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 2022

HIGHLIGHTS

- Revenue decreased 22.4% to RMB508.5 million
- Profit attributable to owners of the Company decreased 83.5% to RMB27.9 million
- Earnings per share amounted to RMB0.019, a decrease of 83.5%
- 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 2022, together with comparative figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**508,514**	655,111
Cost of sales		**(220,263)**	(268,341)
Gross profit		**288,251**	386,770
Other income, gains and losses		**104,877**	61,160
Selling and distribution costs		**(282,457)**	(218,665)
Administrative expenses		**(109,614)**	(76,510)
Interest and investment income	*4*	**13,156**	25,474
Share of profit of a joint venture		**9,558**	14,625
Share of profits of associates		**197,050**	157,162
Finance costs	*5*	**(58,398)**	(9,598)
Profit before taxation		**162,423**	340,418
Taxation	*6*	**(31,506)**	(66,186)
Profit for the period	*7*	**130,917**	274,232
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**111**	341
Other comprehensive income for the period, net of tax		**111**	341
Total comprehensive income for the period		**131,028**	274,573
Profit for the period attributable to:			
Owners of the Company		**27,884**	168,660
Non-controlling interests		**103,033**	105,572
		130,917	274,232
Total comprehensive income attributable to:			
Owners of the Company		**27,995**	169,001
Non-controlling interests		**103,033**	105,572
		131,028	274,573
Earnings per share - Basic and diluted	*9*	**RMB0.019**	RMB0.115

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2022

	Notes	**30 June 2022 (Unaudited) *RMB'000***	31 December 2021 (Audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**5,369,785**	5,501,009
Right-of-use assets		**2,321,016**	2,404,868
Investment property		**1,281,104**	1,292,427
Investments in associates		**3,292,154**	3,095,104
Investment in a joint venture		**381,603**	372,045
Deferred tax assets		**5,410**	5,045
Other receivables	*10*	**5,351**	5,349
		12,656,423	12,675,847
Current assets			
Inventories		**100,201**	102,073
Trade and other receivables	*10*	**230,696**	285,389
Amounts due from associates		**104,338**	110,865
Cash and cash equivalents		**1,477,559**	1,858,198
		1,912,794	2,356,525
Current liabilities			
Trade and other payables	*11*	**1,020,675**	1,461,974
Amount due to a joint venture		**8,201**	47,735
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	26,142
Tax payable		**8,540**	26,902
Bank borrowings – due within one year		**610,000**	100,000
Lease liability		**102,984**	100,521
Contract liabilities		**15,088**	12,260
		1,791,630	1,775,534

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AT 30 JUNE 2022

	30 June 2022 (Unaudited) *RMB'000*	31December 2021 (Audited) RMB'000
Non-current liabilities		
Bank borrowings – due after one year	**1,680,000**	2,240,000
Lease liability	**135,684**	188,407
Deferred tax liabilities	**50,529**	48,085
	1,866,213	2,476,492
	10,911,374	10,780,346
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**9,356,761**	9,328,766
Equity attributable to owners of the Company	**9,363,052**	9,335,057
Non-controlling interests	**1,548,322**	1,445,289
	10,911,374	10,780,346

NOTES TO THE INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2022

1. BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2022 ("interim financial information") has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The interim financial information have been prepared on a historical cost basis, 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 2021.

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:

HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use
HKFRS 3 (Amendments)	Reference to the Conceptual Framework
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018–2020
Accounting Guideline 5 (Amendments)	Merger Accounting for Common Control Combinations

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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Recognised at a point in time:		
Sales of goods - direct sales	**199,457**	304,240
Recognised over time:		
Income from concessionaire sales	**199,350**	292,428
Service income	**13,711**	16,138
Revenue from contracts with customers	**412,518**	612,806
Rental income	**95,996**	42,305
Total revenue	**508,514**	655,111

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

Segment information

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

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

4. INTEREST AND INVESTMENT INCOME

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest income on bank deposits	**13,156**	25,204
Investment income from financial assets at fair value through profit or loss	**-**	270
	13,156	25,474

5. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interests expenses on:		
- Bank borrowings	**51,319**	52,835
- Lease liabilities	**7,079**	9,598
	58,398	62,433
Less: Amount capitalised as construction in progress and properties under development	-	(52,835)
	58,398	9,598

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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**28,053**	56,734
Deferred tax charge	**3,453**	9,452
	31,506	66,186

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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period has been arrived at after charging/(crediting):		
Staff costs	**93,637**	84,367
Depreciation of property, plant and equipment	**131,642**	51,967
Depreciation of investment property	**15,391**	-
Depreciation of right-of-use assets	**83,852**	58,608
Gain on lease modification	**-**	(16,953)
Loss allowance/(reversal of loss allowance) on expected credit losses for trade receivables	**548**	(271)
Expenses related to variable lease payments	**7,676**	22,246
Cost of inventories recognised as expense	**168,206**	253,967

8. DIVIDEND

No dividend was paid or declared by the Company for the six months ended 30 June 2022 (2021: 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	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit for the period attributable to owners of the Company	**27,884**	168,660

	30 June	30 June
	2022	2021
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 2022 and 2021 respectively.

10. TRADE AND OTHER RECEIVABLES

	30 June 2022 (Unaudited) ***RMB'000***	31 December 2021 (Audited) *RMB'000*
Trade receivables	**8,031**	64,272
Lease receivables	**91,765**	45,968
	99,796	110,240
Less: Loss allowance on expected credit losses	**(1,043)**	(495)
	98,753	109,745
Prepayments	**165**	226
Deposits paid	**5,351**	5,349
Value added tax ("VAT") receivable	**104,087**	144,929
Others	**49,944**	52,742
	159,547	203,246
Less: Loss allowance on expected credit losses	**(22,253)**	(22,253)
	137,294	180,993
	236,047	290,738
Less: Non-current portion	**(5,351)**	(5,349)
	230,696	285,389

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

	30 June 2022 (Unaudited) ***RMB'000***	31 December 2021 (Audited) *RMB'000*
0 – 30 days	**27,514**	108,232
31 – 60 days	**22,422**	1,133
61 – 90 days	**21,252**	99
Over 90 days	**27,565**	281
	98,753	109,745

11. TRADE AND OTHER PAYABLES

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
	RMB'000	*RMB'000*
Trade payables	**58,223**	61,244
Construction payables	**283,405**	429,831
Concessionaire sales payables	**237,345**	492,390
Refundable prepaid card deposits	**137,147**	137,215
Rental deposits received	**193,343**	180,747
Accrued expenses	**44,925**	101,741
VAT payable	**3,603**	9,415
Interest payables	**2,800**	3,147
Others	**59,884**	46,244
	1,020,675	1,461,974

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

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
	RMB'000	*RMB'000*
0 – 30 days	**39,881**	52,572
31 – 60 days	**2,275**	4,955
61 – 90 days	**1**	328
Over 90 days	**16,066**	3,389
	58,223	61,244

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 2022.

Basis for Qualified Conclusion

The Group holds equity interests in certain associated companies herein referred to as "Beiren Group". For the period ended 30 June 2022, the Group recognised a share of profit of associates of RMB197.1 million and carried RMB3,292.2 million investments in associates on the interim condensed consolidated statement of financial position as at 30 June 2022, of which RMB197.8 million of the share of profit of associates for the six-month period ended 30 June 2022 and RMB3,287.7 million of the carrying value of investments in associates as at 30 June 2022 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 2021 due to a limitation of scope as we were unable to obtain sufficient appropriate evidences on whether any adjustments were necessary to the carrying amount of the Trade Receivables of nil balance and the related deferred tax credit in respect of the Full Impairment, which had consequential impact on (i) the Group's share of profits of associates for the year ended 31 December 2021 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 2021; 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 2021.

During the six-month period ended 30 June 2022 and up to the date of this report, there has been no additional information or development in relation to the recoverability of the Trade Receivables due from the Debtors. Accordingly, the Group's management considered the Full Impairment of the Trade Receivables of the Beiren Group brought forward is still appropriate as at 30 June 2022.

However, the Group's management was not able to provide us with adequate evidence with respect to the financial conditions of the Debtors and the Guarantor up to the date of this report, including the financial information of the Debtors to date, details of other assets (including nature, amounts, and claims or pledges against such assets, if any) of the Guarantor that could be pursued to settle the outstanding Trade Receivables due to the Beiren Group. We were therefore unable to obtain sufficient appropriate evidence we considered necessary to assess the recoverable amounts of the Trade Receivables. Given the abovementioned scope limitations, there were no other satisfactory procedures that we could perform to determine whether any adjustments were necessary to the Trade Receivables of nil balance and the related deferred tax credit in respect of the Full Impairment as at 30 June 2022 which consequentially impact (i) the Group's share of profits of associates for the period ended 30 June 2022 and the carrying value of its investments in associates as at that date, (ii) the Group's profit attributable to owners and profit attributable to non-controlling interests in the Group's condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2022; 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 2022.

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 world's second largest economy saw a sharp slowdown in the first half of 2022, with the gross domestic product ("GDP") rose only 2.5% year-on-year, down from 12.7% in 2021. The sharp contraction in economic activity was due to China's approach to dealing with outbreaks of novel coronavirus ("COVID-19") through severe lockdowns, highway controls to restrict cross-city travelling, mass testing, and stringent quarantine requirements for travelers coming to China. These stringent anti-COVID-19 measures have caused severe disruptions to industrial output and darkened China's employment prospect and as a result, dampened consumer sentiment. The country's retail sales saw a decline of 0.7% year-on-year in the first half of 2022, a sharp contrast to the year-on-year growth of 23.0% in the first half of 2021. A breakdown of China's retail sales by the type of retail outlets showed that retail sales at the department store sector fell 8.4% year-on-year in the first half of 2022, in contrast to the year-on-year growth of 29.5% in the first half of 2021. Meanwhile, the year-on-year retail sales growth at the country's supermarket sector decelerated to 4.2%, from 6.2% growth in the first half of 2021.

Shanghai, the country's highest GDP contributing city and is the base for the Group's operations, was put under a 2-month long city lockdown during April and May in response to the upsurge in the number of confirmed cases of COVID-19 variant. The anti-pandemic measures during the city lockdown included compulsory quarantine, temporary suspension of business or shortening of opening hours for eateries, retail shops and entertainment premises. As a result, the operating environment had become very difficult for the retail sector not only in Shanghai but most parts of China so long as there are COVID-19 cases.

On the other hand, the growing popularity of on-line shopping among the younger generation of consumers have also been reshaping the country's retail landscape. This compelled players in the retail industry to adapt to the changes and enhance their competitiveness by adopting new technologies and accelerating digitalization of their retail and customer management systems to enable more creative marketing campaigns and innovative modes of operation to complement their brick-and-mortar retail stores. The pandemic outbreak further accelerated the on-line trend as mobility of consumers were restricted and had to conduct their daily activities online.

Financial Review

To cope with the complicated and challenging business environment caused by the massive resurgence of COVID-19 in the first half of 2022, the Group pushed forward with its omnichannel marketing strategy, coupled with new retail business initiatives such as the introduction of unconventional retailers and service providers into its department stores. For the six months ended 30 June 2022 (the "Period"), the Group's newly opened retail complex, Shanghai Jiuguang Center ("JGC"), started contributing to the Group's revenue as another growth driver and accounted for 20.8% of the Group's revenue during the Period. Positioned as a high-end shopping center and a leisure and lifestyle hub, the JGC will be able to bolster the Group's status as an established retail venue operator in Shanghai and its neighbouring areas and enhance its brand equity.

Revenue and Sales Proceeds

For the Period, the Group's revenue decreased 22.4% year-on-year to RMB508.5 million, compared with RMB655.1 million in the same period last year, due to serious disruption to the Group's business amid COVID-19 outbreak in Shanghai that the Group's Shanghai and Suzhou stores and JGC were suspended for business during April and May and shortened opening hours for certain periods in compliance with the government's anti-COVID-19 pandemic measures. If the revenue contribution from the JGC was excluded, the Group's revenue would have fallen by 38.5% year-on-year during the Period, in contrast to the year-on-year growth of 34.6% in the same period of the previous financial year. For the Period, the total sales proceeds of the Group decreased 38.4% year-on-year to RMB1,087.4 million from RMB1,765.0 million recorded a year earlier. If the sales contribution from the JGC was excluded, the Group's total sales proceeds would have dropped 44.5% year-on-year.

Gross Profit and Concessionaire Rate

For the Period, the Group's gross profit decreased 25.5% year-on-year to RMB288.3 million and gross profit margin as a percentage of revenue saw a decrease of 2.3 percentage points to 56.7% and the average concessionaire rate also decreased 1.4 percentage points to 19.2% during the Period.

Net Profit Attributable to Shareholders

Net profit attributable to shareholders of the Company decreased 83.5% year-on-year to RMB27.9 million for the Period and the decrease was primarily due to (i) sales decline amid serious business disruption in the Group's business operation as well as the granting of waiver in respect of guaranteed sales commission and rental to business partners; (ii) a loss of RMB116.3 million being recorded for the JGC, as a result of revenue loss, caused by the aforesaid anti-pandemic measures, coupled with high operating expenses relative to revenue, in particular depreciation and amortization charges, as well as finance cost which could no longer be capitalized following its commencement of operations; (iii) a decrease in interest income of RMB12.3 million; and (iv) absence of a lease modification gain of RMB17.0 million recorded in the same period last year. The profit drop however was partly offset by an increase in the share of profits from the Beiren Group to the tune of RMB24.9 million.

Selling and Distribution Costs

The Group's aggregate selling and distribution costs grew 29.2% year-on-year to RMB282.5 million for the Period, compared with RMB218.7 million in the same period of 2021. The increase was primarily attributable to rise in depreciation and amortization charges as well as the real-estate tax in respect of the JGC. The Group's aggregate selling and distribution expenses as a percentage of total sales proceeds increased to approximately 26.0% for the Period, compared with the 12.4% in the same period of 2021 as the initial sales from the newly opened JGC was not in proportion to its operating expenses.

Administrative Expenses

The Group's general administrative expenses increased 43.3% year-on-year to approximately RMB109.6 million from RMB76.5 million recorded a year earlier and the increase was mainly attributable to increase in depreciation charge and amortization expense again from JGC.

Staff Costs

Staff costs (excluding directors' emoluments) for the Period increased 11.0% year-on-year to approximately RMB93.6 million from RMB84.4 million in the same period of 2021 and the increase was mainly attributable to certain of the staff cost for the JGC which can no longer be capitalized in the current period. The total number of full-time staff employed by the Group as at 30 June 2022 was 1,160, compared with 1,172 as at 30 June 2021.

Other Income, Gains and Losses

Other income, gains and losses, which mainly comprise management fees, third-party payment platform charges and other miscellaneous income received from the counters/tenants, other sundry income and exchange gains/losses, increased 71.5% year-on-year to RMB104.9 million for the Period. The increase was primarily attributable to the additional management fee income from the JGC and reduction in real-estate taxes from the government subsidies.

Interest and Investment Income

The Group's income from interest and investments tumbled 48.4% year-on-year to RMB13.2 million during the Period as result of a drop in the Group's bank balances.

Finance Costs

The Group's finance costs mainly consisted of interest incurred on bank borrowings. Total finance costs for the Period amounted to approximately RMB58.4 million (2021: RMB9.6 million) and the increase was due to the bank loan interest of RMB51.3 million (2021: RMB52.8 million) could no longer be capitalized after the commencement of operations of the JGC in late November of 2021.

Liquidity and Financial Resources

The Group's adjusted EBITDA for the Period decreased to RMB170.0 million from RMB189.9 million recorded in the same period of 2021, mainly due to the sales and revenue decline amid the COVID-19 outbreak. As at 30 June 2022, the Group's net debt (defined as cash and cash equivalents and amounts due from associates less total bank borrowings, amount due to a non-controlling shareholder of subsidiaries and amount due to a joint venture) increased to approximately RMB742.4 million from the approximately RMB444.8 million as at 31 December 2021 mainly due to a fall in the Group's cash and bank balances.

As at 30 June 2022, the Group's cash and cash equivalents amounted to approximately RMB1,477.6 million (31 December 2021: RMB1,858.2 million), of which RMB9.7 million was denominated in Hong Kong dollars and kept in Hong Kong. The remaining cash balance was kept in mainland China, of which approximately 5.6% was denominated in United States dollars and the remaining 94.4% in Renminbi. The decrease in cash at banks, as compared with that at 31 December 2021, was mainly due to the significant revenue loss, the increase in operating expenses and payment of construction payable in respect of the JGC during the Period.

As at 30 June 2022, the Group's outstanding secured bank loans amounted to RMB2,290 million (31 December 2021: RMB2,340 million) and this bank loan facility bears 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 24.5% as at the end of the Period (31 December 2021: 25.1%).

Foreign Exchange Management

The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi, in which substantially all of the Group's transactions are denominated. As described in the "Liquidity and Financial Resources" section above, a small portion of the Group's monetary assets are denominated in foreign currencies, namely Hong Kong dollars and United States dollars. Given the fact that the majority of the Group's revenue and expenses, as well as its borrowings and capital expenditures, are denominated in Renminbi, and the Hong Kong dollar cash balance kept in Hong Kong is for settling operating expenses outside 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 risk should the need arise.

Pledge of Assets

As at 30 June 2022, certain of the Group's (i) property, plant and equipment in the PRC with a book value of approximately RMB3,852 million (31 December 2021: RMB3,936 million); (ii) right-of-use assets in the PRC with a book value of approximately RMB1,645 million (31 December 2021: RMB1,671 million); and (iii) investment property in the PRC with a book value of approximately RMB1,281 million (31 December 2021: RMB1,292 million) were pledged to secure bank borrowings of approximately RMB2,290 million (31 December 2021: RMB2,340 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2022.

Significant Investments, Material Acquisitions and Disposals

There were no significant investments, material acquisitions or disposals during the Period.

Review of Operations

The resurgence of COVID-19 during the Period in Shanghai and the provinces/cities around the Yangtze Delta Region has made the operating environment extremely difficult for the Group as Shanghai and Suzhou represent the mainstay of the Group's operations. The Group's department stores, Shanghai Jiuguang and Suzhou Jiuguang, and the newly opened JGC were required to close or shorten their opening hours for certain periods during the first half of the year in compliance with the government's stringent anti-pandemic measures.

It was against the backdrop of these tough market conditions that the Group pressed ahead with its omnichannel marketing strategy with new retail business initiatives. Marketing and sales effort has been stepped up through its online shopping platform and offering discount coupons and benefits package to members to enhance customer loyalty. During the Period, it also enriched its product assortment with affordable European luxury brands, and enriching customer experience by conducting various themed marketing campaigns. Other initiatives included introducing unconventional retailers and service providers such as gyms and medical aesthetics centers into the department stores.

Shanghai Jiuguang Center ("JGC")

A high-end retail complex positioned as a leisure and lifestyle hub, the JGC is geared more towards offering goods from internationally and domestically renowned brands as well as diverse services. Opened in late November 2021 with an occupancy rate of 98% comprising approximately 400 retail brands, restaurants, supermarket, beauty salons and fitness center, the retail complex conducted some themed marketing activities for the first half of the year with the aim of boosting both the customer foot traffic and sales. During the pandemic outbreak in Shanghai, the retail complex had to shorten its opening hours from the middle to end of March and was required to close for business in April and May in compliance with the government's anti-pandemic measures and only reopened from 1 June after the pandemic has stabilized. Even then, for most of the time in June, visitors were not allowed to dine in which restricted the overall foot traffic to the retail complex. Position as a service-oriented retail complex, the JGC was more affected by the pandemic than the Group's two other department stores. For the first half of 2022, sales proceeds generated from the JGC amounted to RMB108.8 million while its rental income amounted to RMB58.2 million. The JGC recorded daily average footfall of approximately 28,600 visitors, a stay-and-buy ratio of 64.3% and average ticket size of RMB210.

Shanghai Jiuguang

Similar to the JGC, Shanghai Jiuguang's business was badly affected by the disruption of the two-month-long store closure caused by the resurgence of COVID-19 outbreak in Shanghai in April and May 2022. As a result, the store's total sale proceeds for the Period slumped 50.0% year-on-year to RMB581.1 million. Its average daily footfall fell 40.0% year-on-year to around 25,000 visitors while average ticket size and stay-and-buy ratio increased 5.7% to RMB470 and 9.2 percentage points to 54.7% respectively in the first half of 2022. Meanwhile, the average concessionaire rate collected by the store edged lower to approximately 23.0% (2021: 23.3%) for the Period.

Facing the difficult time, the department store stepped up its omnichannel marketing effort and made more use of the social media application such as WeChat to boost sales. The department store had also capitalized on the customers' rising health consciousness amid the pandemic through the fitness center which was introduced to the store last year. Moreover, various interest activities such as make-up, dance and floral arrangement classes were arranged for customers with an aim to increasing footfall at the department store and thus boosting sales for the shops there. During the Period, the Group continued to gear up its product assortment with mid-range to high-end but affordable luxury European brands of men's wear and leather goods. Out of the different product categories, cosmetic products, groceries and daily necessities at the supermarket tended to outperform during the Period.

Suzhou Jiuguang

For the first half of 2022, Suzhou Jiuguang was also negatively affected by the pandemic outbreak albeit to a lesser extent than the Shanghai Jiuguang and JGC. The department store, except its supermarket, was closed from 12 April to 16 May and reopened since 17 May. As a result, for the first half of 2022, the total sale proceeds decreased 33.9% year-on-year to RMB384.2 million. The store's average daily footfall fell by 26.5% year-on-year to around 11,000 visitors. On the contrary, its average ticket size and stay-and-buy ratio rose 4.2% to RMB564 and 8.0 percentage points to 63.5% respectively for the Period. The average concessionaire rate collected by the store edged lower to 15.3% for the Period from 16.1% in the same period of 2021 since product categories with low commission rates such as jewellery and watches outperformed.

The department store succeeded in carving out a niche in the market for branded watches and jewellery. During the Period, it collaborated with branded jewellery retailers at the store in holding a large-scale jewellery shows to attract customers that helped boosting the sales of watches and jewellery, which outperformed in sales among all the product categories at the department store. Moreover, the Suzhou Jiuguang also introduced during the Period men's wear brands with better quality and stylish design and medical aesthetics centers to enhance its brand and product portfolio.

Dalian and Shenyang Property

The Group's commercial properties in Dalian and Shenyang remained vacant during the Period and continued to suffer cash outflows of approximately RMB10.1 million in aggregate for the general upkeep and maintenance of these properties.

Standalone Freshmart Operation

Freshmart sells high-quality food and confectionery products and is a standalone operation of the Group at a rented premise in Changning, Shanghai. It recorded a year-on-year decrease of 33.9% in sale proceeds for the Period and the decrease was again mainly due to drop in traffic amid the COVID-19 pandemic, leading to close of business by certain tenants.

Investments in Associates

Beiren Group, a well-established Shijiazhuang-based retail group in which the Group holds a strategic equity interest, delivered a stable business performance during the Period as the province where they operate was not affected by any COVID-19 containment measures in the first half of 2022. As such, the Beiren Group managed to record a 10.4% sales growth year on year. Net profit (after share of non-controlling interests) attributable to the Group rose 26.6% to RMB118.7 million for the Period, compared with RMB93.8 million in the same period of 2021. The share of profit from this investment during the Period appeared to be particularly significant to the profit attributable to owners of the Company as the self-operated businesses were affected seriously by the pandemic.

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

The Group understood from management of the Beiren Group that there has not been any progress made in terms of recovering the outstanding Trade Receivables nor obtaining further financial information related to the Debtors and the Guarantor. As at 30 June 2022 and based on information then available, the Group considered the Full Impairment against the outstanding Trade Receivables of the Debtors made in the year 2019 remained the best estimate.

The Group followed up during the Period the Company's plan to address the Qualified Opinion as set out in details in the supplemental announcement dated 5 May 2020 whereby quarterly contacts were made by our Chief Financial Officer ("CFO") with management of the Beiren Group to obtain updates on the progress regarding the legal actions against the Debtors and the criminal case against the Guarantor. Due to travel restriction induced by the COVID-19 pandemic during the Period, contacts with management of the Beiren Group made during the Period could only be conducted through telephone and no physical meetings were managed to be arranged.

As the Group only holds a non-controlling interest in the Beiren Group and therefore could only rely on management of the Beiren Group to (i) take appropriate and necessary actions to recover the trade 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 financial conditions of the Debtors and the Guarantor, that could be pursued to settle the outstanding trade receivables, as well as the progress, if any, of the legal proceedings taken against the Debtors and/or the Guarantor. Contacts made by the Group's CFO with management of the Beiren Group during the Period however failed to obtain any updated information about the legal actions against the Debtors and/or Guarantor as all the assets, records and information of the Debtors and/or Guarantor are still under the custody of the local authority in the PRC and there was no meaningful progress of the legal cases. As such, no relevant information of the Debtors and/or Guarantor as required by the auditors could be obtained for the purpose of resolving the Qualified Opinion.

The Board understands that the Group, with only a non-controlling interest in the Beiren Group, could only rely on management of the Beiren Group to take the necessary legal actions and to monitor the progress through regular contact with the relevant authorities. The Board also understands the difficulties faced by management of the Beiren Group in obtaining updated information without the cooperation of the relevant authorities in the PRC. In light of the above and although there has not been any progress made in obtaining the latest information of the Debtors and/or Guarantor as requested by the auditor, the Board is of the view that the actions adopted by the Group and management of the Beiren Group represent the most appropriate actions under the circumstances.

As almost all the key employees of the Debtors or companies owned by the Guarantor as well as the Guarantor himself are understood to be, as of the date of this announcement, still being detained by the local authority, no progress could be made in terms of obtaining further information of the Debtors and/or the Guarantor. Until the time management of the Beiren Group has access to the Guarantor and/or any of his key staff and the criminal case against the Guarantor has any meaningful progress or conclusion by the local authority, the Company does not expect there would be any progress regarding the legal actions taken by the Beiren Group against the Debtors nor any of the trade receivables could be recovered from the Debtors. In view of the above, the Company is not in any position to come up with any other realistic and practicable actions or a concrete timetable for addressing or removing the Qualified Opinion for the time being.

The Board and the audit committee fully understand that the Group, being a non-controlling shareholder of the Beiren Group could only rely on management of the Beiren Group to obtain the necessary relevant information and updates as required by the auditor and hence do share the view that the actions taken so far by the Group and management of the Beiren Group are the most appropriate and practicable in the circumstances. The Board and the audit committee also concur that given the circumstances there is currently no other realistic and practicable actions or any concrete timetable available for addressing or removing the audit modification.

The auditor noted the actions taken and the difficulties faced by the Company and the management of the Beiren Group over the past years in obtaining information of the Debtors/Guarantor while the Guarantor and most of his key staff are being detained and all assets owned by the Guarantor have been seized by the local authority. The auditor also understands the Company's plan to continue relying on management of the Beiren Group in obtaining the relevant information of the Debtor/Guarantor. However, until the Company is able to provide the auditor with adequate evidence with respect to the financial conditions of the Debtors/Guarantor and details of other assets of the Guarantor, the auditor will not be able to assess whether sufficient appropriate audit evidence they consider necessary has been obtained. Accordingly, the auditor is not in a position, based on their understanding of the Company's planned actions to be taken, to form a view as to whether the Company will be able to provide such relevant information to enable them to assess and consider removing the Qualified Opinion in this financial year.

The Group will make continuous efforts to further explore with management of the Beiren Group options in obtaining relevant information of the Debtors, 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. Furthermore, the Group will continue to make regular contact with management of the Beiren Group 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.

Outlook and Plan

The COVID-19 pandemic has been raging in the world for over two years, most parts of the world are still being under the threats of COVID-19 variants and China is no exception. With China's "Dynamic-Zero" policy in response to COVID-19 pandemic, coupled with the continued Sino-United States trade conflict and Russia/Ukraine war, China's economic growth will continue to be under pressure as companies in almost all sectors are downsizing which in turn is darkening the employment market and thus exacerbating the uncertainly cast by the dampened consumer sentiment over the outlook of the retail sector in the second half of this year.

In response to the deteriorating economic situation, the Chinese government has promptly adopted fiscal policies conducive to the development of businesses such as the reduction and rebate of taxes and fees. In addition to keeping a relatively loose monetary policy, both central and local governments will roll out different policies to stimulate both investment and consumption. The Group believes that Shanghai and Suzhou, both are economically vibrant cities with strong purchasing power, will see a strong rebound in their retail consumption once the pandemic recedes.

To capitalize on the anticipated recovery in the retail market and to enhance its overall competitiveness, the Group will continue to leverage the Jiuguang brand and reinforce its positioning as the store chain that satisfies the varied needs of the middle class and high-spending younger generation. The Group will keep optimizing and enriching its product assortment according to the consumption trends, and will be ready to innovate its sales and marketing practices at both its physical stores and online operations, including the use of livestreaming, short video clips and other emerging media in conducting interesting marketing campaigns for promoting new products and new shops. The Group believes that these can enhance the Group's interaction with customers and increase customer loyalty and engagement.

The opening of the JGC in late November last year marks the next level of the Group's development and adds new impetus to the Group. As a high-end retail complex, the JGC is positioned as a hub of immersive services and lifestyle, providing brands of high-end cosmetics and affordable luxury goods as well as diverse lifestyle services. The Group will continue to improve the operation of the JGC and developing it into a popular high-end retail complex, thus increasing both the market share and influence of the Jiuguang brand in Shanghai.

With the strong brand equity of Jiuguang and the dedicated management team, the Group will keep exploring opportunities with great potential in order to achieve long-term growth and generate good returns to its shareholders.

EMPLOYEES

As at 30 June 2022, the Group employed a total of 1,160 employees, with 1,155 stationed in mainland China and 5 in Hong Kong. Staff costs (excluding directors' emoluments) amounted to RMB93.6 million (2021: RMB84.4 million) for the six months ended 30 June 2022. 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 2022 (six months ended 30 June 2021: 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 2022, except the following deviation:

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

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 2022.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 June 2022 have been reviewed by the audit committee of the Company, and by the auditor 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 2022

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.