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 2023

HIGHLIGHTS

- Revenue increased 19.6% to RMB1,349.0 million
- Profit attributable to owners of the Company amounted to RMB87.8 million (2022: Loss of RMB24.4 million)
- Earnings per share amounted to RMB0.060 (2022: Losses per share of RMB0.017)
- No dividend was declared by the Board

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 2023 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 2023

	Notes	**2023** **RMB'000**	2022 RMB'000
Revenue	*3*	**1,348,975**	1,127,588
Cost of sales		**(563,541)**	(469,484)
Gross profit		**785,434**	658,104
Other income, gains and losses		**217,636**	229,184
Selling and distribution costs		**(612,132)**	(577,769)
Administrative expenses		**(261,326)**	(235,932)
Interest and investment income	*5*	**73,862**	26,165
Share of profit of a joint venture		**27,238**	19,117
Share of profits of associates		**308,939**	182,205
Finance costs	*6*	**(181,938)**	(115,653)
Profit before taxation		**357,713**	185,421
Taxation	*7*	**(82,164)**	(78,848)
Profit for the year	*8*	**275,549**	106,573
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**20**	177
Other comprehensive income for the year		**20**	177
Total comprehensive income for the year		**275,569**	106,750
Profit/(loss) for the year attributable to:			
Owners of the Company		**87,767**	(24,441)
Non-controlling interests		**187,782**	131,014
		275,549	106,573
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**87,787**	(24,264)
Non-controlling interests		**187,782**	131,014
		275,569	106,750
Earnings/(losses) per share attributable to owners of the Company			
- Basic and diluted	*10*	**RMB0.060**	(RMB0.017)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		**5,042,882**	5,267,550
Right-of-use assets		**3,569,973**	2,237,164
Investment property		**1,230,863**	1,261,645
Investments in associates		**3,572,148**	3,272,654
Investment in a joint venture		**364,455**	360,057
Deferred tax assets		**26,081**	5,298
Other receivables	*11*	**5,353**	5,352
		13,811,755	12,409,720
Current assets			
Inventories		**93,877**	109,471
Trade and other receivables	*11*	**194,893**	211,378
Amount due from associates		**112,782**	108,994
Structured bank deposits		**580,800**	-
Cash and cash equivalents		**2,242,826**	1,609,097
		3,225,178	2,038,940
Current liabilities			
Trade and other payables	*12*	**959,356**	1,094,625
Amount due to a joint venture		**37,640**	12,580
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	26,142
Tax payable		**26,521**	23,984
Bank borrowings – due within one year		**40,000**	1,120,000
Lease liabilities		**45,809**	105,447
Contract liabilities		**13,668**	9,691
		1,149,136	2,392,469
Net current assets/(liabilities)		**2,076,042**	(353,529)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2023

	2023	2022
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings – due after one year	**3,238,000**	1,120,000
Lease liabilities	**1,566,061**	82,960
Deferred tax liabilities	**67,198**	54,367
	4,871,259	1,257,327
	11,016,538	10,798,864
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**9,392,289**	9,304,502
Equity attributable to owners of the Company	**9,398,580**	9,310,793
Non-controlling interests	**1,617,958**	1,488,071
	11,016,538	10,798,864

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

1. BASIS OF PREPARATION

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and amended standards adopted by the Group

The Group has applied the following new and amended standards for its annual reporting period commencing 1 January 2023:

HKFRS 17	Insurance Contracts
HKAS 1 (Amendments) and HKFRS Practice Statement 2	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 new and amended standards listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

3. REVENUE

Revenue represents the amounts 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 year, and is analysed as follows:

	2023	2022
	RMB'000	*RMB'000*
Recognised at a point in time:		
Sales of goods - direct sales	**523,341**	430,287
Recognised over time:		
Income from concessionaire sales	**481,262**	440,992
Service income	**41,509**	31,762
Revenue from contracts with customers	**1,046,112**	903,041
Rental income	**302,863**	224,547
Total revenue	**1,348,975**	1,127,588

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 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 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 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

	2023	2022
	RMB'000	*RMB'000*
Interest income from bank deposits	**55,762**	26,165
Investment income from structured bank deposits	**18,100**	-
	73,862	26,165

6. FINANCE COSTS

	2023	2022
	RMB'000	*RMB'000*
Interest expenses on:		
- Bank borrowings	**124,240**	101,495
- Lease liabilities	**57,698**	14,158
	181,938	115,653

7. TAXATION

	2023	2022
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**89,480**	72,116
Withholding tax	**577**	663
	90,057	72,779
Under provision in prior years:		
PRC Enterprise Income Tax	**59**	40
	59	40
Deferred tax (credit)/charge	**(7,952)**	6,029
	82,164	78,848

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 FOR THE YEAR

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

	2023	2022
	RMB'000	*RMB'000*
Directors' remuneration:		
Fees	**1,004**	685
Salary and allowances	**9,031**	6,167
Bonus	**18,196**	9,187
Retirement benefits scheme contributions	**26**	-
	28,257	16,039
Other staff costs, excluding retirement benefits scheme contributions	**187,139**	173,715
Retirement benefits scheme contributions, net of forfeited contributions for staff	**21,236**	18,999
	208,375	192,714
Total staff costs	**236,632**	208,753
Auditor's remuneration	**3,231**	2,985
Depreciation of property, plant and equipment	**241,600**	245,763
Depreciation of investment property	**30,782**	30,782
Depreciation of right-of-use assets	**148,780**	167,704
Loss allowance on expected credit losses for trade receivables	**6,491**	2,162
Expenses related to variable lease payments	**37,404**	14,495
Loss on disposal of property, plant and equipment	**107**	172
Expenses relating to low-value leases	**1,542**	1,488
Expenses relating to short-term leases	**437**	223
Cost of inventories recognised as expense	**443,857**	361,223

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2023 (2022: nil).

10. EARNINGS/(LOSSES) PER SHARE

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

Earnings/(losses) figures are calculated as follows:

	2023	2022
	RMB'000	*RMB'000*
Earnings/(Losses)		
Profit/(loss) for the year attributable to owners of the Company	**87,767**	(24,441)

	2023	2022
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares	**1,464,449**	1,464,449

The diluted earnings/(losses) per share for the year ended 31 December 2023 equals to the basic earnings/(losses) per share as there were no potential dilutive ordinary shares issued during the year (2022: Same).

11. TRADE AND OTHER RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**27,093**	25,929
Lease receivables	**67,244**	74,862
	94,337	100,791
Less: Loss allowance on expected credit losses	**(9,148)**	(2,657)
	85,189	98,134
Prepayments	**299**	257
Deposits paid	**5,353**	5,352
Value Added Tax ("VAT") receivable	**68,670**	88,457
Others receivables	**62,988**	46,783
	137,310	140,849
Less: Loss allowance on expected credit losses	**(22,253)**	(22,253)
	115,057	118,596
	200,246	216,730
Less: Non-current portion	**(5,353)**	(5,352)
	194,893	211,378

The Group's retail sales to customers are mainly made in cash, through debit card or third-party payment platform. Its major trade receivables arising from third-party payment platform sales are normally settled in one to two business days and 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 invoice date:

	2023	2022
	RMB'000	*RMB'000*
0 – 30 days	**67,373**	56,742
31 – 60 days	**11,165**	20,944
61 – 90 days	**2,637**	6,696
Over 90 days	**4,014**	13,752
	85,189	98,134

12. TRADE AND OTHER PAYABLES

	2023	2022
	RMB'000	*RMB'000*
Trade payables	**45,816**	47,548
Construction payables	**3,686**	252,516
Concessionaire sales payables	**425,562**	325,970
Refundable prepaid card deposits	**125,623**	139,191
Rental deposits received	**221,658**	204,819
Accrued expenses	**69,880**	73,417
VAT payable	**6,937**	7
Interest payables	**3,856**	2,940
Others	**56,338**	48,217
	959,356	1,094,625

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

	2023	2022
	RMB'000	*RMB'000*
0 – 30 days	**36,451**	32,825
31 – 60 days	**3,008**	5,898
61 – 90 days	**1,206**	1,800
Over 90 days	**5,151**	7,025
	45,816	47,548

The average credit period of trade payables and concessionaire sales payables is 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 possible 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 2023, 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 17 to the Group's consolidated financial statements, the Group holds equity interests in certain associated companies herein referred to as "Beiren Group". For the year ended 31 December 2023, the Group recognised share of profits of associates of RMB308.9 million and carried RMB3,572.1 million investments in associates on the consolidated statement of financial position as at 31 December 2023, of which RMB308.3 million of the share of profits of associates for the year and RMB3,568.8 million of the carrying value of investments in associates as at 31 December 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 aforementioned Full Impairment made in 2019, which has 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 year ended 31 December 2023, the Guarantor was still being detained by the relevant local authority and there was no development on Beiren Group's action to recover the Trade Receivables. Based on the latest information available as well as recent court judgements in similar cases, the Group's independent legal adviser is of the opinion that the likelihood of recoverability of the balance of the Trade Receivables is very low. The Group's management is of the view that this latest legal advice further strengthens the basis of their assessment that the recoverability of the Trade Receivables is remote and the Full Impairment against the Trade Receivables as at 31 December 2023 is appropriate.

Despite the latest legal opinion which is in support of the Group's Full Impairment against the Trade Receivables as at 31 December 2023, we were still unable to obtain sufficient appropriate audit evidence we considered necessary to assess any recoverable amounts of the Trade Receivables as at 1 January 2023. Given the abovementioned scope limitations, there were no other satisfactory procedures that we could perform to determine whether any adjustments to the carrying amount of the Trade Receivables of nil balance and the related deferred tax credit in respect of the Full Impairment as at 1 January 2023 which could have a consequential effect on (i) the Group's share of profit of associates for the year ended 31 December 2023, (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 2023.

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 Review

With the three-year long COVID-19 pandemic finally behind us, China's economy in 2023 saw gradual recovery as, along with consumption stimulate policy, the long-suppressed consumption desire was rapidly being released and the recovery was particularly obvious in the first few months of the year. As mainland consumers resumed outdoor activities and rediscovered the joy of in-store shopping, retail sales saw significant growth compared with the previous year. However, consumption confidence was dampened by factors including weak international demand that put pressure on China's foreign trade export, continued downturn in the real estate sector as well as youth unemployment problem, that caused recovery of the retail sector to slow down since the middle of the year. The country's total retail sales of consumer goods for the year increased by 7.2% year-on-year, with gold ornaments and jewelry, and apparel, footwear and headwear posting stronger year-on-year growth of 13.3% and 12.9% respectively.

Meanwhile, consumer preferences and expectations have seen changes that they are no longer only focusing on the quality and prices of products but the added emotional value of quality services and products they bought that will increase their life experiences and enjoyment. In addition, the year-long COVID-19 pandemic has prompted consumers to be health conscious that demand for eco-friendly and health-related products has increased. To capture this growing new trend, retailers are actively developing sustainable initiatives with an aim to drive steady growth of the consumption market. Marketing activities are focused to create immersive experiences in order to encourage consumers to stay longer in the stores and boosting their offline spending.

Financial Review

Coping with the fiercely competitive business environment ridden with weak consumption spending, the Group strived to seize opportunities in the retail market by leveraging the strong brand equity of Jiuguang. Through organizing unique marketing activities, optimizing the shopping environment of its stores, product portfolio as well as its membership reward program in order to boosting customers' interest and consumption, with an aim to provide a solid base to support sales growth. In 2023, business of Shanghai Jiuguang and Suzhou Jiuguang, the Group's two well-established department stores, as well as the Shanghai Jiuguang Center, outperformed their local peers.

Revenue and Sales Proceeds

In 2023, the Group's revenue increased by 19.6% year-on-year to RMB1,349.0 million from RMB1,127.6 million in 2022. Total sales proceeds rose by 25.2% year-on-year to RMB3,154.1 million from RMB2,520.2 million in the previous year. The increase was mainly attributable to full resumption of the Group's operations following lifting of all epidemic prevention and control measures, as well as the Group's effective operating initiatives and strategies. While sales in the first half of the year increased by 50.7% year-on-year, the slowdown of the economy since middle of the year prompted consumer sentiment to become more cautious, sales growth in the second half of the year slowed to approximately 5.8% year-on-year.

Gross Profit and Concessionaire Rate

During the year, the Group's gross profit increased by 19.3% year-on-year to RMB785.4 million from RMB658.1 million in the previous year. Gross profit margin as a percentage of total sales proceeds decreased to 24.9%, from 26.1% in 2022, and was 58.2% as compared to 58.4% in 2022 as a percentage of revenue. Average concessionaire rate increased to 19.7% during the year from 19.3% in the previous year.

Net Profit / Loss Attributable to Shareholders

For the year ended 31 December 2023, net profit attributable to shareholders of the Company amounted to RMB87.8 million, while it was a loss of RMB24.4 million in 2022.

The turnaround was primarily attributable to (i) the notable improvement in sales performance after the Group's full resumption of business operation, (ii) the 68.9% year-on-year increase to RMB185.0 million of the Group's share of profit in its associate Beiren Group, and (iii) the absence during the year of rental and guaranteed sales commission concessions offered to business partners. The Group would have recorded operating profit before tax, and share of results of associates and a joint venture of RMB21.5 million for the year, as compared to RMB15.9 million operating loss in 2022.

Selling and Distribution Costs

In 2023, the Group's aggregate selling and distribution costs amounted to RMB612.1 million, an increase of 5.9% from RMB577.8 million in the previous year. The increase was primarily due to an increase in turnover rent and related tax and staff and utilities costs during the year with the Group's business operation returning to normal. The Group's aggregate selling and distribution costs as a percentage of total sales proceeds decreased to 19.4% for the year from 22.9% in 2022 as sales growth was higher than the costs increases.

Administrative Expenses

The Group's general administrative expenses increased by 10.8% year-on-year to RMB261.3 million from RMB235.9 million in 2022. The increase was mainly due to the rise in staff costs after business operations returned to normal during the year. Other general administrative expenses remained stable.

Staff Costs

Staff costs (excluding directors' emoluments) for the year increased by 8.1% year-on-year to RMB208.4 million from RMB192.7 million in 2022, mainly due to business operations returning to normal and the general increment in salaries during the year.

As at 31 December 2023, the Group had 1,172 full-time employees, compared with 1,168 as at 31 December 2022.

Other Income, Gains and Losses

Other income, gains and losses, which include management fees from concessionaire counters/ tenants, third-party payment platform charges and other incomes, and sundry income and foreign exchange gains, recorded a 5.0% decrease year-on-year to RMB217.6 million. Notwithstanding an increase in third-party payment platform fees due to sales increase and carpark income, the decrease in other income, gains and losses this year was caused by a drop of government subsidies when comparing to the same period last year.

Interest and Investment Income

During the year, the Group's interest and investment income saw a notable surge of 182.3% year-on-year to RMB73.9 million, mainly attributable to an increase in interest and investment income from bank deposits and structured bank deposits. The increase in the cash balance was a result of a net drawdown of bank loan of approximately RMB1,038 million as well as increase in operating cashflow as sales grew.

Finance Costs

The Group's finance costs comprise mainly interest on bank borrowings and lease liabilities. Total finance costs for the year amounted to approximately RMB181.9 million (2022: RMB115.7 million), of which RMB124.2 million (2022: RMB101.5 million) was bank loan interest and RMB57.7 million (2022: RMB14.2 million) from lease liabilities. The increase in bank interest expenses was due to full drawdown of the RMB3,300 million facility at the beginning of the year, while the higher finance charges arising from lease liabilities was a result of the substantial increase in lease liabilities following renewal of the lease for the Shanghai Jiuguang property.

Liquidity and Financial Resources

The Group's adjusted EBITDA for the year increased by 9.6% to RMB434.3 million from RMB396.1 million in 2022, mainly due to increase in sales and revenue after operations returned to normal.

As at 31 December 2023, the Group's net debt (defined as cash and cash equivalents, structured bank deposits and amounts due from associates less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amount due to a joint venture) decreased to approximately RMB405.4 million from approximately RMB560.6 million as at 31 December 2022, thanks to the increase in cash from operations.

As at 31 December 2023, the Group's cash and cash equivalents, structured bank deposits amounted to approximately RMB2,823.6 million (31 December 2022: RMB1,609.1 million), of which RMB40.1 million was in Hong Kong dollars held in Hong Kong. The remaining cash balance was held in mainland China, of which approximately 3.3% was in United States dollars and 96.7% was in Renminbi. The increase in cash and cash equivalents, structured bank deposits was mainly due to: (i) increase in net cash flow from operations after resumption of normal operations, and (ii) full drawdown of the RMB3,300 million new 15-year bank facility at the beginning of the year for repayment of the project loan of RMB2,240 million, with the balance of approximately RMB1,060 million being deposited in bank. The new bank facility was secured by the retail portion (including the basement) of the Shanghai Jiuguang Center, with the interest set at a few basis points below the Loan Prime Rate of the loan market in China. As at the end of the year, the Group's debt to equity ratio (defined as bank borrowings divided by equity attributable to owners of the Company) was 34.9%, up from 24.1% a year ago, due to increase in bank borrowings.

Foreign Exchange Management

The functional currency of the Company and its subsidiaries in China is Renminbi, in which 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 foreign currencies (Hong Kong dollars and United States dollars).

Given that majority of the Group's revenue and expenses, as well as borrowings and capital expenditures are denominated in Renminbi, and the Hong Kong dollar cash balance held in Hong Kong is used to settle operating expenses incurred outside of 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, if necessary, will consider taking appropriate measures to mitigate any significant potential foreign currency risk.

Pledge of Assets

As at 31 December 2023, certain of the Group's (i) property, plant and equipment in China with book value of approximately RMB3,631 million (31 December 2022: property, plant and equipment and investment property in China of RMB3,786 million and RMB1,262 million respectively), and (ii) right-of-use assets in China with carrying amount of approximately RMB1,569 million (31 December 2022: RMB1,620 million) were pledged to secure bank facilities of RMB3,300 million (31 December 2022: RMB2,240 million).

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2023.

Significant Investments, Material Acquisitions and Disposals

During the year, the Group did not make any significant investment, nor were there any material acquisitions or disposals of subsidiaries.

Review of Operations

During the year, by leveraging its Jiuguang brand equity, the Group continued to enrich its product portfolio, optimize the shopping environment of its stores, enhance experiential consumption by organizing themed marketing activities to meet the consumption needs of customers and their desire in taking in-store photos to share their fun and experience. Interaction with customers also helped arouse their curiosity and interest in visiting our stores, which in turn will boost sales. At the same time, the Group continued to strengthen its VIP loyal membership and activation program that offers attentive and heart-warming value-added services to attract members visiting the stores more often.

Shanghai Jiuguang Center ("JGC")

A distinctive commercial complex positioned as a leisure experience and lifestyle hub in northern Shanghai, JGC launched during the year a series of special marketing activities to attract customers to its shopping mall to enjoy in-store shopping and meeting with relatives and friends. In March, JGC ingeniously displayed, under the theme "Flowers • Jiuguang", thousands of pots of flowers on the terrace and the pedestrian street, echoing with the Tulip Flower Expo taking place concurrently in the Jing'an District which provided a hotspot for people in Shanghai to take pictures and enjoy the booming blossoms. At the start of the summer vacation, to provide families a place to relax and fully enjoy the summer fun, JGC put up in its outdoor three-level atrium a water park, that comes with giant water slides, leisure pools, rubber dinghies and water guns. In late November, to mark its second anniversary, JGC unveiled a fairy town themed "光遇之境", featuring large-scale elf decorations, parades, live musicals and give free birthday cakes for customers. There was also an outdoor real snow skating rink built for customers to enjoy figure skating shows, as well as indulge in skating fun.

In 2023, JGC recorded sales proceeds of RMB310.2 million, a 34.1% increase year-on-year. Average daily footfall grew by 16.0% year-on-year to approximately 31,200 visitors, and the stay-and-buy ratio also increased by 9.4 percentage points to 75.3%. However, average ticket size dropped slightly to RMB195 from RMB209 in the previous year.

During the year, JGC continued to work on the leasing of its office spaces in its two office towers. Although the overall commercial property market was near stagnant, about 60% of the leasable area of the East Tower was taken up by tenants, generating rental income of approximately RMB25 million for the Group. Its tenants include foreign enterprises, state-owned enterprises and local enterprises in industries such as logistics, professional services, and e-commerce. Leasing of the West Tower began in the second quarter of the year, approximately 5% of the leasable area have been leased as at the end of the year. The Group will continue to actively negotiate leases with potential tenants.

Shanghai Jiuguang

Shanghai Jiuguang continued to bring together fashion brands and marry them with different cultural and charitable activities to strengthen its trendsetter position in the city's retail market. During the year, the store continued to refresh its brand mix and brought in different new beauty, apparel, gifts and healthcare technology brands, some being first store in Shanghai or even in China, giving it an enriched product portfolio for offering yet more choices to consumers. To celebrate the 26th anniversary of Hong Kong rejoining the motherland, Shanghai Jiuguang organized a choir, which is membered by children from Hong Kong and living in Shanghai, to perform in the store. The concert was live-steamed to enable viewers to feel the cheerful atmosphere. Moreover, leading the sustainability and environmental protection trend, Shanghai Jiuguang organized an environmental protection fair and co-organized an art exhibition with environmental protection agencies to promote recycling and carbon reduction, with an aim to encourage consumers to integrate sustainable development concepts into their daily lives. It also organized oil painting experiential classes and artist exhibitions, and to surprise customers with unique privileges and leisure activities. These initiatives had helped strengthen the loyalty of existing Jiuguang VIP members and attracting new members that ultimately will foster the brand equity of Shanghai Jiuguang.

In 2023, as a result of the average daily footfall surging 106.4% to 51,600 visitors from 25,000 visitors last year, the stay-and-buy ratio decreased by 20.4 percentage points to 37.0%. Average ticket price also dropped by 10.6% to RMB390. As such, total sales proceeds of the store for the year rose 37.4% year-on-year to RMB1,937.2 million. Average concessionaire rate remained at approximately 22.9%.

Suzhou Jiuguang

In 2023, as most Suzhou residents chose to travel outside of the city during holidays, and became more cautious in spending from the middle of the year, the retail market in Suzhou did not recover as well as expected. In the fiercely competitive department store market, Suzhou Jiuguang upheld its position as a prime destination for jewelry shoppers, offering products of acclaimed jewelry and watch brands from around the world, and again organized a grand jewelry exhibition with brand retailers in the store, which helped increase customer traffic and sales and enhanced the brand equity of Suzhou Jiuguang in the jewelry market.

In addition, to take care family customers in the neighborhood, Suzhou Jiuguang set up a dedicated men's clothing section with a variety of themed activities such as the Coffee Art Festival coinciding with the World Cup Tasters Championship – China Final event for customers to see top baristas competing and also for them to visit the coffee-themed bazaar and enjoy special coffees and delicatessens. The store also organized the "Family Go Summer Carnival" where children could play dentists and learn scientific knowledge, and children's archaeological workshops and family board game challenges, etc. that aimed to deepen engagement with customers and boosting customer traffic and business of the store.

Suzhou Jiuguang's total sales proceeds recorded 3.8% year-on-year increase to RMB879.7 million. Average daily footfall grew by 13.3% year-on-year to approximately 13,600 visitors, with the stay-and-buy ratio and average ticket price fell 8.3 percentage points and 9.7% year-on-year to 55.5% and RMB464 respectively. The average concessionaire rate of the store edged up 0.3 percentage point to 15.3% for the year.

Dalian and Shenyang Property
The Group's commercial properties in Dalian and Shenyang remained vacant during the year with a total cash outflow of approximately RMB19.1 million, mainly incurred for repair and maintenance of these properties.

Standalone "Freshmart" Operation
"Freshmart", which sells high-quality food and pastries, is the Group's standalone operation in a leased premise in Changning District, Shanghai. During the year, Freshmart increased the proportion of counters under concessionaire arrangement to provide customers with more food collections. However, both its customer traffic and sales declined during the year amid intense competition.

Investments in Associates
The Group holds a strategic stake in the Beiren Group, a leading retailing group based in Shijiazhuang, Hebei Province, the PRC. Benefiting from the lifting of all epidemic prevention and control measures and the recovery in the retail market, the overall retail sales of the Beiren Group grew during the year by 9.3%. The best performing categories were household appliances, jewelry and department store merchandises. Coupled with a one-off gain from land disposal, Beiren Group's net profit attributable to the Group for the year (net of attributable non-controlling interests) increased by 68.9% to RMB185.0 million from RMB109.5 million in 2022.

Recall that the Group made Full Impairment for the Trade Receivable balances due from the Debtors in 2019. With only a non-controlling interest in Beiren Group, the Group can only rely on the management of the Beiren Group to (i) take appropriate and necessary actions to collect the receivables from the Debtors and/or the Guarantor, and (ii) obtain up-to-date and relevant information, including but not limited to financial information and the financial position, of the Debtors and the Guarantor and progress of the legal proceedings, if any, against the Debtors and/or the Guarantor.

During the year, the Group understood from management of the Beiren Group that no progress has been made in recovering the outstanding Trade Receivable balances nor were there any specific financial information relating to the Debtors and the Guarantor available. Based on the information currently available, the Group continued to believe full impairment for the Trade Receivables in 2019 remains the best estimate.

Also, the Group continued to implement the Company's plan in response to the auditor's qualified opinion, as detailed in the Company's supplemental announcement dated 5 May 2020, by engaging with management of the Beiren Group to obtain updates on the progress of the legal actions taken against the Debtors and the criminal case against the Guarantor. As at the date of this report, the Group has not been able to obtain any updated information specific to this case as the key employees of the Debtors or the Guarantor, and the Guarantor himself, were still being detained by the relevant local authorities, and all assets, records and information of the Debtors and/or Guarantor are still in the custody of the local authorities in the PRC.

As the Group only holds a non-controlling interest in Beiren Group, the Board understands the Group has to rely on management of the Beiren Group to take necessary legal actions and contact relevant authorities regularly to monitor the progress of this matter. The Board is aware of the difficulties and challenges management of the Beiren Group is facing in obtaining further up-to-date information.

In view of the above, despite the lack of progress in obtaining updated information specific to this case in relation to the Debtors and/or Guarantor, the Board considers the actions taken by the Group and management of the Beiren Group to be the most appropriate under the circumstances.

As also reiterated in the Company's supplemental announcement dated 17 September 2021, while the Group will continue to work closely with management of the Beiren Group to push for progress regarding the litigation against the Debtors/Guarantor, management of the Company is of the view that until the relevant local authorities had made meaningful conclusion with the criminal case against the Guarantor, no progress could be expected of the legal action taken by Beiren Group against the Debtors to recover the Trade Receivables.

During the year, the Group sought independent legal advice from a PRC lawyer on the Debtors' and/or Guarantor's ability to repay the Trade Receivables. Although management of the Beiren Group has initiated civil proceedings to recover the relevant debts, in accordance with the basic legal principle of criminal case to precede civil case in mainland China's judicial practice, civil and commercial cases filed will only be heard based on the outcome of and after the relevant criminal cases are closed. At present, there has been no conviction made in the criminal case against the Guarantor, so there has been no progress with the related civil cases against the Debtors. Moreover, in accordance with the relevant laws and regulations in mainland China and legal precedents, any property of the Guarantor involved in this case that has been seized, detained, or frozen by the relevant authorities will be returned first to the fundraising participants when the legal proceedings end. The PRC People's court shall continue to recover any outstanding portion or order refunds, which will take priority over the civil debts owed to the Beiren Group. A number of other public court cases similar to the Group's criminal case against the Guarantor were finalised during 2023. Thus, it is of the opinion of the independent legal advisor that the likelihood of recoverability of any balance of Trade Receivables is very low. After carefully assessing the situation again, the Group concluded that the Trade Receivables had not been recoverable since 2019 when the Full Impairment was first made and remained irrecoverable as at 31 December 2023.

The Group's management has communicated with the auditor regarding the above situation and provided them the latest independent legal advice. With the latest legal advice, the auditor concurred with the Group's assessment that the Trade Receivables were not recoverable as at 31 December 2023, and therefore will not issue a qualified opinion on the Group’s consolidated financial position as at that date. However, as the auditor is still unable to obtain sufficient and appropriate audit evidence they considered necessary to assess management’s assessments in respect of the recoverability of the Trade Receivables as at 1 January 2023, the auditor will continue to qualify the Trade Receivables as at 1 January 2023 and the consequential impact of any adjustment to the opening balance of the Trade Receivables to the Group’s consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023. Furthermore, due to effect of the 2023 qualification above-mentioned, the qualification will be remained for the comparability of the 2024 and 2023 figures in the consolidated statement of profit or loss and comprehensive income for the year ending 31 December 2024.

The Board and the Audit Committee agreed with the auditor in giving a qualified opinion on the opening balance of the Trade Receivables as at 1 January 2023 and the consequential impact to the Group’s consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023.

Outlook and Plan

Amid a complex international environment and slowing global economic growth situation, the Chinese economy is facing various challenges from a feeble real estate sector and increasing pressure on foreign trade and exports. As a result, consumption confidence suffered and consumers are expected to turn more cautious in spending. Moreover, the growing popularity of e-commerce has turned more and more consumers to shop online that the brick-and-mortar retail sector is facing intense competition. Against this backdrop, the Chinese Government has designated 2024 as the "Year of Consumption Promotion" and plans to moderately increase fiscal expenditures to stimulate consumption demand and zest up the economy, with an aim to create positive atmosphere for social spending.

The Group is committed to nurturing and leveraging the Jiuguang brand and to raising its overall competitiveness to strengthen its leadership position in the department store retail industry in Shanghai and the Yangtze River Delta. The Group will continue to closely monitor consumption trends, optimize its product and service portfolios and strive to build and deepen relationship and engagement with its customers.

The Group will make good use of big data analyses to understand the preferences and buying habits of customers and help it implement precise marketing strategies. A sales data dashboard system, which allows us to understand the real-time sales data of every shop in the store and analyze customer traffics and consumer preferences for providing appropriate promotional messages and shopping privileges for members, as well as identifying potential customers, improve conversion rate and strengthen interaction with members to nurture customer loyalty.

The Group will also actively respond to environmental protection, sports and entertainment, and physical and mental health topics that customers care about. We will strive to integrate spiritual and cultural life elements into different entertainment and consumption business scenarios. The Group may increase investment in local and even nationwide public events to attract active participation of customers and their endorsement of the Jiuguang brand. During the Chinese New Year holiday in 2024, a 3D mapping show was staged, with images of fireworks and the auspicious dragon being projected on to the wall on the northern side of Shanghai Jiuguang near Nanjing West Road. The show, together with the festive images on the large outdoor screens and lighting installations on other buildings in the Jing'an District, created a splendid Spring Festival ambience and became a must-see spectacle for Shanghai residents and tourists alike during the Chinese New Year holiday.

The Group will continue to optimize its merchant and product portfolios, introduce more healthcare equipment and health & wellness brands to respond to increasingly health conscious consumers and plans to provide more experiential and immersive consumption choices. Shanghai Jiuguang Center has recently opened a cricket stadium, plus a skate park, a cinema, entertainment and leisure facilities, among others. Meanwhile, Shanghai Jiuguang and Suzhou Jiuguang continued to organize different themed events including art exhibitions and pet fairs to integrate the shopping venues with lifestyles and to attract customers, old and new, to enjoy different in-store experiences and shopping.

To create the ultimate shopping experience for members, the Group will keep improving its VIP membership program with exclusive offers, special member privileges and other rewards. We are also actively planning to use artificial intelligence technology to analyze members' buying habits and preferences, so as to provide them with personalized product recommendations and shopping advice that will enhance their shopping satisfaction, and help bolster interaction with and the loyalty and bonding of Jiuguang members.

The Group will continue to pay attention to consumption trends, leverage the complementary advantages of its physical stores and online business, use live streaming, video clips and other emerging social media means to increase the visibility and reach of the Jiuguang brand. On top of providing customers with convenient online shopping, we will also strive to attract consumer patronage of its physical stores to realize growth of both business streams.

The Group is also committed to cooperating with merchants to create top of the class shopping environment for customers. We also actively look for high-quality first store items to increase its exposure and create more sales opportunities. When the products are successful as more consumers are being drawn into the stores, both the merchants and the Group will benefit, creating a win-win situation.

In addition, the Group will continue to step up effort to promote leasing of the two office buildings of the Shanghai Jiuguang Center. The office buildings are expected to generate stable cash flow for the Group in the foreseeable future.

In conclusion, despite the many challenges, the outlook for the Chinese economy will be stable and positive and that the retail market will continue to improve. Armed with the well-endorsed Jiuguang brand and a professional management team, the Group will focus on striving for highly efficient and high-quality development. While ensuring steady business growth, the Group will also look for investment opportunities with promising potential to help it realize long-term growth and bring sustainable returns to shareholders.

EMPLOYEES

As at 31 December 2023, the Group had a total of 1,172 employees, with 1,166 based in Mainland China and 6 in Hong Kong. The staff costs (excluding directors' emoluments) amounted to RMB208.4 million (2022: RMB192.7 million) for the year ended 31 December 2023. 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 C1 to the Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2023, except the following deviation:

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

DIVIDEND

The Board has resolved to not declare any dividend for the year ended 31 December 2023 (2022: 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 Monday, 27 May 2024, the register of members of the Company will be closed from Wednesday, 22 May 2024 to Monday, 27 May 2024, 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 Tuesday, 21 May 2024.

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 year ended 31 December 2023.

REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2023 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 2023 as set out in this announcement have been agreed by the Group's auditor, 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 the hard work and dedication they have bestowed upon the Group over the past year in spite of the challenging operating environment. 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

Hong Kong, 19 March 2024

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.