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 2022

HIGHLIGHTS

- Revenue decreased 13.2% to RMB1,127.6 million
- Loss attributable to owners of the Company amounted to RMB24.4 million (2021: Profit of RMB143.4 million)
- Losses per share amounted to RMB0.017 (2021: Earnings per share of RMB0.098)
- No dividend was declared by the Board

FINAL RESULTS

The board of directors ("Board") of Lifestyle China Group Limited ("Company") announces the audited consolidated results for the year ended 31 December 2022 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 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	3	**1,127,588**	1,299,736
Cost of sales		**(469,484)**	(509,374)
Gross profit		**658,104**	790,362
Other income, gains and losses		**229,184**	130,473
Selling and distribution costs		**(577,769)**	(523,725)
Administrative expenses		**(235,932)**	(238,269)
Interest and investment income	5	**26,165**	51,331
Share of profit of a joint venture		**19,117**	28,300
Share of profits of associates		**182,205**	237,251
Finance costs	6	**(115,653)**	(27,895)
Profit before taxation		**185,421**	447,828
Taxation	7	**(78,848)**	(123,253)
Profit for the year	8	**106,573**	324,575
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operation		**177**	301
Total comprehensive income for the year		**106,750**	324,876
(Loss)/profit for the year attributable to:			
Owners of the Company		**(24,441)**	143,393
Non-controlling interests		**131,014**	181,182
		106,573	324,575
Total comprehensive (expense)/income attributable to:			
Owners of the Company		**(24,264)**	143,694
Non-controlling interests		**131,014**	181,182
		106,750	324,876
(Losses)/earnings per share attributable to owners of the Company			
- Basic and diluted	10	**(RMB0.017)**	RMB0.098

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		**5,267,550**	5,501,009
Right-of-use assets		**2,237,164**	2,404,868
Investment property		**1,261,645**	1,292,427
Investments in associates		**3,272,654**	3,095,104
Investment in a joint venture		**360,057**	372,045
Deferred tax assets		**5,298**	5,045
Other receivables	*11*	**5,352**	5,349
		12,409,720	12,675,847
Current assets			
Inventories		**109,471**	102,073
Trade and other receivables	*11*	**211,378**	285,389
Amount due from associates		**108,994**	110,865
Cash and cash equivalents		**1,609,097**	1,858,198
		2,038,940	2,356,525
Current liabilities			
Trade and other payables	*12*	**1,094,625**	1,461,974
Amount due to a joint venture		**12,580**	47,735
Amount due to a non-controlling shareholder of subsidiaries		**26,142**	26,142
Tax payable		**23,984**	26,902
Bank borrowings – due within one year		**1,120,000**	100,000
Lease liabilities		**105,447**	100,521
Contract liabilities		**9,691**	12,260
		2,392,469	1,775,534
Net current (liabilities)/assets		**(353,529)**	580,991

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2022

	2022	2021
	RMB'000	*RMB'000*
Non-current liabilities		
Bank borrowings – due after one year	**1,120,000**	2,240,000
Lease liabilities	**82,960**	188,407
Deferred tax liabilities	**54,367**	48,085
	1,257,327	2,476,492
	10,798,864	10,780,346
Capital and reserves		
Share capital	**6,291**	6,291
Reserves	**9,304,502**	9,328,766
Equity attributable to owners of the Company	**9,310,793**	9,335,057
Non-controlling interests	**1,488,071**	1,445,289
	10,798,864	10,780,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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.

As at 31 December 2022, the Group's current liabilities exceeded its current assets by RMB354 million. Included in its current liabilities was RMB1,120 million, representing the current portion of an outstanding project loan amounted to RMB2,240 million as at 31 December 2022. On 26 December 2022, the Group entered into a new secured loan agreement in respect of a RMB3,300 million 15-year term loan facility with a syndicate of banks. The RMB3,300 million facility was fully drawn down on 6 January 2023 and part of which was used to repay in full the RMB2,240 million outstanding project loan. The new loan facility is repayable progressively semi-annually with the first repayment starting from 14 April 2023 and the annual repayment amount in the first and second year will be RMB20 million and RMB40 million respectively.

Based on terms of the new bank facility as abovementioned and the cash resources available as at the end of January 2023, the Directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the coming 12 months from 31 December 2022. Accordingly, the Directors consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2022:

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

The amendments 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:

	2022	2021
	RMB'000	*RMB'000*
Recognised at a point in time:		
Sales of goods - direct sales	**430,287**	568,676
Recognised over time:		
Income from concessionaire sales	**440,992**	585,289
Service income	**31,762**	38,247
Revenue from contracts with customers	**903,041**	1,192,212
Rental income	**224,547**	107,524
Total revenue	**1,127,588**	1,299,736

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

	2022	2021
	RMB'000	*RMB'000*
Interest income on bank deposits	**26,165**	50,709
Interest income from a joint venture	**-**	459
Investment income from financial assets at fair value through profit or loss	**-**	163
	26,165	51,331

6. FINANCE COSTS

	2022	2021
	RMB'000	*RMB'000*
Interest expenses on:		
- Bank borrowings	**101,495**	105,873
- Lease liabilities	**14,158**	19,025
	115,653	124,898
Less: Amounts capitalised in construction in progress and properties under development	**-**	(97,003)
	115,653	27,895

7. TAXATION

	2022	2021
	RMB'000	*RMB'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax	**72,116**	107,440
Withholding tax	**663**	657
	72,779	108,097
Under/(over) provision in prior years:		
PRC Enterprise Income Tax	**40**	11
Withholding tax	**-**	(31)
	40	(20)
Deferred tax charge	**6,029**	15,176
	78,848	123,253

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):

	2022	2021
	RMB'000	*RMB'000*
Directors' remuneration:		
Fees	**685**	666
Salary and allowances	**6,167**	5,534
Bonus	**9,187**	10,633
	16,039	16,833
Other staff costs, excluding retirement benefits scheme contributions	**183,552**	183,265
Retirement benefits scheme contributions, net of forfeited contributions for staff	**9,162**	8,038
	192,714	191,303
Total staff costs	**208,753**	208,136
Auditor's remuneration	**2,985**	2,710
Depreciation of property, plant and equipment	**245,763**	132,629
Depreciation of investment property	**30,782**	5,128
Depreciation of right-of-use assets	**167,704**	125,499
Loss allowance/ (reversal of loss allowance) on expected credit losses for trade receivables	**2,162**	(228)
Expenses related to variable lease payments	**14,495**	47,275
Loss on disposal of property, plant and equipment	**172**	706
Gain on lease modification	**-**	(16,953)
Expenses relating to low-value leases	**1,488**	606
Expenses relating to short-term leases	**223**	335
Cost of inventories recognised as expense	**361,223**	471,605

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2022 (2021: nil).

10. (LOSSES)/EARNINGS PER SHARE

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

(Losses)/earnings figures are calculated as follows:

	2022	2021
	RMB'000	*RMB'000*
(Losses)/Earnings		
(Loss)/profit for the year attributable to owners of the Company	**(24,441)**	143,393

	2022	2021
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares	**1,464,449**	1,464,449

The diluted (losses)/earnings per share for the year ended 31 December 2022 equals to the basic (losses)/earnings per share as there were no potential dilutive ordinary shares issued during the year (2021: Same).

11. TRADE AND OTHER RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**25,929**	64,272
Lease receivables	**74,862**	45,968
	100,791	110,240
Less: Loss allowance on expected credit losses	**(2,657)**	(495)
	98,134	109,745
Prepayments	**257**	226
Deposits paid	**5,352**	5,349
Value Added Tax ("VAT") receivable	**88,457**	144,929
Others	**46,783**	52,742
	140,849	203,246
Less: Loss allowance on expected credit losses	**(22,253)**	(22,253)
	118,596	180,993
	216,730	290,738
Less: Non-current portion	**(5,352)**	(5,349)
	211,378	285,389

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:

	2022	2021
	RMB'000	*RMB'000*
0 – 30 days	**56,742**	108,232
31 – 60 days	**20,944**	1,133
61 – 90 days	**6,696**	99
Over 90 days	**13,752**	281
	98,134	109,745

12. TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables	**47,548**	61,244
Construction payables	**252,516**	429,831
Concessionaire sales payables	**325,970**	492,390
Refundable prepaid card deposits	**139,191**	137,215
Rental deposits received	**204,819**	180,747
Accrued expenses	**73,417**	101,741
VAT payable	**7**	9,415
Interest payables	**2,940**	3,147
Others	**48,217**	46,244
	1,094,625	1,461,974

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

	2022	2021
	RMB'000	*RMB'000*
0 – 30 days	**32,825**	52,572
31 – 60 days	**5,898**	4,955
61 – 90 days	**1,800**	328
Over 90 days	**7,025**	3,389
	47,548	61,244

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 2022, 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 2022, the Group recognised a share of profits of associates of RMB182.2 million and carried RMB3,272.7 million investments in associates on the consolidated statement of financial position as at 31 December 2022, of which RMB182.5 million of the share of profits of associates for the year and RMB3,267.7 million of the carrying value of investments in associates as at 31 December 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 evidence 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 has 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 year ended 31 December 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. Accordingly, the Group's management considered the Full Impairment of the Trade Receivables of the Beiren Group brought forward is still appropriate as at 31 December 2022.

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 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 Trade Receivables. We were therefore unable to obtain sufficient appropriate audit 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 31 December 2022 which consequentially impact (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 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 2022.

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

In 2022, China's economy faced various challenges, with repeated outbreaks of the COVID-19 epidemic that caused severe disruption to business activities of many industries and sectors, especially the property sector and related industries. The impact of the pandemic was most evident in April and May in Shanghai, which went into a lockdown for two months with epidemic prevention and control measures such as mandatory quarantines, suspension of businesses, and reduced operating hours for restaurants, retail stores, and entertainment venues. This has caused immense damage to the consumption market and the brick-and-mortar retail sector bore the brunt.

Meanwhile, consumption picked up momentarily in the middle of the year as the epidemic eased, a new round of epidemic emerged in October in many cities leading to lockdowns and other prevention measures being imposed that impacted again the consumption power. In the second half of December, the Chinese government decisively announced ending the "Dynamic Zero" policy that provided a silver lining for a recovery of the economy.

Notwithstanding the Chinese economy was hard hit by the Covid-19 pandemic, with the various supporting polices from both local and central government, the gross domestic product ("GDP") of China managed to record an increase of 3.0% to approximately RMB121.0 trillion for the full year, while the total retail sales of consumer goods decreased by 0.2% as compared to 2021.

Financial Review

In response to the difficult market conditions, the Group adopted multi-faceted strategies, including optimizing its product mix and VIP loyalty program, strengthening tenant relationships and expanding its omnichannel business.

Positioned as a high-end shopping and leisure and lifestyle hub, the Group's Shanghai Jiuguang Center ("JGC") opened for business since late November of 2021, provides synergy to the Group's existing Shanghai Jiuguang and Suzhou Jiuguang department stores. As the Group's latest revenue growth driver, JGC's revenue accounted for 21% of the Group's total revenue during the year.

Revenue and Sales Proceeds

In 2022, the Group's revenue decreased 13.2% year-on-year to RMB1,127.6 million, compared with RMB1,299.7 million in 2021. The decline was primarily due to the severe disruption to the Group's business caused by the recurring outbreaks of COVID-19. If the revenue contribution from the JGC was excluded, the Group's revenue from existing operations would have recorded a decline of 29.6% year-on-year, compared with 15.6% growth in the previous financial year.

The Group's total sales proceeds for the year decreased 27.6% to RMB2,520.2 million from RMB3,482.9 million in the previous year. If the sales contribution from the JGC was excluded, the Group's total sales proceeds would have decreased by 33.3% year-on-year.

Gross Profit and Concessionaire Rate

The Group's gross profit for the year was RMB658.1 million and the gross profit margin as a percentage of total sales proceeds was approximately 26.1%, as compared with RMB790.4 million and 22.7% in 2021. For the year, the Group's gross margin as a percentage of revenue was 58.4%, as compared with 60.8% in 2021. The average concessionaire rate decreased to 19.3% from 20.6% in 2021.

Net Loss / Profit Attributable to Shareholders

Net loss attributable to shareholders of the Company for the year ended 31 December 2022 was RMB24.4 million, as compared with a net profit of RMB143.4 million recorded in 2021.

The reverse from profit to loss this year was mainly attributable to (i) decline in sales proceeds of the Group’s business operations, including the newly opened JGC, amid the stringent epidemic control measures, as well as rental and guaranteed sales commission concessions provided to help business partners to tide over the difficult times; (ii) interest expense of RMB101.5 million relating to bank loan for the JGC project being recognized as it could no longer be capitalized following commencement of operation; (iii) a decrease in interest income of RMB25.2 million; (iv) a decrease in the share of profits of RMB32.0 million from the Beiren Group, which business was severely impacted by the pandemic in the second half of the year.

Selling and Distribution Costs

The Group's total selling and distribution costs increased 10.3% from RMB523.7 million in 2021 to RMB577.8 million in 2022. This increase was primarily due to additional depreciation/amortization expenses and real estate taxes from the JGC. As the newly opened JGC still take time to ramp up its sales to be proportionate to its operating expenses, the Group's total selling and distribution expenses as a percentage of total sales proceeds increased to approximately 22.9% during the year, as comparing to 15.0% in 2021.

Administrative Expenses

The Group's general administrative expenses decreased slightly to approximately RMB235.9 million from RMB238.3 million in 2021. Notwithstanding absence this year of the RMB34.8 million one-off opening expenses incurred for the JGC in 2021, the general administrative expenses was weighed by the additional RMB39.2 million of depreciation charge following commencement of operation of the JGC. Other general administrative expenses remained stable.

Staff Costs

Staff costs (excluding directors' remuneration) edged up 0.7% to approximately RMB192.7million from RMB191.3 million in 2021.

As at 31 December 2022, the total number of full-time staffs employed by the Group was 1,168, as compared with 1,167 as at 31 December 2021.

Other Income, Gains and Losses

Other income, gains and losses, which mainly comprises management fees, third party payment platform fee and other miscellaneous income received from counters/tenants, other miscellaneous income and foreign exchange gains/losses, recorded an increase of 75.7% to RMB229.2 million this year. The increase was mainly due to (i) full year management fee income from the JGC; and (ii) an increase in subsidies received by the Group from local governments of RMB 36.5 million.

Interest and Investment Income

The Group's interest and investment income decreased by 49.0% from RMB51.3 million in 2021 to RMB26.2 million in 2022. This decrease was mainly due to a decrease in interest from the Group's structured deposits.

Finance Costs

The Group's finance costs mainly comprised interest incurred from bank borrowings. The total finance costs charged to the profit and loss account during the year amounted to approximately RMB115.7 million (2021: RMB27.9 million) and the significant increase was due to the bank loan interest of RMB101.5 million could no longer be capitalized after commencement of operations of the JGC in late November 2021. The remaining RMB14.2 million represents finance charge relating to lease liability.

Liquidity and Financial Resources

The Group’s adjusted EBITDA increased to RMB396.1 million for the year from RMB326.4 million in 2021. For the year, notwithstanding decline in sales and revenues due to the epidemic, the JGC has helped contributing additional cash flow to the Group since its opening in late 2021.

As at 31 December 2022, the Group’s net debt (defined as cash and cash equivalents and amounts due from associates less total bank borrowings, amounts due to non-controlling shareholders of subsidiaries and amounts due to joint ventures) was approximately RMB560.6 million, compared with RMB444.8 million as at 31 December 2021. The increase in net debt was mainly due to the decrease in the Group’s cash and bank balances as a result of settlement of construction costs payable of the JGC.

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB1,609.1 million (31 December 2021: RMB1,858.2 million), of which RMB32.7 million was denominated in Hong Kong dollars and being kept in Hong Kong. The remaining cash balance was kept in Mainland China, of which approximately 5.5% was in United States dollars and the remaining 94.5% in Renminbi. The decrease in cash at bank as compared with that on 31 December 2021 was mainly due to a decrease in revenue during the year, coupled with an increase in operating expenses and payment of construction costs payable for the JGC.

As at 31 December 2022, the Group had outstanding secured bank project loan amounting to RMB2,240 million (31 December 2021: RMB2,340 million), which interest is calculated by reference to the benchmark lending rate 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) as at the year-end was 24.1% (31 December 2021: 25.1%).

On 26 December 2022, the Group entered into a new RMB 3,300 million 15-year facility agreement with a syndicate of banks. This facility was secured by the commercial podium (including the basement) of the JGC and the RMB3,300 million was fully drawn down in January 2023, part of which was used to repay the aforementioned existing project loan of RMB2,240 million. Interest on this new banking facility was calculated with reference to a few basis points below Loan Prime Rate in China.

Foreign Exchange Management

The functional currency of the Company and its subsidiaries operating in the PRC is Renminbi, in which the vast majority of the Group's transactions are denominated. As described in the section "Liquidity and Financial Resources" above, some of the Group's monetary assets are denominated in foreign currencies, namely Hong Kong dollars and United States dollars.

Given that majority of the Group's revenue and expenses, as well as borrowings and capital expenditure, are denominated in Renminbi and the small amount of Hong Kong dollar cash balance kept in Hong Kong is used for settling operating expenses outside of Mainland China, the Group does not currently require a comprehensive foreign currency hedging policy. However, the management will monitor the Group's foreign currency exposure and will consider appropriate measures to mitigate any significant potential foreign currency exposure should the need arises.

Pledge of Assets

As at 31 December 2022, certain of the Group's (i) property, plant and equipment in the PRC with a book value of approximately RMB3,786 million (31 December 2021: RMB3,936 million); (ii) right-of-use assets in the PRC with a book value of approximately RMB1,620 million (31 December 2021: RMB1,671 million); and (iii) investment property in the PRC with a book value of approximately RMB1,262 million (31 December 2021: RMB1,292 million) were altogether pledged to secure the project loan with remaining balance of approximately RMB2,240 million (31 December 2021: RMB2,340 million).

Contingent liabilities

As at 31 December 2022, the Group did not have any significant contingent liabilities.

Significant Investments, Material Acquisitions and Disposals

Saved for the below transaction in respect of the tenancy agreement, the Group had no significant investments, material acquisitions or disposals during the year.

On 28 December 2022, the Group entered into a tenancy agreement (the "New Shanghai Jiuguang Tenancy Agreement") as tenant with Shanghai Joinbuy City Plaza Co., Ltd as landlord in relation to the Shanghai Premises, located at 1618 Nanjing Xi Road, Shanghai, the PRC for a period of 20 years from 1 October 2024 to 30 September 2044. The entering into of the New Shanghai Jiuguang Tenancy Agreement by the Group as lessee required the Group to recognize right-of-use asset on its consolidated statement of financial position in relation to the leasing of the Shanghai Premises. The unaudited value of right-of-use asset to be recognised by the Group under the New Shanghai Jiuguang Tenancy Agreement amounted to approximately RMB1.6 billion.

The New Shanghai Jiuguang Tenancy Agreement is not effective until after being approved by shareholders of the Company in the extraordinary general meeting to be held on 20 March 2023.

Review of Operations

During the year, the resurgence of COVID-19 in Shanghai and surrounding cities in the Yangtze River Delta region made the operating environment extremely difficult for the Group, as Shanghai and Suzhou form the backbone of the Group's business. Shanghai Jiuguang and Suzhou Jiuguang, as well as JGC, were required to close or shorten their hours of operation during certain periods of the year to comply with the government's strict anti-pandemic measures.

During the year, the Group advanced its omnichannel marketing strategy through new retail business initiatives. Riding on the online platform, the integration of online and offline operations helped develop and expand the consumer group for the store and effectively improving customer satisfaction and driving sales revenue. The Group strived to enriching its product mix during the year by introducing affordable luxury brands and unconventional retailers and service providers such as gyms and medical aesthetic centers to its department stores, with an aim to attracting customers to its stores through enhanced experiential consumption.

The Group has always adopted a collaborative approach in terms of working with its tenants/business partners. During the year, the Group offered rent concessions and special waivers of guaranteed commissions to retail tenant partners whose businesses were severely affected by the anti-pandemic measures. With strong support from business partners, the Group maintained high occupancy rates with a balanced tenant mix.

Leasing of the two office towers at the JGC, other than the commercial podium, was inevitably affected by the epidemic to a certain extent. Despite the sluggish performance in the overall office leasing market, the Group actively expanded its leasing channels and managed to achieve an occupancy rate of nearly 40% for the East Tower by the end of the year and leasing work for the West Tower is expected to begin in the second quarter of 2023.

Shanghai Jiuguang Center

JGC, which opened in late November 2021 with 95% occupancy that includes approximately 400 retail brands, restaurants, supermarkets, beauty salons and fitness center, encountered during the year suspension of operation in April and May 2022, as well as occasional shortened operating hours and closure of certain retail areas in order to comply with government anti-pandemic measures.

In the face of a difficult operating environment, the retail complex strategically adjusted its product and service offerings based on market conditions and management believe it outperformed other shopping facilities in the same area during the year. Promotion activities launched during the year included retails, catering and lifestyle services and program such as coupon campaign where customers who shopped at participating stores could receive takeaway dining vouchers. These initiatives in working with various tenants and restaurants proved to have paid off, especially at times when restaurants were prohibited from offering dine-in services. Fitness vouchers offered by the fitness center to members who spent a certain amount in the retail complex also helped driving foot traffic and sales.

In its first year of operation, JGC generated sales revenue of RMB232.0 million and rental income of RMB140.5 million, with average daily footfall of approximately 26,900 visitors, a stay-and-buy ratio of 65.9% and an average ticket price of RMB209.

Shanghai Jiuguang

Shanghai Jiuguang faced with similar headwinds with a two-month-long store closure and sporadic anti-pandemic measures during the year. In response to the difficult operating environment, the department store stepped up its efforts in omnichannel marketing and made extensive use of social media applications such as WeChat. Regular livestreaming events was held to showcasing products online to attract the customers to visit the physical store.

Different courses and activities, including makeup, dancing and flower arranging classes were held for its loyal members at the department store whenever the anti-pandemic requirements allowed. It also took advantage of customers' growing health awareness in the midst of the pandemic by attracting consumers to its fitness center to prolong their stay at the department store.

The store’s product assortment was enhanced with the introduction of mid- to high-end, but reasonably priced luxury brands of menswear and leather goods. During the year, cosmetics and grocery products in the supermarket continued to outperform other product categories.

Shanghai Jiuguang's total sales proceeds declined by 38.6% year-on-year to RMB1,406.9 million. During the year, average daily footfall decreased by 38.9% year-on-year to 25,000, while average ticket size and stay-and-buy ratio increased by 1% to RMB436 and 10.3 percentage points to 57.4%, respectively, as compared with 2021.

Suzhou Jiuguang

Suzhou Jiuguang was also negatively affected by the pandemic, but to a lesser extent, when comparing to Shanghai Jiuguang and JGC.

Through partnering with in-store branded jewelry retailers to host major jewelry shows to attracting customers, branded watches and jewelry products continued to outperform other categories.

During the year, the tenant mix was restructured to strengthen the overall retail mix with the addition of an aesthetic medicine center and menswear brands with better quality and designs.

Suzhou Jiuguang’s total sales proceeds for the year decreased by 22.5% year-on-year to RMB847.1 million. While foot traffic decreased by 14.2% to 12,000 and average ticket price decreased by 6.8% to RMB514, the stay-and-buy ratio rose by 10.7 percentage points to 63.8%. Since sales of jewelry and watches accounted for large portion of the store’s sales, the average concessionaire rate to was down from 16.0% in 2021 to 15.0% for the year.

Dalian and Shenyang Property

The Group's commercial properties in Dalian and Shenyang remained vacant during the year. The total cash outflow recorded for the general maintenance and upkeep of these properties was approximately RMB13.2 million.

Standalone Freshmart Operation
Freshmart, which sells high-quality food and confectionery, is a standalone operation located at the Group's leased premises in Changning District, Shanghai. Its sales revenue declined by 32.5% year-on-year, mainly due to decline in customer traffic during the pandemic, which led to certain tenants ceasing operations during the year.

Investments in Associates
Different from the performance achieved in the first half of the year, the business operations and financial results of the Beiren Group, an established Shijiazhuang-based retailer in which the Group has a strategic stake, were dragged down by local resurgence of the pandemic in the second half of the year. Net profit attributable to the Group for the year, net of attributable non-controlling interests, declined by 22.6% to RMB109.5 million, as compared with RMB141.5 million recorded in 2021. Notwithstanding a decline in the share of profits from the Beiren Group, the share of profit from this investment remained significant to the results of the Group for the year.

As further detailed in the section "EXTRACT OF THE INDEPENDENT AUDITOR’S REPORT”, the Group has fully impaired the entire balance of accounts receivable owed by the Debtors. The Group understands from the management of the Beiren Group that no progress has been made in recovering the outstanding receivables and no further financial information relating to the debtors and Guarantor has been obtained. Based on the information currently available, the Group believes that the full impairment of the debtor's outstanding receivables made in 2019 remains the best estimate.

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

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

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

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

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

Until the management of Beiren Group has access to the Guarantor and/or his key employees, and until there is any meaningful progress or conclusion in the criminal case against the Guarantor by the relevant local authorities, the Company does not expect any progress in the legal action taken by Beiren Group against the Debtor or in the recovery of any trade receivables from the Debtor. In light of the above, the Company is unable to propose any other realistic and feasible actions or specific timelines to resolve or eliminate the qualified opinion at this time.

The Board and the Audit Committee agree that, given the circumstances, there are no other realistic and feasible actions or any specific timelines to address or eliminate the audit modifications at this time.

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

The auditor is also aware that the Company plans to continue to rely on Beiren Group's management to obtain information about the Debtors/Guarantor. However, the auditor will not be able to assess whether they have obtained sufficient appropriate audit evidence as they consider necessary until the Company is able to provide the auditor with sufficient evidence regarding the financial condition of the Debtors/Guarantor and details of the Guarantor's other assets. Accordingly, based on their understanding of the actions the Company plans to take, the auditor is unable to form an opinion as to whether the company will be able to provide this relevant information to enable it to assess and consider the removal of the audit qualification for the current financial year.

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

Outlook and Plan

Following abolition of the zero-COVID policy in December 2022, social and economic activities in China has begun to see a revival and the pent-up consumer demand is gradually being released. While some consumers remained wary of shopping in person after the country's abrupt reversal on the anti-pandemic policy and reopening, many more chose to rediscover the joys of in-store shopping and offline entertainment and experiences that there saw early signs of recovery in China's retail market during the first two months of 2023. Despite uncertainties, including concerns about a resurgence of the COVID-19 epidemic; the speed of business and production resumption and its impact on the job market; tensions between China and the U.S. as well as geopolitical instability, consumption in China, which will be supported by favorable policies, is expected to improve in the remainder of 2023.

The measures and policies to be introduced by central and local authorities to boost market confidence and economic dynamism are expected to pave the way for a stronger recovery in the second half of 2023. Against this backdrop, the Group remains cautiously optimistic that China's economy will remain relatively healthy, keeping consumer confidence stable. In order to seize market opportunities and improve its overall competitiveness, the Group endeavors to leverage the Jiuguang brand to strengthen its positioning as department store that meets the diverse needs of the middle class and high-spending millennials. The Group will continue to optimize its product mix and services to cater to the everchanging consumer demands.

The Group will continue to employing experiential retail means to drive customer footfall and sales. A cinema, a skate park and a karaoke bar have been launched at the Group’s JGC. Different customer engagement events, such as 3x3 basketball tournaments and themed shopping events, including coffee festival and pet festival, will be organized for Shanghai Jiuguang and Suzhou Jiuguang. The Group will also team up with renowned artists to host art exhibitions for the public. Attractive decorations, such as hanging displays and giant props, will increasingly be used to encourage shoppers to visit and take photos for posting on social media platform. The deep integration of entertainment activities within the shopping venues is expected to provide diversified experiences that will enhance brand loyalty and attract new and existing customers to the stores.

The Group will refine its VIP membership program with the aim of the deepening engagement with its customers. Through exclusive offers, discounts and other rewards, the loyalty program will be enhanced to encourage its members to return to the Group’s retail establishments post the pandemic and to entice its members to increase the frequency and size of their purchases. Attractive rewards will be personalized for members with the aim of promoting deeper engagement with a special group of loyal customers over time. In addition, the loyalty program is expected to enhance the brand equity of Jiuguang and increase foot traffic of the stores that would eventually help build stronger partnership with shops and tenants.

The Group will continue to enhance its online presence to better engage customers, and to provide them enjoyable and efficient shopping experience which in turn will promote customer loyalty. In addition to providing customers the option to shop online, the Group will use its digital presence to engage shoppers and to interact with them through regular release of livestreams on new products and services to entice them to return to the Group's physical stores.

The Group will continue its leasing efforts to recruit tenants for the two office towers at the JGC. In view of the gradual recovery of the office leasing market post the pandemic, the Group expects the two office towers will be able to provide decent and stable cash flows to the Group in the near future.

Benefitting from the government's supportive policies which aim to driving quality economic development in China, the Group's business operations shall maintain a steady growth momentum in the longer run. The renewal of the lease for the Shanghai Jiuguang Department Store premises for another 20 years after expiry of the initial 20-year lease in September 2024 is a testament to the Group's confidence in the long-term prospects of the retail market in Shanghai. Given the continuous growth of the Group and enhanced Jiuguang brand equity, the Group is well positioned to pursue potential investment opportunities with the overall objective of achieving long-term growth and bringing returns to shareholders.

EMPLOYEES

As at 31 December 2022, the Group employed a total of 1,168 employees, with 1,163 stationed in Mainland China and 5 in Hong Kong. The staff costs (excluding directors' emoluments) amounted to RMB192.7 million (2021: RMB191.3 million) for the year ended 31 December 2022. 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 14 to the Rules Governing the Listing of Securities on the Stock Exchange for the year ended 31 December 2022, 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 2022 (2021: 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, 29 May 2023, the register of members of the Company will be closed from Tuesday, 23 May 2023 to Monday, 29 May 2023, 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 Monday, 22 May 2023.

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 2022.

REVIEW OF ANNUAL RESULTS

The Group's audited consolidated results for the year ended 31 December 2022 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 2022 as set out in this announcement have been agreed by the Group's auditors, 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 in the wake of the pandemic. 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, 20 March 2023

As at the date of this announcement (upon the conclusion of the Board meeting held on the date hereof), 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.