors and/or Guarantor, the Board considers that the action taken by the Group and the management of Beiren Group represent the most appropriate action under the circumstances. It is understood that as of the date of this announcement, almost all of the key employees of the Debtors or companies owned by the Guarantor, as well as the Guarantor himself, are still being detained by the relevant local authorities and therefore no progress has been made in obtaining further information about the Debtors and/or Guarantor.

While the Group will continue to work closely with management of the Beiren Group with an aim to push ahead development of the legal cases against the Debtors/Guarantor, management of the Company is of the view that until there is any meaningful progress or conclusion in the criminal case against the Guarantor as taken by the relevant local authorities, no progress could be expected in respect of the legal action taken by the Beiren Group against the Debtors for recovering the Trade Receivables. In light of the above, the Company is unable to propose any other realistic and feasible actions or specific timelines to resolve or eliminate the qualified opinion at this time.

The Board and the Audit Committee agree that, given the unique nature of the issue and the unusual circumstances, there are no other realistic and feasible actions or any specific timelines to resolve the audit modifications at this time.

The auditor noted the actions taken and the difficulties faced by the Company and Beiren Group's management in obtaining information about the Debtors/Guarantor over the past several years when the Guarantor and most of his key employees were detained and all assets owned by the Guarantor were seized by the relevant local authorities.

The auditor is also aware that the Company plans to continue to rely on Beiren Group's management to obtain information about the Debtors/ Guarantor. However, the auditor will not be able to assess whether or not they have obtained sufficient appropriate audit evidence as they consider necessary until the Company is able to provide the auditor with sufficient evidence regarding the financial condition of the Debtors/Guarantor and details of the Guarantor's other assets.

The Group will continue its efforts to work with the management of Beiren Group to further explore options to obtain relevant information, including but not limited to financial information and financial position of the Debtors and Guarantor. In addition, the Group will continue to maintain regular contact with management of the Beiren Group to keep abreast of the situation and to assess the possibility of recovering the outstanding receivables from the Debtors, and will discuss the matter with the auditor in order to resolve the audit qualification issue in due course.

Outlook and Plan

Against the backdrop of the current complex international environment, sluggish global economic growth, and slowing trade and investment growth, China's economy nonetheless started to see a bounce back since the beginning of this year and continued to improve in the second quarter of this year. Meanwhile, prolonged downturn of the real estate sector has not only dragged down fixed asset investment but exerted increasing pressure on the job market that caused consumers to become more cautious as the uncertain economic outlook affected their spending desires. Nevertheless, the growth of the retail and other service sectors saw acceleration as the society returned to full normalcy. Indeed, this year's summer vacation is seeing catering enterprises full of customers and movie ticket sales soaring. With new consumption scenarios constantly emerging, the outlook for the retail market is cautiously optimistic.

In order to grasp market opportunities and enhance overall competitiveness, the Group is striving to cultivate the Jiuguang brand to strengthen its leading position in the department store retail industry in Shanghai and the Yangzi River Delta region. The Group will continue to closely monitor consumption trends, optimize its product and service portfolio, endeavor to build and deepen its engagement with customers to meet the consumption needs of the middle class and high-spending millennials, and further enhance brand equity of the Jiuguang through premier products and services.

In view of the fact that more and more consumers, especially younger people, are keen on the experiential nature of consumption and pursuing emotional shopping experience, how to accurately grasp and promptly respond to consumers' emotional demands has become one of the key priorities of the Group. The Group will continue to explore topics of customer interest such as environmental protection, sports, entertainment, and mental health, and to integrate material, spiritual, cultural, and entertainment consumption into an immersive commercial scenario that will attract customers to actively participate with an aim to open up a new era of consumption.

Leveraging its unique outdoor three-level atrium, JGC will be able to host a variety of different events and activities with outdoor immersive experiences, including the family-oriented water park and the "Beyond H.C. Andersen: The Art of Fairy Tales" exhibition held at the start of this year's summer vacation. Meanwhile, Shanghai Jiuguang arranged for a choir of Hong Kong children currently living in Shanghai to perform in the store to celebrate the 26th anniversary of Hong Kong's return to the motherland. During the final of the World Cup Tasters Championship (China Region) which was held at Suzhou Jiuguang, a coffee art festival was also launched at the venue to attract customers to come and watch the competition of top-class baristas, and at the same time to stroll around the coffee-themed market to enjoy different specialty coffees and delicacies.

The Group will continue to optimize its tenant mix and enrich its business formats to providing more experiential and immersive consumption options with an aim to increasing customer traffic and boosting sales. While the JGC is equipped with a cinema, a skate park, and a karaoke bar, Shanghai Jiuguang and Suzhou Jiuguang will on the other hand organize themed events including but not limited to art exhibitions, 3x3 basketball games, and pet festivals. All these will help deepen the integration of shopping venues with lifestyles and to attract both new and existing loyal customers to enjoy the different experiences and spend at the stores.

The Group's VIP membership program will be enhanced from time to time with an aim to deepening the engagement with its customers. Through exclusive offers, members-only benefits and other rewards, the loyalty program will aim to entice members to increasing frequency of their visits and purchases.

The Group will continue to monitor the consumption trends and strive for adopting innovative marketing tactics and approach for both its physical stores and online operations, including the use of livestreaming, short video clips and other emerging social media to create interesting marketing campaigns. In addition to providing customers with online shopping options, the online business platform will also increase the exposure and dissemination of the Jiuguang brand through regular livestreaming of new products and services.

Furthermore, the Group will spare no effort in pushing ahead leasing for the two office towers at JGC, which are expected that to generate stable cash flow for the Group in the foreseeable future.

With the strong recognition of the Jiuguang brand and the dedicated management team, the Group will continue to explore potential business and investment opportunities with an aim to achieve sustainable growth and returns for its shareholders.

EMPLOYEES

As at 30 June 2023, the Group employed a total of 1,164 employees, with 1,158 stationed in mainland China and 6 in Hong Kong. Staff costs (excluding directors' emoluments) amounted to RMB99.9 million (2022: RMB93.6 million) for the six months ended 30 June 2023. 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 2023 (six months ended 30 June 2022: 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 2023, except the following deviation:

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

PURCHASE, SALE OR REDEMPTION OF LISTED 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 2023.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 June 2023 have been reviewed by the audit committee of the Company, and by the auditor of the Company in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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

Hong Kong, 2 August 2023

As at the date of this announcement, the Board comprises Mr. Lau Luen Hung, Thomas, Mr. Lau Kam Sen and Ms. Lau Kam Shim as executive directors; 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.