LIFESTYLE INTERNATIONAL HOLDINGS LIMITED

利福國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1212)

Interim Results for 2008

HIGHLIGHTS

- Turnover amounted to HK$1,697.0 million, representing 19.5% increase
- Profit for the period surged by 41.9% to HK$606.3 million
- Earnings per share increased 40.9% to HK cents 35.5
- Interim dividend of HK cents 12.0 per share

RESULTS

The Board of Directors (the "Board") of Lifestyle International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results for the six months ended 30th June, 2008 of the Company and its subsidiaries (collectively, the "Group"), together with comparative figures for the previous period, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	NOTES	Six months ended 30th June, 2008 HK$'000 (Unaudited)	2007 HK$'000 (Unaudited) (Restated)
Turnover	3	**1,696,982**	1,419,562
Cost of sales	4	**(744,751)**	(634,382)
Gross profit		**952,231**	785,180
Other operating income		**33,446**	36,987
Selling and distribution costs		**(312,996)**	(301,445)
Administrative expenses		**(111,339)**	(58,911)
Investment income	5	**81,196**	76,093
Fair value changes on investment properties		**173,746**	–
Share of profit of a jointly controlled entity		**5,008**	3,408
Share of profit of associates		**133**	–
Finance costs	6	**(44,780)**	(38,740)
Profit before taxation	7	**776,645**	502,572
Taxation	8	**(153,870)**	(59,829)
Profit for the period		**622,775**	442,743
Attributable to:			
Equity holders of the Company		**606,253**	427,115
Minority interests		**16,522**	15,628
		622,775	442,743
Dividends	9	**230,370**	178,176
Earnings per share	10		
– Basic		**HK$0.355**	HK$0.252
– Diluted		**HK$0.353**	HK$0.250

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH JUNE, 2008

	NOTE	30th June, 2008 HK$'000 (Unaudited)	31st December, 2007 HK$'000 (Audited)
Non-current assets			
Investment properties		**374,139**	19,620
Property, plant and equipment		**3,458,153**	2,727,584
Deposit paid for prepaid lease payments		**1,128,921**	1,085,016
Interests in associates		**912,156**	–
Interest in a jointly controlled entity		**479,739**	468,938
Deferred tax assets		**3,638**	5,611
Available-for-sale investments		**30,065**	31,918
Financial assets at fair value through profit or loss		**345,456**	154,285
Club debenture		**1,350**	1,350
Loan receivables	*11*	**499,718**	467,718
		7,233,335	4,962,040
Current assets			
Inventories		**63,419**	60,309
Trade and other receivables		**202,893**	181,470
Amount due from a jointly controlled entity		**1,821**	46,046
Financial assets at fair value through profit or loss		**–**	36,531
Held for trading investment		**75,463**	–
Loan receivable		**2,000**	2,000
Bank balances and cash		**2,371,355**	3,598,388
		2,716,951	3,924,744
Assets of disposal group classified as held for sale		**–**	1,547,459
		2,716,951	5,472,203
Current liabilities			
Trade and other payables		**1,079,050**	1,411,958
Tax payable		**153,753**	94,137
Bank borrowings – due within one year		**460,000**	406,810
		1,692,803	1,912,905
Liabilities of disposal group classified as held for sale		**–**	615,773
		1,692,803	2,528,678
Net current assets		**1,024,148**	2,943,525
		8,257,483	7,905,565

CONDENSED CONSOLIDATED BALANCE SHEET (continued)
AT 30TH JUNE, 2008

	30th June, 2008 *HK$'000* (Unaudited)	31st December, 2007 *HK$'000* (Audited)
Non-current liabilities		
Bank borrowings – due after one year	**2,400,000**	2,600,000
Deferred tax liabilities	**66,970**	26,883
Derivative instrument	**10,086**	1,002
Other payable	**60,000**	60,000
Loan from a minority shareholder of a subsidiary	**18,329**	–
	2,555,385	2,687,885
	5,702,098	5,217,680
Capital and reserves		
Share capital	**8,533**	8,525
Reserves	**5,119,256**	4,648,193
Equity attributable to equity holders of the Company	**5,127,789**	4,656,718
Minority interests	**574,309**	560,962
	5,702,098	5,217,680

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have 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 (the "Stock Exchange") and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountant (the "HKICPA").

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time some Interpretations ("HK(IFRIC) - INT") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1st January, 2008. The adoption of the new HKFRSs has no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new and revised Hong Kong Accounting Standards ("HKAS"s) and Hong Kong Financial Reporting Standards ("HKFRS"s) or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[1]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[2]
HK(IFRIC)* - INT 13	Customer loyalty programmes[3]

1 Effective for annual periods beginning on or after 1st January, 2009.
2 Effective for annual periods beginning on or after 1st July, 2009.
3 Effective for annual periods beginning on or after 1st July, 2008.

* *IFRIC represents the International Financial Reporting Interpretations Committee.*

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. The adoption of HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors of the Company anticipate that the application of the other new or revised Standards, Amendments and INTs will have no material impact on the results and the financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amount received and receivable for goods sold by the Group to outside customers, net of discounts and sales related taxes, income from concessionaire sales, services income and rental income during the period, and is analysed as follows:

	Six months ended 30th June,	
	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Sales of goods – direct sales	**1,011,117**	861,032
Income from concessionaire sales	**607,373**	506,766
Rental income	**39,689**	23,085
Services income	**38,803**	28,679
	1,696,982	1,419,562

Minimum Guarantee Sales Commission of HK$17,322,000 (2007: HK$17,028,000) which was previously included in other operating income has been reclassified as Income from Concessionaire sales in Turnover. Minimum Guarantee Sales Commission represents the shortfall between the agreed minimum commission and the commission calculated on a percentage of the concessionaire sales. The Directors consider that the reclassification reflects more appropriately the nature of this income.

Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China (the "PRC"). The location of the Group's operations is the basis on which the Group reports its primary segment information for the current period.

For the six months ended 30th June, 2008

	Hong Kong	**PRC**	**Consolidated total**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	**1,422,758**	**274,224**	**1,696,982**
Result			
Segment result	**477,219**	**84,123**	**561,342**
Investment income	**79,490**	**1,706**	**81,196**
Fair value changes on investment properties		**173,746**	**173,746**
Share of profit of a jointly controlled entity		**5,008**	**5,008**
Share of profits of associates		**133**	**133**
Finance costs			**(44,780)**
Profit before taxation			**776,645**
Taxation	**(90,722)**	**(63,148)**	**(153,870)**
Profit for the period			**622,775**

3. TURNOVER AND SEGMENT INFORMATION (continued)

Geographical segments (continued)

For the six months ended 30th June, 2007

	Hong Kong	**PRC**	**Consolidated total**
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	1,249,885	169,677	1,419,562
Result			
Segment result	424,742	37,069	461,811
Investment income	75,178	915	76,093
Share of profit of a jointly controlled entity		3,408	3,408
Finance costs			(38,740)
Profit before taxation			502,572
Taxation	(74,344)	14,515	(59,829)
Profit for the period			442,743

4. COST OF SALES

	Six months ended 30th June,	
	2008	2007
	HK$'000	*HK$'000*
The costs of sales are analysed as follows:		
Cost of goods sold	**719,699**	611,612
Other cost of sales	**25,052**	22,770
	744,751	634,382

5. INVESTMENT INCOME

	Six months ended 30th June, 2008 *HK$'000*	2007 *HK$'000*
Interest income on bank deposits	**32,392**	56,727
Interest income on loan receivables	**16,794**	5
Other interest income	**571**	24
Dividend income from available-for-sale investments	**1,950**	112
Gain on disposal of available-for-sale investments	**–**	7,128
Impairment loss on available-for-sale investments	**(1,853)**	–
Change in fair value of financial assets		
Financial assets at fair value through profit or loss *(Note)*	**11,592**	14,777
Held for trading investments *(Note)*	**28,834**	–
Derivative instruments	**(9,084)**	(2,680)
	81,196	76,093

Note: Fair value changes include interest income of financial assets at fair value through profit or loss and held for trading investments.

6. FINANCE COSTS

	Six months ended 30th June, 2008 *HK$'000*	2007 *HK$'000*
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	**57,838**	37,029
Finance leases	**–**	2
Others	**652**	1,709
	58,490	38,740
Less: Amount capitalised	**(13,710)**	–
	44,780	38,740

7. PROFIT BEFORE TAXATION

	Six months ended 30th June,	
	2008	2007
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation	**69,204**	66,962
Share-based payment	**51,241**	6,144
Loss on disposal of property, plant and equipment	**–**	64
and after crediting:		
Gain on disposal of property, plant and equipment	**69**	–

8. TAXATION

	Six months ended 30th June,	
	2008	2007
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current period	**92,337**	70,982
Underprovision in prior year	**93**	1,843
People's Republic of China ("PRC") Enterprise Income Tax	**19,380**	–
	111,810	72,825
Deferred tax charge (credit)		
Current period	**43,275**	(12,996)
Attributable to change in tax rate	**(1,215)**	–
	153,870	59,829

Hong Kong Profits Tax is provided at 16.5% (six months ended 30th June, 2007: 17.5%) of the estimated assessable profit for the period. PRC Enterprise Income Tax is provided at 25% (six months ended 30th June, 2007: 33%) on the estimated assessable profit for the period. Tax charge of HK$9,831,000 in respect of PRC Enterprise Income Tax on taxable profit for the six months ended 30th June, 2007 has been absorbed by utilising tax losses carried forward. Deferred tax credit for 2007 includes a recognition of deferred tax asset of HK$14,515,000 for tax losses incurred in PRC previously not recognised as deferred tax asset due to the unpredictability of future profit streams.

9. DIVIDENDS

During the period, a dividend of HK cents 13.50 (six months ended 30th June, 2007: HK cents 10.50*) per share was paid to shareholders as the final dividend for the year ended 2007 (six months ended 30th June, 2007: year ended 2006).

The Board have resolved to declare the payment of an interim dividend of HK cents 12.0 (2007: HK cents 10.50*) in cash per share for the six months ended 30th June, 2008, which will be paid on 12th September, 2008 to shareholders whose names appear on the Register of Members of the Company on 5th September, 2008.

(Note:* adjusted for subdivision of Shares)

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the six months ended 30th June, 2008 is based on the following data:

	2008	2007
	HK$'000	*HK$'000*
Earnings		
Profit for the period attributable to equity holders of the Company for the purpose of basic and diluted earnings per share	**606,253**	427,115
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,706,337**	1,696,743
Effect of dilutive potential ordinary shares issuable under the Company's share option scheme	**9,133**	11,300
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,715,470**	1,708,043

The earnings per share and the weighted average number of shares for 2007 were restated to adjust for the effect of sub-division of share capital (one into two) completed in September 2007.

11. LOAN RECEIVABLES

On 24th September, 2007, the Group granted a bridging loan of HK$300 million for an initial term of four months (the "Bridging Loan") to EganaGoldpfeil (Holdings) Limited ("Egana" or together with its subsidiaries the "Egana Group") in connection with the Group's participation in the financial restructuring of the Egana Group ("Proposed Restructuring"). The Bridging Loan bears interest at 2% above the Hong Kong prime rate offered by The Hongkong and Shanghai Banking Corporation Limited and is secured by a charge over all equity interests in a wholly-owned subsidiary of Egana that owns a brand, a charge over certain office premises of the Egana Group in Hong Kong and a charge over 434,345,736 shares of HK$1.00 each in the capital of Egana, representing approximately 29.67% of the issued share capital held by the major shareholder of Egana.

The Group's intended participation in the financial restructuring of the Egana Group is to pursue, as part of the Group's business strategy, the branded goods retail and distribution business through taking a controlling interest in Egana. According to the latest published unaudited financial statements of Egana, before any debt and business restructuring, the Egana Group had as at 30th November, 2007, total assets amounting to approximately HK$4.3 billion, net deficit of approximately HK$1 billion and was indebted to a group of bank creditors (the "Bank Group") of approximately HK$3.6 billion.

According to the conditional debt restructuring agreement which took effect on 26th May, 2008 entered among the Company, Egana and the Bank Group (the "DRA"), subject to certain conditions, the Group has agreed to inject into Egana an aggregate of approximately HK$1.2 billion as new capital (by way of subscription of new shares and convertible bonds issued by the Egana Group) that may result in the Group becoming the controlling shareholder of the Egana Group, and the Bank Group has agreed the waiver of debts to reduce the indebtedness to approximately HK$2.0 billion. The proposed capital injection by the Group and waiver of debts by the Bank Group will improve the financial position of the Egana Group from net deficit to net assets upon the Proposed Restructuring becoming effective.

A circular dated 30th June, 2008 in relation to, among other things, the entering into of the conditional DRA as contemplated under the Proposed Restructuring has been issued by the Company. As stated in the Company's announcement dated 29th July, 2008, the extraordinary general meeting (the "EGM") convened and held on 29th July, 2008 by the Company to approve the form and substance of the proposed subscription agreements for the issuing of new shares and convertible bonds of the Egana Group to the Group (the "Subscription Agreements") was adjourned until further notice of the Company as the Company required further time to clarify with Egana the issues as mentioned in the announcement of the Company dated 22nd July, 2008 ("Matters").

As at the date of this announcement, the Directors are of the view that upon satisfactory clearance of the Matters and fulfillment of conditions precedent in the restructuring documents, including DRA and Subscription Agreements and subject to any further unforeseen material adverse changes, the Proposed Restructuring will proceed as planned. As such, the maturity date of the Bridging Loan has further been extended to 20th August, 2008 to facilitate the smooth progress of the Proposed Restructuring and the Group is prepared, when necessary and appropriate, to further extend the maturity date of the Bridging Loan.

As mentioned above, upon the Proposed Restructuring becoming effective, additional capital will be injected by the Group as well as waiver of debts by the Bank Group, at which time the financial position of the Egana Group will be improved to enable further business opportunities and the repayment of the Bridging Loan. Accordingly, no provision for impairment losses of the Bridging Loan has been made in the condensed consolidated financial statements.

In view of the uncertainty as to the successful completion of the Proposed Restructuring, the auditors of the Group has issued a modified review opinion by including an "Emphasis of Matters" paragraph in its review report which is reproduced as follows:

"Without qualifying our review conclusion, we draw attention to note 16(b) to the condensed consolidated financial statements (as shown in note (11) in this announcement) which indicates that the Group has extended a bridging loan of HK$300 million (the "Bridging Loan") to EganaGoldpfeil (Holdings) Limited ("Egana") (together with its subsidiaries the "Egana Group") during the year ended 31st December, 2007 and which remains outstanding as at the date of this report. The Group has entered into a conditional debt restructuring agreement with Egana, and the bank creditors of the Egana Group during the period for the proposed restructuring of the indebtedness of the Egana Group (the "Proposed Restructuring") which may result in the Group becoming the controlling shareholder of the Egana Group. The Proposed Restructuring is subject to the approvals of the relevant regulatory bodies and shareholders of both the Group and the Egana Group, and the satisfaction or waiver of certain conditions included in the restructuring documents not yet satisfied or waived. The Bridging Loan will be fully repaid upon the Proposed Restructuring becoming effective, at which time it is proposed to be replaced with additional financing from the Group of approximately HK$1.2 billion. Subsequent to the end of the period, the Group extended the maturity date of the Bridging Loan to 20th August, 2008 and has indicated that it may be prepared to further extend the maturity date. An extraordinary general meeting held by the Company on 29th July, 2008 to approve the form and substance of the proposed subscription agreements for the issuing of new shares and convertible bonds of the Egana Group was adjourned until further notice to enable the Company to clarify certain issues with Egana related to the Proposed Restructuring. As the ultimate recovery of the Bridging Loan and subsequent proposed investment depends on the long-term success of the Proposed Restructuring, which cannot presently be determined, no provision for impairment losses has been made in the condensed consolidated financial statements."

INTERIM DIVIDEND

The Board have resolved to declare the payment of an interim dividend of HK cents 12.0 (2007: HK cents 10.50*) in cash per share for the six months ended 30th June, 2008, which will be paid on Friday, 12th September, 2008 to shareholders whose names appear on the Register of Members of the Company on Friday, 5th September, 2008.

(Note:* adjusted for subdivision of Shares)

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 3rd September, 2008 to Friday, 5th September, 2008 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend for the six months ended 30th June, 2008, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 2nd September, 2008.

FINANCIAL REVIEW

Turnover and Sales Proceeds

For the review period, the Group's turnover grew to HK$1,697.0 million, a 19.5% increase from HK$1,419.6 million recorded in 2007. The Group's net sales proceeds amounted to HK$3,664.7 million, with the flagship store in Causeway Bay ("SOGO CWB") contributing HK$2,662.1 million, the Tsimshatsui store ("SOGO TST") HK$253.0 million, and Shanghai Jiuguang Department Store ("Shanghai Jiuguang") HK$749.6 million that respectively accounted for 72.6%, 6.9% and 20.5% of the Group's sales proceeds. The growth was attributable again to the impressive same-store sales growth of approximately 13.6% at SOGO CWB, 27.6% at SOGO TST, and 43.4% (or 30.4% in RMB term) at Shanghai Jiuguang.

Gross Profit and Gross Profit Margin

Gross profit margin as a percentage of net sales proceeds was 26.0% for the first half of 2008, compared with 25.6% for the same period in 2007. The growth was partly due to improvement of the concessionaire commission rate at Shanghai Jiuguang of 0.4 percentage point to 20.8% while the commission rates of the Hong Kong operations remained stable at around 23.3%. Gross profit rose to approximately HK$952.2 million, up 21.3% from HK$785.2 million in 2007. Gross profit margin as a percentage of turnover was 56.1%, compared with 55.3% in 2007.

EBITDA and Net Profit

During the period under review, the Group's EBITDA (earnings before interest, taxation, depreciation and amortization) rose to HK$858.2 million (including HK$173.7 million of fair value change on the Group's investment properties), an increase of 55.6% from HK$551.5 million in 2007. The Group's EBITDA margin for the period, calculated based on turnover, was 50.6% compared with 38.9% in the previous year. The Group's core EBITDA margin before the fair value change on investment properties was 40.3% and the slight improvement in EBITDA margin was mainly a result of operating leverage accruing to our self-owned store strategy although the improvement was slightly offset by the additional share based payments charged during the period in respect of the employee share options granted last year.

The Group's net profit attributable to shareholders for the period was HK$606.3 million, up 41.9% from HK$427.1 million recorded in the same period in 2007. The surge in net profit for the period was a result of same-store sales increase at our stores as well as an revaluation surplus (after tax) of HK$130.3 million on the Group's investment properties in Mainland China. Net profit margin, before this investment properties fair value change, as a percentage of turnover dropped slightly from 30.1% to 28.0% due mainly to the income tax charge for the first time at Shanghai Jiuguang whereas it was a deferred tax credit last year as well as the additional share based payments mentioned above.

The Group's other operating costs remained relatively stable except, as mentioned above, that a relatively significant increase was recorded during the period for administrative costs due to the additional share based payments of approximately HK$45.1 million related to certain share options granted to staff and a Director in August and September 2007 respectively.

Finance Costs

Finance costs of HK$44.8 million mainly comprised interest costs from the Group's bank loans and other finance charges. Increase in interest expense was mainly due to interest on additional loans drawn for funding the acquisition of the land use right in Shenyang and construction costs in Suzhou. The lower interest rate environment during the first half of 2008 compared with last year helped lower the Group's overall interest expense. An amount of approximately HK$13.7 million of interest expense has been capitalised as part of the development costs of the Group's PRC projects.

Liquidity and Financial Resources

The Group was at a net debt position as at 30th June, 2008 before counting the investments of approximately HK$451.0 million, with approximately HK$2,371.4 million of cash and bank balances, and approximately HK$2,860.0 million of bank loans. The cash and bank balances, mostly in US dollar and Hong Kong dollar and to a lesser extent in RMB, were held mainly at banks as short-term deposits for interest income. The Group's bank loans included a Hong Kong dollar term loan of HK$2,750.0 million at period end, repayable semi-annually. This loan facility bears interest with reference to HIBOR. The remaining loan balance represents working capital RMB loans bearing interest rates at approximately 6% per annum.

Pledge of Assets

As at 30th June, 2008, certain of the Group's land and buildings with book value of HK$1,658.1 million (31st December, 2007: HK$1,680.3 million), together with shares in certain subsidiaries of the Group, were pledged to a bank to secure a HK$4,000.0 million banking facilities granted to the Group of which HK$2,750.0 million remained outstanding.

REVIEW OF OPERATIONS

General Retail Environment

Hong Kong

In the first four months of 2008, Hong Kong's retail market continued to enjoy the growth momentum carried forward from last year, before the growth rate began to moderate in May under the effect of low sentiment in the global and local financial and property markets and the negative impact of the earthquake in Sichuan, the PRC. The exceptionally wet weather during most part of June also adversely affected the retail sales. Overall, Hong Kong's total retail sales value increased by 15.9% year-on-year to approximately HK$139 billion for the first 6 months of 2008, with the increase in fuels, automobiles and jewellery and watches contributing particularly significantly to the sum. The department store segment showed an impressive 13.9% year-on-year growth for the first six months of the year, thanks to the influx of mainland shoppers and tourists and in the case of mainland shoppers, the appreciation of the RMB helped fuelling the growth of their spending in Hong Kong.

Mainland China

Mainland China remained one of the fastest-growing emerging economies in the world during the review period, logging still a 10.4% growth in GDP for the first six months of the year even under various measures initiated by the government to slow down the growth. The burgeoning middle class and increasing number of high net worth individuals continued to drive up demand for discretionary as well as luxury products. Like many other countries, Mainland China faces uncertainties brought about by the current global financial turbulence and inflationary pressure. However, rising income level and domestic consumption of this economic giant continued to fuel the growth in the retail sector, which recorded a 21.4% increase in sales value during the review period comparing to the same period last year.

Performance by Stores

SOGO CWB

By and large, the strong growth momentum of this store built on the previous year continued during the first five months of the period under review. This came before the month-long rainy days in June, which dampened consumer sentiment and spending, causing the growth of the store to turn moderate. A total of approximately HK$2.66 billion in sales revenue was recorded, representing a 13.6% increase year-on-year. During the "Thankful Week" in May, our semi-annual promotion event, the store achieved a record-breaking of $40.9 million in daily sales notwithstanding the fact that the event took place only a week after the Sichuan earthquake. This reflected strong customer loyalty to SOGO CWB.

Thanks to its premium location and leading industry status, SOGO CWB remained the shopping Mecca for Hong Kong people and in-bound tourists from Mainland China and other countries. The store also owed its consistent performance to its innovative marketing initiatives and high brand recognition. With its leading position in the department sector in Hong Kong and its renowned "one-stop-shop" concept, the store has seen its shopper traffic stabilized over the years. During the review period, daily shopper traffic stayed at around 90,000. Average per-ticket sales amounted to approximately HK$520, representing an increase of 13.8%.

SOGO TST

Into its third year of operation, the store has firmly established itself as a widely popular shopping destination for young and fashion-conscious customers in Kowloon. The merchandising and brand mix of SOGO TST has been further adjusted and enriched to meet market demand and efforts have also been invested on the marketing and promotion front. During the period under review, traffic at SOGO TST continued to improve, thanks to the continuous rise in the number of inbound tourists and the growing popularity of the store. Sales during the period increased 27.6% year-on-year to approximately HK$253.0 million. Average per-ticket sales improved by 12.2% to approximately HK$330.

Shanghai Jiuguang

As our first store in Mainland China, Shanghai Jiuguang has been delivering consistently outstanding performance since its inception in late 2004. Today, it is one of the most sought-after shopping destinations in Shanghai. Position as a department store offering a quality lifestyle shopping environment and experience and a vast array of renowned international brands and premium products, the store continued to grow in popularity, as evident by a staggering 30.4% (in RMB term) same-store sales growth recorded for the period under review. Daily traffic rose to approximately 48,000 from 42,100, with average per-ticket sales increasing approximately 8.0% to RMB271.

Expansion in Mainland China

The new stores under our expansion plan in Mainland China that we have been working on are progressing well and upon their opening will significantly strengthen the Group's store portfolio in Mainland China.

Both the Suzhou store, a one-stop shopping complex featuring a department store as well as a variety of entertainment and dining facilities and the Dalian store, which the Group acquired in 2007, will open in the fourth quarter of 2008. Following on their heels will be the Tianjin store, which is expected to open in the first quarter of 2009. Meanwhile, major development work for the Shenyang store is being planned and opening of the store is scheduled for the second half of 2010.

To establish the Group's presence in the retail market in the northern part of Mainland China, the Group completed in April 2008 a transaction, through a 60% owned investment holding company, whereby 51% of its 99% indirect subsidiary, a property investment company that owns a shopping mall in Shijiazhuang, was exchanged, through the same 60% owned investment holding company, for a 30% equity interest in the Beiren Group and 16.05% equity interest in Beiguo, a 73.96% subsidiary of the Beiren Group. Beiren Group, a state-owned enterprise and together with its subsidiary Beiguo, is a leading retail group based in Shijiazhuang, Hebei Province that primarily owns and operates 5 department stores, 13 supermarkets, and a number of outlets selling items in the electrical appliances and consumer electronics and jewellery categories.

During the review period, Beiren Group recorded a 21.1% growth year-on-year in gross sales to approximately RMB3,953 million.

Acquisition of EganaGoldpfeil (Holdings) Limited

The Group has been involving since September 2007 in the debt restructuring of Egana (Holdings) Limited ("Egana"), a Hong Kong-listed company that owns and leases a portfolio of internationally renowned brands of luxury products. In late May 2008, the Group, creditor banks and Egana entered into a conditional debt restructuring agreement. Successful completion of the acquisition will enable the Group to get access to Egana's portfolio of well-known brands in various product categories, which the Group believes will be a good fit for Mainland China's consumer product market. The extraordinary general meeting ("EGM") of the Company convened to approve the restructuring proposal, including the subscription of new shares and convertible bonds of Egana was held on 29th July, 2008 and was adjourned pending further information to be provided by Egana on matters related to certain Chinese customs (the "Matters"). As at the date of this announcement, the parties are still working to resolving the Matters and the date of resumption of the EGM of the Company has not been announced.

Outlook and Plan

In view of the current economic climate, the management takes a cautious view on the outlook of the retail market in the second half of 2008 in Hong Kong and other China cities. The exceptionally robust sales growth in the second half of last year, which was largely a result of the buoyant property and stock markets in Mainland China and Hong Kong, set a relatively high base for this year. As such, the sales growth in the second half of this year should expect to be rather moderate. However, the management still believes the underlying strengths of the Group's operations will remain solid and intact. Regardless of the external environment, the Group always strives to seek growth and achieve its business objectives through careful planning and by bringing into full play the Group's business vision.

Looking ahead, the retail industry of both Hong Kong and Mainland China will be girding for different kinds of challenge amidst the current global economic uncertainties. We will, however, continue to strengthen the profitability and cash flow of our existing operations, including SOGO CWB, SOGO TST and Shanghai Jiuguang. In addition, the Group will invest efforts in the new stores which will be gradually rolled out in different cities in Mainland China. Notwithstanding rising inflation and the current financial uncertainties being faced by most economies of the world (including the US and Europe) that are expected to last for a while, the management believes that Mainland China's economic growth driven by domestic consumption will remain strong, which should provide a relatively better retail environment for our new stores.

Moreover, we will be on the lookout for acquisition opportunities that are conducive to the Group's long-term growth. The recent consolidation of the property market in Mainland China should be in the Group's favour when opportunities arise in respect of new sites for our store expansion.

EMPLOYEES

As at 30th June, 2008, the Group had a total of about 1,020 employees in Hong Kong, 768 employees in the PRC and 2 employees in Japan. The costs of employee (excluding directors' emoluments) including share option charges amounted to HK$129.4 million (2007: HK$111.6 million). The Group ensures that the pay levels of its employees are competitive according to market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th June, 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions laid down in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding its Directors' securities transactions. Specific enquiry has been made to all Directors, and all Directors have confirmed their compliance with all the relevant requirements as set out in the Model Code during the period.

AUDIT COMMITTEE

The Audit Committee of the Company is to review and supervise the financial reporting process and internal control procedures of the Group. The Group's interim results for the six months ended 30th June, 2008 have been reviewed by the Audit Committee and the Company's auditors. The auditors included in its review report an "Emphasis of Matters" paragraph in respect of the Group's loan receivable from Egana (see Note 11 to the Condensed Financial Statements).

The Audit Committee of the Company comprises four Independent Non-executive Directors, namely, Mr. Lam Siu-lun, Simon , Mr. Cheung Yuet-man, Raymond, The Hon. Shek Lai-him, Abraham and Mr. Hui Chiu-chung, Stephen. Mr. Lam is the Chairman of the Audit Committee and a certified public accountant.

REMUNERATION COMMITTEE

The Remuneration Committee is to consider the remuneration of the Directors and senior management of the Group. The Remuneration Committee comprises three Independent Non-executive Directors, namely, Mr. Lam Siu-lun, Simon, The Hon. Shek Lai-him, Abraham and Mr. Hui Chiu-chung, Stephen and Executive Director, Mr. Lau Luen-hung, Thomas. Mr. Lau is the Chairman of the Remuneration Committee.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for the six months ended 30th June, 2008 containing all the information as required by the Listing Rules will be published on the websites of the Stock Exchange and the Company respectively and copies will be dispatched to shareholders of the Company in due course.

ACKNOWLEDGEMENT

I would like to thank the Board, management and all of our staff for their hard work and dedication, as well as our shareholders and customers for their support to the Group.

On behalf of the Board
Lifestyle International Holdings Limited
Lau Luen-hung, Thomas
Managing Director

Hong Kong, 11th August, 2008

As at the date of this announcement, the Board of Directors comprises two executive Directors, namely, Messrs. Lau Luen-hung, Thomas and Doo Wai-hoi, William, four non-executive Directors, namely, Dató Dr. Cheng Yu-tung, Dr. Cheng Kar-shun, Henry, Mr. Lau Luen-hung, Joseph and Ms. Lau Yuk-wai, Amy and four independent non-executive Directors, namely, Mr. Lam Siu-lun, Simon, Mr. Cheung Yuet-man, Raymond, The Hon. Shek Lai-him, Abraham and Mr. Hui Chiu-chung, Stephen.