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 2021

HIGHLIGHTS

- Revenue increased 34.6% to RMB655.1 million
- Profit attributable to owners of the Company increased 70.1% to RMB168.7 million
- Earnings per share amounted to RMB0.115, an increase of 70.1%
- 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 2021, together with comparative figures for the corresponding period in 2020, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Notes	Six months ended 30 June 2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Revenue	3	**655,111**	486,554
Cost of sales		**(268,341)**	(203,697)
Gross profit		**386,770**	282,857
Other income, gains and losses		**61,160**	59,417
Selling and distribution costs		**(218,665)**	(184,120)
Administrative expenses		**(76,510)**	(68,636)
Interest and investment income	4	**25,474**	29,106
Share of profit of a joint venture		**14,625**	10,871
Share of profits of associates		**157,162**	100,864
Finance costs	5	**(9,598)**	(13,086)
Profit before taxation		**340,418**	217,273
Taxation	6	**(66,186)**	(47,373)
Profit for the period	7	**274,232**	169,900
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**341**	32
Other comprehensive income for the period, net of tax		**341**	32
Total comprehensive income for the period		**274,573**	169,932
Profit for the period attributable to:			
Owners of the Company		**168,660**	99,181
Non-controlling interests		**105,572**	70,719
		274,232	169,900
Total comprehensive income attributable to:			
Owners of the Company		**169,001**	99,213
Non-controlling interests		**105,572**	70,719
		274,573	169,932
Earnings per share - Basic and diluted	9	**RMB0.115**	RMB0.068

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

	Notes	**30 June 2021 (Unaudited)** ***RMB'000***	31 December 2020 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**5,113,683**	5,049,886
Right-of-use assets		**2,488,395**	2,576,030
Investments in associates		**3,034,118**	2,876,956
Investment in a joint venture		**385,794**	371,169
Deferred tax assets		**1,758**	3,356
Other receivables	*10*	**1,513**	1,534
		11,025,261	10,878,931
Current assets			
Inventories		**70,500**	69,490
Properties under development		**1,370,268**	1,346,322
Trade and other receivables	*10*	**157,531**	207,096
Amount due from an associate		**94,655**	94,655
Financial assets at fair value through profit or loss		**15,400**	86,500
Cash and cash equivalents		**1,860,564**	1,906,907
		3,568,918	3,710,970
Current liabilities			
Trade and other payables	*11*	**951,676**	1,120,543
Amount due to a joint venture		**25,053**	33,227
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	26,142
Tax payable		**25,136**	31,550
Bank borrowings – due within one year		**80,000**	60,000
Lease liabilities		**98,174**	101,245
Contract liabilities		**12,732**	9,093
		1,218,913	1,381,800

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 30 JUNE 2021

	30 June 2021 (Unaudited) *RMB'000*	31December 2020 (Audited) RMB'000
Non-current liabilities		
Bank borrowings – due after one year	**2,290,000**	2,340,000
Lease liabilities	**238,668**	305,182
Deferred tax liabilities	**40,326**	31,220
	2,568,994	2,676,402
	10,806,272	10,531,699
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**9,354,073**	9,185,072
Equity attributable to owners of the Company	**9,360,364**	9,191,363
Non-controlling interests	**1,445,908**	1,340,336
	10,806,272	10,531,699

NOTES TO THE INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2021 ("interim financial information") has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2020.

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

HKFRS 17	Insurance Contracts
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS16 (amendments)	Interest Rate Benchmark Reform – Phase 2

The application of the new and 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	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Recognised at a point in time:		
Sales of goods - direct sales	**304,240**	227,228
Recognised over time:		
Income from concessionaire sales	**292,428**	214,341
Service income	**16,138**	15,257
Revenue from contracts with customers	**612,806**	456,826
Rental income	**42,305**	29,728
Total revenue	**655,111**	486,554

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

Segment information

The Group's operating activities are attributable to a single operating segment under HKFRS 8 "Operating Segments" focusing on operation of department stores, retailing and related business. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. the chief executive of the Company). The CODM regularly reviews revenue analysis and the profit for the period of the Group as a whole to make decisions about resource allocation. Accordingly, no separate segment information other than entity-wide information is presented.

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

4. INTEREST AND INVESTMENT INCOME

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank deposits	**25,204**	22,202
Investment income from financial assets at fair value through profit or loss	**270**	4,127
Interest income from loan receivables	**-**	2,777
	25,474	29,106

5. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interests expenses on:		
- Bank borrowings	**52,835**	54,225
- Lease liabilities	**9,598**	13,086
	62,433	67,311
Less: Amount capitalised as construction in progress and properties under development	**(52,835)**	(54,225)
	9,598	13,086

The capitalised borrowing costs represent the borrowing costs incurred on borrowings whose funds were specifically invested in the construction in progress and properties under development during the period.

6. TAXATION

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**56,734**	43,303
Deferred tax charge	**9,452**	4,070
	66,186	47,373

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	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging/(crediting):		
Staff costs	**84,367**	73,252
Depreciation of property, plant and equipment	**51,967**	52,660
Depreciation of right-of-use assets	**58,608**	60,533
Less: Amount capitalized in construction in progress	**(24,955)**	(34,531)
	85,620	78,662
Gain on lease modification	**(16,953)**	(15,320)
Reversal of loss allowance on expected credit losses for trade receivables	**(271)**	(301)
Expenses related to variable lease payments to a joint venture	**22,246**	8,997
Cost of inventories recognised as expense	**253,967**	188,917

8. DIVIDEND

No dividend was paid or declared by the Company for the six months ended 30 June 2021 (2020: 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	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit for the period attributable to owners of the Company	**168,660**	99,181
	30 June 2021	30 June 2020
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 dilutive equity instruments throughout the six months ended 30 June 2021 and 2020 respectively.

10. TRADE AND OTHER RECEIVABLES

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
Trade receivables	**10,817**	64,172
Lease receivables	**6,126**	7,234
	16,943	71,406
Less: Loss allowance on expected credit losses	**(452)**	(723)
	16,491	70,683
Prepayments	**186**	225
Deposits paid	**1,513**	1,534
Value added tax ("VAT") receivable	**114,540**	114,571
Others	**48,567**	43,870
	164,806	160,200
Less: Provision of expected credit losses	**(22,253)**	(22,253)
	142,553	137,947
	159,044	208,630
Less: Non-current portion	**(1,513)**	(1,534)
	157,531	207,096

The Group's retail sales to customers are mainly made in cash, through debit card payments 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 the lease receivables are normally settled 30 days in arrears. The following is an aged analysis of trade receivables and lease receivables net of allowance for expected credit losses, if any, presented based on the invoice date:

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
0 – 30 days	**15,064**	67,976
31 – 60 days	**901**	1,135
61 – 90 days	**315**	712
Over 90 days	**211**	860
	16,491	70,683

11. TRADE AND OTHER PAYABLES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	RMB'000	*RMB'000*
Trade payables	**37,985**	54,988
Construction payables	**156,099**	252,850
Concessionaire sales payables	**438,046**	492,595
Refundable prepaid card deposits	**133,723**	131,174
Rental deposits received	**114,857**	81,908
Accrued expenses	**35,215**	64,425
VAT payable	**2,167**	9,783
Interest payables	**2,898**	3,228
Others	**30,686**	29,592
	951,676	1,120,543

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

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
	RMB'000	*RMB'000*
0 – 30 days	**32,505**	46,036
31 – 60 days	**812**	3,848
61 – 90 days	**432**	969
Over 90 days	**4,236**	4,135
	37,985	54,988

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 2021.

Basis for Qualified Conclusion

As detailed in note 12 to the interim financial information, the Group holds certain equity interests in certain associated companies herein referred to as "Beiren Group". For the period ended 30 June 2021, the Group has recognised a share of profit of associates of RMB157.2 million and carried RMB3,034.1 million investments in associates on the interim condensed consolidated statement of financial position as at 30 June 2021, of which RMB156.3 million of the share of profit of associates for the six-month period and RMB3,029.5 million of the carrying value of investments in associates were attributable to the Beiren Group. The principal activities of the Beiren Group are operating of department stores and supermarkets. It was also engaged in auto trading business and sales were made to three PRC companies in China ("the Debtors") in prior years. The ultimate beneficial owner of the Debtors has provided personal guarantees (the "Guarantor") over the Debtors' outstanding amounts to the Beiren Group.

During the year ended 31 December 2019, the Debtors defaulted on settlement of the trade balances due to the Beiren Group and the Guarantor was detained by the relevant local authority in Hebei Province. The Group concluded the likelihood of recovering any amount from the Debtors or the Guarantor as remote and made a full expected credit loss allowance, net of deferred tax credit ("Full Impairment"), against the whole overdue trade receivable balances due from the Debtors ("Trade Receivables"), for the purpose of recognising the Group's share of results of the Beiren Group for the year ended 31 December 2019. During the year ended 31 December 2020, there was no additional information or development in relation to the recoverability of the Trade Receivables, the Group's management considered the Full Impairment made in the prior year on the Trade Receivables was still appropriate as at 31 December 2020. As set out in our auditor's report dated 23 March 2021 on the Group's consolidated financial statements for the year ended 31 December 2020, we qualified our opinion due to a limitation on the scope of audit in relation to the Group's assessment of the recoverable amounts and Full Impairment of the Trade Receivables and its related deferred tax credit, as we were unable to obtain sufficient appropriate evidence on whether any adjustments were necessary to be made on the recoverable amounts which have consequential impacts on (i) the Group's share of profits of associates for the year ended 31 December 2020 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 consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020; and (iii) the Group's equity attributable to owners of the Company and the non-controlling interests on the consolidated statement of financial position as at 31 December 2020.

During the six months ended 30 June 2021 and as at 30 June 2021, management understood that the Guarantor was still being detained by the relevant local authority and there was no additional information or development in relation to the recoverability of the Trade Receivables due from the Debtors. Management considered the Full Impairment carried forward from prior year on the Trade Receivables of the Debtors was still appropriate as at 30 June 2021.

However, the Group's management was not able to provide us with adequate evidence with respect to the current financial conditions of the Debtors and the Guarantor up to the date of this report, including the latest financial information of the Debtors to date, details of other assets (including nature, amounts, and claims or pledges against such assets, if any) of the Guarantor that could be pursued to settle the outstanding Trade Receivables due to the Beiren Group. We were therefore unable to obtain sufficient appropriate evidence we considered necessary to assess the recoverable amounts and the appropriateness of the Full Impairment against these Trade Receivables, net of deferred tax credit in the Beiren Group as at 30 June 2021. Any adjustment of the Full Impairment against these Trade Receivables carried forward from prior year will have a consequential impact to the share of profit of associates in the condensed consolidated income statement for the six months ended 30 June 2021. Given these scope limitations, there were no other satisfactory procedures that we could perform to determine any adjustments were necessary to the carrying value of the Trade Receivables carried at nil balance, net of related tax credit of the Beiren Group as at 30 June 2021 which impact (i) the Group's share of profits of associates for the period ended 30 June 2021 and its carrying value of the investments in associates as at that date; (ii) the Group's profit attributable to owners and profit attributable to non-controlling interests in the Group's condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2021; 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 2021.

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

The first half of 2021 was predominantly marked by the accelerated global rollout of several novel coronavirus (COVID-19) vaccines, the increasing containment of the pandemic and the highly uneven pace of global economic recovery. In China, market sentiment was mixed during the six months ended 30 June 2021 (the "Period"), with optimism drawn from the improved pandemic situation contrasting with concerns about a resurgence in infections and uncertainties arising from the economic front. Despite the precarious situation, China's economy was able to maintain its pace of recovery thanks to effective pandemic prevention and control measures alongside a steady vaccination rollout. As a result, the country's GDP grew by 12.7% year-on-year in the first half of the year, with continuous economic growth providing an impetus for the retail consumer market.

A series of policies to encourage domestic demand have been conducive to the expansion of consumption in the country, with total retail sales of consumer goods having increased by 23.0% year-on-year in the first half of 2021. If averaged with the figure from the corresponding period of 2020, when China's economy was hard hit by the pandemic, the growth during the two years was 4.4%. Physical retail stores continued to struggle, faced with heightened competition from their online counterparts due to the increased popularity of online shopping resulting from the outbreak of the pandemic. However, the department store sector proved to be an exception. Able to provide a more enjoyable shopping experience and an attractive product assortment, the sector enjoyed encouraging growth during the first half of the year, with retail sales up by 29.5% when compared with the same period of last year.

Financial Review

In response to the difficult market situation, the Group pushed forward by adopting a series of multifaceted strategies. It successfully overcame the challenges created by the uncertain macro environment by optimising its product mix, continuing to leverage its well-established brand equity, and promoting the new retail business to give full play to the complementary advantages of online and offline retailing. For the six months ended 30 June 2021, the Group's two department stores, Shanghai Jiuguang and Suzhou Jiuguang, both delivered a robust set of financial results.

Revenue and Sales Proceeds

For the six months ended 30 June 2021, the Group's revenue increased 34.6% year-on-year to RMB655.1 million, compared with RMB486.6 million in the same period of 2020. This growth was attributable to the resumption of economic activities as the pandemic was brought under control and the effective marketing strategies that the Group had implemented. The Group's total sales proceeds for the Period were RMB1,765.0 million, an increase of 42.9% from the RMB1,235.1 million recorded in the same period last year.

Gross Profit and Concessionaire Rate

The Group's gross profit amounted to RMB386.8 million for the Period and the gross profit margin as a percentage of total sales proceeds was approximately 21.9%, compared with RMB282.9 million and 22.9% in the same period of 2020, respectively. The Group's gross profit margin as a percentage of revenue slightly increased to 59.0% from 58.1% in the same period of 2020. The average concessionaire rate remained stable at approximately 20.6% in the Period.

Net Profit Attributable to Shareholders
Net profit attributable to shareholders of the Company for the Period amounted to RMB168.7 million, as compared with RMB99.2 million for the corresponding period of 2020. The increase in profit was mainly attributable to (i) significant sales growth at both Shanghai store and Suzhou store and (ii) a 54.6% increase in share of profits from Beiren Group, the Group's associates based in Hebei Province, the People's Republic of China, amid the continued recovery of the economy and retail consumption in Mainland China as the COVID-19 pandemic subsided. For the Period, the Group's net profit margin as a percentage of revenue rose to 25.7%, compared with 20.4% in the same period of 2020.

Selling and Distribution Costs
The Group's aggregate selling and distribution costs for the Period grew 18.8% to RMB218.7 million, compared with RMB184.1 million in the same period of 2020. This increase was mainly attributable to increase in turnover rent and operating expenses amid sales growth and a higher repair and maintenance expenses for the refurbishment of the stores. The Group's aggregate selling and distribution expenses as a percentage of total sales proceeds decreased slightly to approximately 12.4% for the Period from 14.9% in the same period of 2020.

Administrative Expenses
The Group's general administrative expenses for the Period increased 11.5% to approximately RMB76.5 million from RMB68.6 million recorded in the same period of 2020. The increase was mainly attributable to higher staff cost following the absence of subsidies from the government in light of COVID-19 pandemic last year.

Staff Costs
Staff costs (excluding directors' emoluments) increased by 15.2% year-on-year to approximately RMB84.4 million during the Period. The total number of full-time staff employed by the Group as at 30 June 2021 was 1,172, compared with 1,150 as at 30 June 2020.

Other Income, Gains and Losses
Other income, gains and losses, which comprise mainly management fees, credit card charges and other miscellaneous income received from counters/tenants, other sundry income and exchange gains/losses, recorded a slight increase of 2.9% to RMB61.2 million (2020: RMB59.4 million). The increase was primarily attributable to (i) a rise in credit card charges from counters amid the sales growth and (ii) the gain on lease modification of RMB17.0 million (2020: RMB15.3 million) resulting from change in lease term of the tenancy for the Freshmart supermarket in Changning, Shanghai, this Period.

Interest and Investment Income
The Group's income from interest and investments decreased 12.5% to RMB25.5 million (2020: RMB29.1 million) during the Period, which was mainly due to a lower interest/investment income from the Group's bank deposits and structured deposits.

Finance Costs
The Group's finance costs consisted mainly of interest incurred on bank borrowings. The aggregate amount of finance costs and interest incurred for the Period, before capitalisation, was approximately RMB62.4 million (2020: RMB67.3 million). The finance costs charged to the profit or loss account amounted to RMB9.6 million (2020: RMB13.1 million) and represented the finance charge in respect of the lease liabilities.

Liquidity and Financial Resources
The Group's adjusted EBITDA for the Period increased by 49.7% to RMB189.9 million from RMB126.8 million in the same period of 2020, mainly due to an increase in retail sales. As at 30 June 2021, the Group's net debt (defined as cash and cash equivalents and amount due from an associate less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amount due to a joint venture) amounted to approximately RMB466.0 million, compared with RMB457.8 million as at 31 December 2020. The higher net debt position was mainly attributable to a decrease in bank balances.

As at 30 June 2021, the Group's cash and cash equivalents amounted to approximately RMB1,860.6 million (31 December 2020: RMB1,906.9 million), of which RMB10.9 million, denominated in Hong Kong dollars, was kept in Hong Kong. The remaining balance was kept in mainland China, of which approximately 4.3% was denominated in United States dollars and the remaining 95.7% in Renminbi. The decrease in cash at banks, as compared with that at 31 December 2020, was mainly caused by the RMB30 million bank loan repaid during the Period.

As at 30 June 2021, the Group's banking facilities were fully utilised (31 December 2020: same), with the outstanding secured bank loan amounting to RMB2,370 million (31 December 2020: RMB2,400 million), bearing interest calculated with reference to benchmark lending rates of the People's Bank of China. The Group's debt to equity ratio (defined as bank borrowings divided by equity attributable to owners of the Company) was 25.3% as at the end of the Period (31 December 2020: 26.1%).

Foreign Exchange Management
The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi, in which the majority of the Group's transactions are denominated. As described in the "Liquidity and Financial Resources" section above, certain portions of the Group's monetary assets are denominated in foreign currencies, namely Hong Kong dollars and United States dollars. Given the fact that the majority of the Group's revenue and expenses, as well as borrowings and capital expenditures, are denominated in Renminbi, and the Hong Kong dollar cash balance kept in Hong Kong is for settling operating expenses outside of mainland China, the Group currently does not need a comprehensive foreign currency hedging policy. Management will, however, monitor the Group's foreign currency exposure and will consider taking appropriate measures to mitigate any significant potential foreign currency risks, should the need arise.

Pledge of Assets
As at 30 June 2021, certain of the Group's (i) property, plant and equipment in the PRC with a book value of approximately RMB3,494 million (31 December 2020: RMB3,382 million); (ii) right-of-use assets in the PRC with a book value of approximately RMB1,696 million (31 December 2020: RMB1,721 million); and (iii) property under development in the PRC with a book value of RMB1,370 million (31 December 2020: RMB1,346 million) were pledged to secure bank loan facilities of approximately RMB2,370 million (31 December 2020: RMB2,400 million) primarily for financing the development of the Daning project.

Contingent Liabilities
The Group did not have any material contingent liabilities as at 30 June 2021.

Material Acquisitions and Disposals
There were no material acquisitions or disposals during the Period.

Review of Operations
With the macro-environment still marred by the uncertainty that surrounds the COVID-19 situation, the Group has actively taken steps to further strengthen its brand equity and enhance the experience it offers to consumers. This included ramping up its promotional efforts in a bid to encourage its target customers to return to its two department stores. In addition, the Group has endeavoured to take advantage of the significant demand from local middle and upper-class customer groups in Shanghai and Suzhou, who were unable to travel out of the country due to world-wide travel restrictions. This included the launch of several new mid to high-end products from internationally renowned brands at the two department stores with the aim to enriching the stores' product selection and fueling sales.

In order to adapt to the rapidly evolving consumption patterns of the younger generation, the Group has increased application of online marketing and introduced various on-site facilities aimed at enhancing customers' engagement and shopping experience. The Group has made effective use of mobile internet technology for marketing purposes, including live streaming and leveraging popular social media platforms to attract and engage young and affluent middle-class consumers. The Group has also maintained its commitment to enhancing customer engagement through the increased use of mobile internet-enabled applications on handsets and the digitalisation of its retail management system.

Shanghai Jiuguang
Business at the Shanghai Jiuguang department store continued during the Period the upward trend as noted in the previous reporting period, thanks to the continued recovery of the economy and consumer market amid normalization of social and economic activities after the COVID-19 pandemic being brought under control for most parts of the country. Total retail sales proceeds increased year-on-year by 39.2% to RMB1,162.8 million in the Period as compared with the same period last year. The store launched recreational activities such as make-up, dance, and flower arranging classes, which proved effective at drawing footfall and strengthened the engagement with our customers. With online class registration provided through the use of mobile internet-enabled applications, these newly launched activities formed an integral part of the Group's omni-channel marketing strategy, driving online customers to spend in our physical store. The store saw surge in sales of over 40% in both apparel and fashion category as well as cosmetic products and accessories. For the first half of 2021, average daily footfall jumped 50.0% to approximately 42,000 visitors. On the contrary, average ticket size and stay-and-buy ratio dropped 2.4% to RMB445 and 3.5 percentage points to 45.5% respectively. The average concessionaire rate collected slightly rose to 23.3%, compared with 22.8% in the same period last year.

Suzhou Jiuguang

Suzhou Jiuguang continued to achieve a speedier recovery than its Shanghai counterpart as its business is less dependent on non-local customers. With restrictions on overseas travel still in place during the Period, affluent locals who were unable to make expensive purchases overseas opted to purchase luxury items domestically instead. The Suzhou store's total sale proceeds jumped 54.1% to RMB581.6 million as compared with the same period of 2020 amid the post-pandemic normalization of social and economic activities. A remarkable sales growth of 85.5% was recorded in cosmetic products and accessories in the first half of 2021. Daily footfall traffic and average ticket size also grew 48.0% and 17.9% year-on-year to 14,800 visitors and RMB541 respectively. However, the stay-and-buy ratio was down 9.2 percentage points to 55.5%. The average concessionaire rate collected by the store slightly decreased to 16.1% from 17.0% in the same period of last year.

Dalian and Shenyang Property

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

Standalone Freshmart Operation

Freshmart supermarket sells high-quality food and confectionery products and is a standalone operation of the Group at a rented premise in Changning, Shanghai. The business suffered from negative operating cash flow during the Period due to its sales revenue being affected by ongoing renovations. In a bid to improve sales efficiency, the Group made efforts to increase the number of catering and delivery services offered to the customers and to adjust its product mix in order to more effectively cater to the needs of office workers in the surrounding area.

Investments in Associates

The business operations of the Beiren Group, a well-established Shijiazhuang-based retailer in which the Group holds a strategic equity interest, had been adversely affected by the new wave of virus outbreak in January this Period. Its business quickly returned to pre-pandemic levels after the COVID-19 pandemic was brought under control in mid-February. Net profit (after share of non-controlling interests) attributable to the Group amounted to RMB93.8 million for the Period, compared with RMB60.7 million in the same period of 2020. The year-on-year increase in share of profit of 54.6% was mainly attributable to the 16.9% sales growth following the COVID-19 pandemic being brought under control and cost reduction during the Period. The share of profit from this investment accounted for 55.6% of the profit attributable to owners of the Company for the Period.

As detailed in the section "Basis for Qualified Conclusion", the Group made the Full Impairment against the full amount of Trade Receivable balances of the Debtors during the year ended 31 December 2019. The Group understood from the management of the Beiren Group that there has not been any progress made in terms of recovering the outstanding Trade Receivables nor obtaining further financial information of the Debtors and the Guarantor. As at 30 June 2021, the Group considered that the Full impairment against the outstanding Trade Receivables of the Debtors in the prior year remained the best estimate based on the information currently available.

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

In order to obtain timely and relevant information from the Beiren Group management, including but not limited to financial information and financial conditions of the Debtors and the Guarantor that could be pursued to settle the outstanding Trade Receivables, the Group continues making regular contact with the Beiren Group management to monitor the development of the situation and to assess the possibility of recovering the outstanding Trade Receivables from the Debtors and will discuss the same with the auditor to address the issue in due course.

Business Expansion

The interior fitting-out works on the Group's retail and commercial complex in Daning, Jingan District, Shanghai are in progress while the recruitment of tenants and leasing works are continuing. The complex is scheduled to commence operations by the end of 2021 or early 2022. With a gross floor area of approximately 348,000 sq. m., the project comprises a large retail complex which will house the Group's second Jiuguang store in Shanghai. When it commences business, the complex is expected to not only provide additional cash flow to the Group, but to also enhance the Group's market presence and brand equity in Shanghai.

Outlook and Plan

The Group cautiously looks forward to a continuous improvement in the retail market situation and wider economy during the second half of 2021. However, the rest of the year is likely to continue to pose challenges for China, with the uncertainty of the pandemic situation and domestic economic recovery remaining uneven. A rise in commodity prices has put significant cost pressure on businesses and employment pressure has also increased with the number of university graduates having hit a new record this year. In respect of these factors, further efforts are needed in order to build on the foundations for the steady recovery of future development. Other headwinds that may affect the Group's performance going forward include also competition from shopping malls in the localities of its department stores, intensifying competition from e-commerce enterprises and the rapidly changing consumption patterns of the younger generation.

In order to remain competitive, the Group will continue to position itself as a brand serving the sophisticated needs of China's middle-class. It will continue to optimise its product assortment and customer services in a bid to cater the demands of its target customer base and uphold the reputation of its well-established brand. The Group is also placing emphasis on further refining the shopping environment it offers to customers. A fitness center is planned to be introduced at Shanghai Jiuguang for catering to the demand of health-conscious customers and promoting the well-being of the local community. On the other hand, the Group is currently considering the possibility of transforming the Suzhou Jiuguang store into a shopping mall-like retail establishment with entertainment and experiential features. The proposed transformation is expected to help leveraging the vast floor area of the Suzhou store to provide a wider selection of products and services to better meet the changing needs and preferences of local consumers.

The Group will also continue to dedicate efforts to develop its omni-channel marketing strategy, including the launch of further interactive marketing campaigns and festive promotions aimed at its younger customers. This will strengthen the integration of the online and offline retail experience through effective use of social media networks and mobile internet technology, and better utilise its omni-channel membership management system to analyse consumer behaviour and make timely adjustments to its product assortment accordingly.

With supportive government policies being introduced from time to time, the Group remains cautiously optimistic regarding the health of China's retail sector going forward. In the meantime, we will continue to focus on expanding our business presence and enhancing our brand equity, as well as actively seeking potential investment opportunities, with the overall aim of achieving long-term growth and providing returns to its shareholders.

EMPLOYEES

As at 30 June 2021, the Group employed a total of 1,172 employees, with 1,167 stationed in mainland China and 5 in Hong Kong. Staff costs (excluding directors' emoluments) amounted to RMB84.4 million (2020: RMB73.5 million) for the six months ended 30 June 2021. 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 2021 (2020: 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 2021, except the following deviation:

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

PURCHASE, SALE OR REDEMPTION OF 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 2021.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 June 2021 have been reviewed by the audit committee, and by the auditors of the Company in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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

Hong Kong, 2 August 2021

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