



Interim Report 2004

## Corporate Information

### Company Name

Lifestyle International Holdings Limited

### Stock Code

1212

### Board of Directors

#### Executive Directors

Mr. Lau Luen Hung, Thomas  
(Managing Director)  
Dr. Tong Yuk Lun, Paul

#### Non-Executive Directors

Dató Dr. Cheng Yu Tung (Chairman)  
Dr. Cheng Kar Shun, Henry  
Mr. Lau Luen Hung, Joseph  
Ms. Lau Yuk Wai, Amy

#### Independent

#### Non-Executive Directors

Mr. Lam Siu Lun, Simon  
Mr. Cheung Yuet Man, Raymond  
Mr. Chung Kwok Cheong  
The Hon. Shek Lai Him, Abraham

### Company Secretary

Ms. Siu Po Sim, Katherine

### Registered Office

Century Yard, Cricket Square  
Hutchins Drive, P.O. Box 2681 GT  
George Town, Grand Cayman  
British West Indies

### Head Office and Principal Place of Business

20th Floor, East Point Centre  
555 Hennessy Road  
Causeway Bay  
Hong Kong

### Share Registrars

#### Hong Kong

Computershare Hong Kong Investor  
Services Limited

#### Cayman Islands

Bank of Butterfield International  
(Cayman) Ltd.

### Website Address

[www.lifestylehk.com.hk](http://www.lifestylehk.com.hk)

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## HIGHLIGHTS

- The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 15th April, 2004.
- The Group recorded sales proceeds of HK\$1,651 million, representing an increase of 28.1% compared with the six months period in 2003.
- Turnover was HK\$742 million, an increase of 27.4% over the corresponding period in 2003.
- Net profit for the period was HK\$185 million, an increase of 115.8% over the corresponding period in 2003.
- Earnings per share increased by 85.9% to HK cents 29.49.
- Interim dividend of HK cents 3.9 and special dividend of HK cents 2.7 per share were declared by the Board.

## RESULTS

The Board of Directors of Lifestyle International Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004 were as shown on pages 2 to 14.

**Condensed Consolidated Income Statement**  
**For the six months ended 30th June, 2004**

		<b>Six months ended 30th June,</b>	
		<b>2004</b>	<b>2003</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Turnover	3	<b>742,255</b>	582,682
Cost of sales and direct operating expenses	4	<b>(337,856)</b>	(282,566)
Gross profit		<b>404,399</b>	300,116
Other operating income		<b>19,626</b>	18,896
Distribution costs		<b>(168,165)</b>	(146,157)
Administrative expenses		<b>(32,567)</b>	(26,017)
Profit from operations	5	<b>223,293</b>	146,838
Finance costs	6	<b>(3,193)</b>	(47,073)
Surplus on revaluation of investment properties		<b>6,700</b>	-
Profit before taxation		<b>226,800</b>	99,765
Taxation	7	<b>(41,930)</b>	(14,106)
Net profit for the period		<b>184,870</b>	85,659
Interim dividends and special dividends declared after interim period end	8	<b>49,302</b>	-
Earnings per share-basic (HK cents)	9	<b>29.49</b>	15.86
Interim dividend per share (HK cents)		<b>3.9</b>	-
Special dividend per share (HK cents)		<b>2.7</b>	-
Total dividend per share (HK cents)	8	<b>6.6</b>	-

## Condensed Consolidated Balance Sheet At 30th June, 2004

	Notes	30th June, 2004 HK\$'000 (Unaudited)	31st December, 2003 HK\$'000 (Audited)
<b>Non-current assets</b>			
Investment properties	10	34,600	55,700
Property, plant and equipment	11	2,033,570	2,029,237
Deferred tax asset		848	1,568
		<u>2,069,018</u>	<u>2,086,505</u>
<b>Current assets</b>			
Inventories	12	25,131	27,650
Trade and other receivables	13	71,265	89,918
Taxation recoverable		818	818
Stakeholder account	14	7,318	–
Bank balances and cash		1,838,135	193,691
		<u>1,942,667</u>	<u>312,077</u>
<b>Current liabilities</b>			
Trade and other payables	15	307,842	400,712
Taxation payable		52,590	50,853
Amount due to ultimate holding company		–	69,099
Amount due to a fellow subsidiary		–	41,195
Obligations under finance leases – due within one year		95	95
Bank borrowings, secured – due within one year	16	310,590	1,270
		<u>671,117</u>	<u>563,224</u>
Net current assets (liabilities)		<u>1,271,550</u>	<u>(251,147)</u>
Total assets less current liabilities		<u>3,340,568</u>	<u>1,835,358</u>
<b>Non-current liabilities</b>			
Loans from fellow subsidiaries		–	2,918,745
Obligations under finance leases – due after one year		73	121
Bank borrowings, secured – due after one year	16	1,740,000	19,930
Deferred tax liabilities		15,405	12,760
		<u>1,755,478</u>	<u>2,951,556</u>
		<u>1,585,090</u>	<u>(1,116,198)</u>
<b>Capital and reserves</b>			
Share capital	17	7,470	4,000
Reserves		1,577,620	(1,120,198)
		<u>1,585,090</u>	<u>(1,116,198)</u>

## Condensed Consolidated Statement Of Changes In Equity For the six months ended 30th June, 2004

	Share capital HK\$'000	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2003	4,000	–	(1,394,845)	(1,390,845)
Net profit for the period	–	–	85,659	85,659
At 30th June, 2003	4,000	–	(1,309,186)	(1,305,186)
Net profit for the period	–	–	188,988	188,988
At 31st December, 2003	4,000	–	(1,120,198)	(1,116,198)
Issue of share on 5th January, 2004	–	–	–	–
Issue of shares on Group Reorganisation	4,194	–	–	4,194
Elimination on Group Reorganisation	(4,000)	–	–	(4,000)
Capitalisation of loans	1,206	884,163	–	885,369
Issue of shares by placing and public offering	1,800	1,492,200	–	1,494,000
Issue of shares on exercise of over-allotment option	270	223,830	–	224,100
Expenses incurred in connection with the issue of shares	–	(87,245)	–	(87,245)
Net profit for the period	–	–	184,870	184,870
At 30th June, 2004	<u>7,470</u>	<u>2,512,948</u>	<u>(935,328)</u>	<u>1,585,090</u>

At 30th June, 2004, the Company's reserve available for distribution consisted of share premium account of approximately HK\$2,512,948,000. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

**Condensed Consolidated Cash Flow Statement**  
*For the six months ended 30th June, 2004*

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	<b>144,629</b>	138,141
Net cash used in investing activities	<b>(13,519)</b>	(113,782)
Net cash from (used in) financing activities	<b>1,513,334</b>	(24,387)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	<b>1,644,444</b>	(28)
Cash and cash equivalents at beginning of the period	<b>193,691</b>	205,982
	<hr/>	<hr/>
Cash and cash equivalents at end of the period, representing bank balances and cash	<b><u>1,838,135</u></b>	<u>205,954</u>



**Notes to the Condensed Financial Statements**  
*For the six months ended 30th June, 2004*

**1. Group reorganisation and basis of preparation of condensed financial statements**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29th December, 2003 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's ultimate holding company is Real Reward Limited ("Real Reward"), a company incorporated in the Cayman Islands.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are the operation of retailing business and property investment.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 26th March, 2004. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 31st March, 2004 (the "Prospectus").

The dealings of the shares of the company on the Stock Exchange commenced on 15th April, 2004.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed financial statements of the Group for the six months ended 30th June, 2004 (the "Period") have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants (the "HKSA").

The condensed financial statements have been prepared in accordance with SSAP 25 "Interim financial reporting" issued by the HKSA and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

**2. Significant accounting policies**

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's financial information for the year ended 31st December, 2003 as set out in the Prospectus.

### 3. Turnover and segment information

Turnover represents the net amount received and receivable for goods sold by the Group to outside customers, less returns and allowance, income from concessionaire sales, rental income and services income is analysed as follows:

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Sales of goods – direct sales	441,609	351,733
Income from concessionaire sales	270,016	204,236
Rental income	14,289	13,895
Services income	16,341	12,818
	<u>742,255</u>	<u>582,682</u>

Over 90% of the Group's turnover and contribution to operating profit is attributable to the operation of department store for retailing of merchandise and all of the Group's turnover and contribution to operating profit is attributable to customers in Hong Kong. Accordingly, no analysis of segment is presented.

As at the balance sheet date, all of the Group's assets are situated in Hong Kong.

### 4. Cost of sales and direct operating expenses

The cost of sales and direct operating expenses are analysed as follows:

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Cost of sales	316,622	261,121
Direct operating expenses	21,234	21,445
	<u>337,856</u>	<u>282,566</u>

### 5. Profit from operations

	Six months ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	39,406	38,030
and crediting:		
Gain on disposal of property, plant and equipment	2,421	21
Interest income	610	901
	<u>42,437</u>	<u>38,952</u>

## 6. Finance costs

	Six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	3,037	238
Loans from a fellow subsidiary	–	46,829
Finance leases	6	6
Others	150	–
	<u>3,193</u>	<u>47,073</u>

## 7. Taxation

	Six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong profits tax	38,565	10,490
Deferred tax charge for the period	3,365	3,616
	<u>41,930</u>	<u>14,106</u>

Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the Period.

## 8. Dividends

	Six months ended 30th June,	
	2004 HK\$'000	2003 HK\$'000
Interim dividend payable – HK cents 3.9	29,133	–
Special dividend payable – HK cents 2.7	20,169	–
	<u>49,302</u>	<u>–</u>

The directors have declared an interim dividend of HK cents 3.9 and a special dividend of HK cents 2.7 per share to the shareholders of the Company whose names appear in the register of members on 10th September, 2004.

## 9. Earnings per share

The calculation of basic earnings per share for the six months ended 30th June, 2004 is based on the net profit for the Period of HK\$184,870,000 (2003: HK\$85,659,000) and on the weighted average of 626,785,714 shares (2003: 540,000,000 shares) that would have been in issue throughout the Period. The 540,000,000 shares in issue prior to the listing of the Company's shares on the Stock Exchange, as adjusted to reflect the issue of shares by way of capitalisation of loans on the assumption that the Group Reorganisation had been completed on 1st January, 2003.

No diluted earnings per share is presented, as the Company did not have any dilutive potential ordinary shares in issue.

## 10. Investment properties

	Six months ended 30th June, 2004 HK\$'000
Net book value, beginning of period	55,700
Re-classification to property, plant and equipment	(27,800)
Surplus on revaluation	6,700
	<u>34,600</u>
Net book value, end of period	<u>34,600</u>

## 11. Property, plant and equipment

	Six months ended 30th June, 2004 HK\$'000
Net book value, beginning of period	2,029,237
Re-classification from investment properties	27,800
Additions	17,166
Disposals	(1,227)
Depreciation	(39,406)
	<u>2,033,570</u>
Net book value, end of period	<u>2,033,570</u>

## 12. Inventories

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Merchandise held for resale	<u>25,131</u>	<u>27,650</u>

All inventories were carried at cost at the respective balance sheet dates.

**13. Trade and other receivables**

Included in trade and other receivables are trade receivables of HK\$19,980,000 (31st December, 2003: HK\$33,644,000). The Group's retail sales to customers are mainly on cash basis, either in cash, debit card or credit card payments. The Group does not have a defined fixed credit policy as its major trade receivables arise from credit card sales. An aged analysis of the Group's trade receivables at the respective balance sheet dates is as follows:

	<b>30th June, 2004</b>	31st December, 2003
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>16,249</b>	31,138
31 – 60 days	<b>812</b>	936
61 – 90 days	<b>72</b>	357
Over 90 days	<b>2,847</b>	1,213
	<hr/>	<hr/>
Trade receivables	<b>19,980</b>	33,644
Other receivables	<b>51,285</b>	56,274
	<hr/>	<hr/>
	<b>71,265</b>	89,918
	<hr/> <hr/>	<hr/> <hr/>

**14. Stakeholder account**

The amount represents the proceeds from the issue of shares held by the underwriter for the settlement of professional fees.

**15. Trade and other payables**

Included in trade and other payables are trade payables of HK\$63,336,000 (31st December, 2003: HK\$89,966,000). An aged analysis of the Group's trade payables at the respective balance sheet dates is as follows:

	<b>30th June, 2004</b>	31st December, 2003
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>62,782</b>	78,713
31 – 60 days	–	10,085
61 – 90 days	–	418
Over 90 days	<b>554</b>	750
	<hr/>	<hr/>
Trade payables	<b>63,336</b>	89,966
Other payables	<b>244,506</b>	310,746
	<hr/>	<hr/>
	<b>307,842</b>	400,712
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## 16. Bank borrowings, secured

Pursuant to a refinancing arrangement for the purpose of listing of the shares of the Company on the Main Board of the Stock Exchange, the Group obtained new loan facilities of up to HK\$2,300 million. The loan bears interest at market rates and are repayable by instalments over a period of five years. An amount of HK\$2,215 million from the proceeds of the loan was used to repay an aggregate amount of HK\$2,215 million owing by the Group to a fellow subsidiary, Crystal Key Investment Limited ("Crystal Key").

## 17. Share capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
On the date of incorporation (note a)	39,000,000	390
Increase during the period (note b)	<u>1,961,000,000</u>	<u>19,610</u>
At 30th June, 2004	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
Share issued to the initial subscriber (note a)	1	-
Issue of shares on Group Reorganisation (note c)	419,439,958	4,194
Issue of shares upon capitalisation of loans (note d)	120,560,041	1,206
Issue of shares by placing and public offering (note e)	180,000,000	1,800
Exercise of over-allotment option (note f)	<u>27,000,000</u>	<u>270</u>
At 30th June, 2004	<u>747,000,000</u>	<u>7,470</u>
Shown in the condensed consolidated balance sheet At 31st December, 2003		<u>4,000</u>

Details of the changes in the Company's share capital for the period ended 30th June, 2004 are as follows:

- (a) The Company was incorporated on 29th December, 2003 with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, one share was allotted and issued to the initial subscriber of the Company at par on 5th January, 2004 and was then transferred to Real Reward on the same date.
- (b) Pursuant to a written resolution of the sole shareholder passed on 26th March, 2004, the authorised share capital of the Company was increased from HK\$390,000 to HK\$20,000,000 by the creation of an additional 1,961,000,000 shares of HK\$0.01 each, which rank pari passu in all respects with the then existing shares.

- (c) On 26th March, 2004, an aggregate of 419,439,958 shares of HK\$0.01 each were issued and allotted, credited as fully paid at par, to Real Reward as consideration for the acquisition by the Company from Crystal Key and Real Reward of, and in exchange for, the entire issued share capital of Excellent Empire International Limited, Excellent Global Limited ("Excellent Global") and Glory Ocean Investments Limited.
- (d) On 26th March, 2004, an aggregate of 120,560,041 shares of HK\$0.01 each were issued and allotted, credited as fully paid to Real Reward, by way of capitalisation of loans for an aggregate amount of HK\$885,369,000 owing by the Company to Real Reward.
- (e) On 14th April, 2004, 180,000,000 shares of HK\$0.01 each were issued by way of placing to professional and institutional investors and public offer to the public at a price of HK\$8.30 per share.
- (f) Pursuant to the underwriting agreement dated 30th March, 2004, BNP Paribas Peregrine Capital Limited ("BNP Paribas Peregrine") (for and on behalf of the placing underwriters) was granted an over-allotment option by the Company pursuant to which the Company, subject to the exercise of the option, would be required to issue and allot up to 27,000,000 additional shares of HK\$0.01 each in the Company at a price of HK\$8.30 per share. On 23rd April, 2004, BNP Paribas Peregrine on behalf of the placing underwriters exercised in full the over-allotment option. Accordingly, the Company issued 27,000,000 additional new shares at HK\$8.30 per share.

All the shares which were issued by the Company during the period rank *pari passu* with each other in all respects.

The share capital shown on the condensed consolidated balance sheet as at 31st December, 2003 represented the aggregate amount of the capital of companies comprising the Group attributable to the Company as at that date before the Group Reorganisation.

## 18. Contingent liabilities

The statutory financial year end of all the subsidiaries of the Company was changed from 28th February to 31st December, as the directors of the Company determine to bring the balance sheet date in line with that of the Company. According to the provisions of the Inland Revenue Ordinance, the Inland Revenue Department ("IRD") may raise additional assessment on the profits of the subsidiaries for the two months ended 28th February, 2003. The directors are of the opinion that the IRD is unlikely to raise additional profits tax charge and accordingly, no provision has been made in the financial statements. In the opinion of the directors, the maximum additional profits tax charges would be amounted to about HK\$2,200,000.

Pursuant to two sales and purchase agreements entered into among the subsidiaries in 1985 and 1996, certain properties were transferred within the Group. The assignments of these properties have not been executed. If no exemption for stamp duty is granted under the Stamp Duty Ordinance, upon execution of the assignment of the properties, the Group will be subject to an aggregate stamp duty of about HK\$38.9 million.

19. Commitments

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
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Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed financial statements	<u>8,601</u>	<u>6,151</u>
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On 30th March, 2004, Excellent Global, a direct wholly owned subsidiary of the Company, as purchaser entered into the acquisition agreement with Pure Group Limited and Full Partner Limited ("Acquisition Agreement") as vendors. Pursuant to the Acquisition Agreement, Excellent Global has conditionally agreed to acquire:

- (a) the entire issued share capital of Great Prosperity Holding Inc. ("Great Prosperity"); and
- (b) the shareholders' loans due from Great Prosperity to Pure Group Limited and Full Partner Limited at completion, which were on-lent to Smart Fortune Assets Limited and Gainbest Assets Limited, the subsidiaries of Great Prosperity.

at an aggregate consideration of HK\$483,000,000, subject to adjustment.

Great Prosperity is owned as to 50% by Pure Group Limited and 50% by Full Partner Limited. Pure Group Limited is ultimately owned by Mr. Lau Luen Hung, Thomas, a director of the Company, and a discretionary trust of which certain family members of Mr. Lau Luen Hung, Joseph, a director of the Company, are eligible beneficiaries. Full Partner Limited is ultimately owned by Chow Tai Fook Enterprises Limited.



**20. Related party transactions**
**(a) Transactions**

During the period, the Group had entered into the following significant transactions with the following related parties:

Name of related party	Nature of transaction	Six months ended 30th June,	
		2004 HK\$'000	2003 HK\$'000
Chow Tai Fook Jewellery Company Limited ("CTF Jewellery")	Income from concessionaire sales (note 1)	3,200	1,863
Crystal Key	Interest and finance charges paid (note 2)	-	46,829
New World PCS Limited ("New World PCS")	Licence fee received (note 1)	225	225
Perfect World Limited ("Perfect World")	Air-conditioning fee paid (note 3)	117	113
Pingan.com Limited ("Pingan")	Consultancy service fee paid (note 3)	-	59
Pingan	Purchase of equipment (note 3)	-	201
Sunny Ocean Investments Limited ("Sunny Ocean")	Lightbox licence fee paid (note 3)	231	231
Viewide Properties Limited ("Viewide")	Rental and management fee paid (note 3)	21,575	21,575
		<u>21,575</u>	<u>21,575</u>

**Notes:**

- (1) CTF Jewellery and New World PCS are companies in which Mr. Cheng Kar Shun, Henry and Dató Dr. Cheng Yu Tung, the directors of the Company, have beneficial interest. The income is charged at rates according to the terms of the relevant agreements. In the opinion of the directors of the Company, the transactions with relevant parties were conducted according to the terms of the relevant agreements.
- (2) The interest was charged at the rate from 1.8% to 4.85% per annum and the finance charges were reimbursed from the Group.
- (3) Perfect World, Pingan, Sunny Ocean and Viewide are companies in which Mr. Lau Luen Hung, Thomas and Mr. Lau Luen Hung, Joseph, the directors of the Company, have beneficial interest. Sunny Ocean and Viewide are indirect wholly owned subsidiaries of Chinese Estates Holdings Limited. Rental, management fee, air-conditioning fee, lightbox licence fee and consultancy fee paid were charged at the prevailing market rates. In the opinion of the directors of the Company, the transactions with relevant parties were conducted according to the terms of the relevant agreements, as were purchase of equipment.

**(b) Guarantee**

Real Reward had provided guarantee to a bank to secure facilities granted to a subsidiary, Grand Kinetic Limited ("Grand Kinetic"). At 31st December, 2003, the extent of the facilities utilised by Grand Kinetic amounted to about HK\$22 million. Following the listing of Company's shares on the Stock Exchange, such guarantee was released and replaced by a corporate guarantee given by the Company.

## INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF  
**LIFESTYLE INTERNATIONAL HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

### **Introduction**

We have been instructed by Lifestyle International Holdings Limited (the "Company") to review the interim financial report set out on pages 2 to 14.

### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA") and the relevant provision thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the HKSA. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2004.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

16th August, 2004

### **INTERIM AND SPECIAL DIVIDENDS**

The Board of Directors has declared an interim dividend for the six months ended 30th June, 2004 of HK cents 3.9 (2003: Nil) and a special dividend of HK cents 2.7 in cash per share payable on 15th September, 2004 to shareholders whose names appear on the register of members of the Company on 10th September, 2004.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 6th September, 2004 to 10th September, 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim and special dividends, all transfers accompanied by the relevant share certificates 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, Hong Kong for registration no later than 4:00 p.m. on 3rd September, 2004.

### **FINANCIAL REVIEW**

#### **Turnover**

Turnover of the Group for the Period was HK\$742.3 million, representing an increase of 27.4% over the corresponding period in 2003. The increase in turnover was primarily due to the increase in sales proceeds from both direct and concessionaire sales.

## Sales proceeds

Sales proceeds represents the net amount received and receivable for goods sold by the Group under "direct sales" and the underlying sales proceeds from concessionaire sales.

	Six months ended 30th June, 2004		2003	
	HK\$'mn	As a % of total sales proceeds	HK\$'mn	As a % of total sales proceeds
Sales proceeds				
– from direct sales	442	26.8%	352	27.3%
– from concessionaire sales (gross value)	1,209	73.2%	937	72.7%
<b>Total</b>	<b>1,651</b>	<b>100.0%</b>	<b>1,289</b>	<b>100.0%</b>
Gross profit margin on total sales proceeds(%)		<b>23.9%</b>		<b>22.9%</b>

## Gross profit and gross profit margin

Gross profit margin for the Period in terms of gross profit to turnover was 54.5%, an increase of 5.8% when comparing to the 51.5% of the corresponding period in 2003. Gross profit for the Period was HK\$404.4 million, representing a 34.7% increase when comparing to the corresponding period in 2003.

## EBITDA

Group EBITDA (operating profit before interest, taxation, depreciation and amortization) for the Period was HK\$269.4 million comparing to HK\$184.9 million for the same period in 2003. Group EBITDA margin rose to 36.3% for the Period against 31.7% in the corresponding period in 2003. The improvement was primarily due to various strategic sales plans and efficiency programs implemented in the first half of 2004.

The Group's net profit for the Period grew by 115.8% to HK\$184.9 million and net profit margin improved to 11.2% from 6.6%, when calculated based on the sales proceeds.

	Six months ended 30th June,			
	2004	2003	2004	2003
	HK\$'mn	As a % of turnover	HK\$'mn	As a % of turnover
– Distribution costs	168	22.7%	146	25.1%
– Administrative expenses	33	4.4%	26	4.5%

With the continued effective cost control, the distribution costs to turnover of the Group had decreased to 22.7% from 25.1% and administrative expenses to turnover had decreased to 4.4% from 4.5%, when compared to last year.

### Finance costs

Finance costs of HK\$3.2 million mainly comprised interest expenses and finance charges on bank loans. The significant decrease in finance costs was mainly attributable to the lower interest rate environment during the Period and the reduction of shareholders' loan due to capitalization of shareholders' loan in April 2004 before listing.

### Net assets value

As at 30th June, 2004, the Group's total net assets was HK\$1,585.1 million (Net deficit at 31st December, 2003: HK\$1,116.1 million). The net asset value per share was HK\$2.12 versus a net deficit per share of HK\$2.07. The increase in net asset value per share was mainly due to the profit retained for the Period, the capitalization of pre-listing shareholders' loan of an aggregate amount of HK\$885,369,040.40 owing from the Company to Real Reward by the issuance and allotment of an aggregate of 120,560,041 shares in March 2004 and the proceeds from new issue of 207,000,000 ordinary shares at HK\$8.3 per share issued to public in April 2004.

### Group's liquidity and financial resources

The Group's net increase in cash and cash equivalent grew to HK\$1,644 million during the Period versus a net decrease in cash and cash equivalent of HK\$0.03 million in the corresponding period in 2003. The increase of cash flow is mainly due to the proceeds of HK\$1,718 million from new issue in April 2004. The Group's bank balances and cash at 30th June, 2004 was HK\$1,838 million.

At 30th June, 2004, the Group's bank and other borrowings was HK\$2,051 million (31st December, 2003: HK\$3,050 million). Bank balances and cash was HK\$1,838 million (31st December, 2003: HK\$194 million) and net borrowings was HK\$213 million (31st December, 2003: HK\$2,856 million). The decreases in both of the total and net debt were mainly due to the capitalization of an aggregate amount of HK\$885,369,040.40 owing from the Company to pre-listing shareholders by the issuance and allotment of 120,560,041 shares on 26th March, 2004.

Total debt to equity ratio of 129% and net debt to equity ratio of 13.4% were expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net assets of HK\$1,585 million.

The Group's total bank and other borrowings of HK\$2,051 million as at 30th June, 2004, are repayable within 5 years and carry interest rates calculated with reference to HIBOR.

#### **Pledge of assets**

As at 30th June, 2004, the Group's investment properties and land and building with their respective book values of approximately HK\$1,870.9 million (31st December, 2003: HK\$1,886.8 million) were pledged to banks to secure general banking facilities of the Group.

## **BUSINESS REVIEW**

The Group's retail operations have been established for more than 19 years in Hong Kong. 2004 is an important year for the Group as it marked the Group's listing on the Main Board of the Stock Exchange, a milestone which recognised both the Group's standing among its customers and its financial strength.

During the six months period under review (the "Period"), we have continued to leverage on our business and revenue model and have achieved significant improvements, thus increasing both the return to our shareholders and enhancing the services provided to our customers. With the recovery of Hong Kong economy, the prospect of an end to deflation and a gradually drop in the unemployment rate, consumer confidence has substantially improved markedly, stimulating most retailing businesses, and contributing to the Group's remarkable growth during the Period.

**Sales proceeds and turnover**

During the Period, the Group recorded sales proceeds of HK\$1,651.0 million, representing an increase of 28.1%, or HK\$362.0 million, as compared to the corresponding period in 2003. The turnover of the Group, which recorded the income from the concessionaire sales rather than the sales proceeds of concessionaire counters as shown in note 3 of the consolidated financial statements, was HK\$742.3 million, representing an increase of 27.4%, or HK\$159.6 million, as compared on the same basis. As the same period in 2003 was affected by the outbreak of SARS, the growth rates for turnover and retail sales of the Period are more comparable to the corresponding result in 2002. On that basis, there was an increase of 11.7% in the turnover and a 21.2% increase in retail sales.

The average daily customer flow within the Group's Sogo store in Hong Kong ("Sogo HK") grew from 79,039 in the first half of 2003 to 86,308 for the Period, an encouraging growth rate of 9.2% when compared to the corresponding six-month period in 2003. In addition, the stay and buy ratio for the Period was around 30%, and the average sales per transaction has increased by 16%. The average transaction size reached HK\$350.

Sogo HK not only attracts local shoppers but is also a preferred shopping location for tourists. According to a survey conducted by a European investment bank in June 2004, Sogo HK is one of the three most popular shopping places for mainland tourists in Hong Kong. Sogo HK's in-house survey of its customer profile showed that approximately 75% of its customers were local customers. Of the remaining 25%, which were made up of tourists, approximately 80% were visitors from the PRC.

For the Period, Sogo HK contributed as much as 1.7% to the total figure for retail sales in Hong Kong and accounted for 17.7% of sales from all department stores in Hong Kong. The Group's performance is attributable to its aggressive marketing strategy and business development policies. During the Period, Sogo HK launched 36 special sales and promotional activities in addition to its regular promotional events in the 9th floor event hall and has provided a distinctive shopping experience to its customers.

The implementation of economy-stimulating incentives, which includes the PRC government's relaxation of control over mainland visitors to Hong Kong and the acceptance of Renminbi credit and debit card transactions, has provided additional business opportunities to the Group, enabling it to enhance its performance. The acceptance of Renminbi credit and debit card transactions by Sogo HK has also stimulated sales.



## Sales mix

The breakdown of sales proceeds and gross profit margin of the Group's four major categories of merchandise are shown below.

### *Breakdown of sales proceeds*

	<b>Six months ended 30th June, 2004</b>		Six months ended 30th June, 2003	
	<b>% of Total Sales Proceeds</b>		<b>% of Total Sales Proceeds</b>	
	<b>HK\$'mn</b>		<b>HK\$'mn</b>	
Apparel and fashion	<b>820</b>	<b>50</b>	634	49
Cosmetics and accessories	<b>466</b>	<b>28</b>	346	27
Household, toys and others	<b>207</b>	<b>12</b>	172	13
Food and confectionery	<b>158</b>	<b>10</b>	137	11

### *Breakdown of gross profit margin*

	<b>Six months ended 30th June, 2004</b>		Six months ended 30th June, 2003	
Apparel and fashion (%)		<b>25</b>		23
Cosmetics and accessories (%)		<b>23</b>		23
Household, toys and others (%)		<b>23</b>		23
Food and confectionery (%)		<b>25</b>		24

Management keeps customers' requirements and overall market trends under constant review. The management has started to review the terms of its concessionaire arrangements for the coming year, as about 75% of these arrangements are due for renewal this year. The continuous upgrading of the store environment and the introduction of new product-mix and customer services are an ongoing challenges for the management of the Group. Max & Co., Guy Laroche, Morgan, Givenchy, Just Gold & Just Diamond and Fratelli Rossetti will establish their counters in Sogo HK in the coming months, a new Japanese Ramen Shop has just opened at Supermarket in basement 2. Regular renovation works and reallocation of sales counters will also be carried out throughout the store for the rest of the year.

Sogo HK has completed the installation of outdoor mega advertising banners wall along Hennessy Road. These additional advertising banners have been well received and provide effective means of advertising space for store promotions. The Group has also installed a video wall at the road side of East Point Road and an LCD display panel at the main entrance of the Store at Hennessy Road to further provide value-added services to customers, such as updated news, weather reports and live broadcasts of store activities.

Emphasising quality customer-oriented services, the Group requires all front-line staff to attend regular training sessions to update their product knowledge, and sharpen their language skills. Furthermore, Sogo HK has also recently added an 1-day garment alteration service and was among the first retailers to accept Money Link cards to cater for the needs of PRC customers.

During the Period, the Group continued to operate outlets under different formats such as the ten-dollar shop Daiso Land, Beauté@SOGO and Nu Front. With the anticipated favorable market conditions ahead, the Group has also signed up a distribution arrangement with Haba Laboratories, Inc. in Japan for the direct trading and sales of the HABA cosmetics and health products.

## **FUTURE PROSPECTS**

The Group believes that the economy of Hong Kong has re-gained its growth momentum since the fourth quarter of 2003, as evidenced by the real GDP growth rate. With the Hong Kong economy continuing an upturn, consumers are more willing to spend, in particular amongst the Group's target middle-to-upper class customers. This trend will definitely benefit the Group's performance for the rest of the year.

Since the Group is mainly operated within its own property, it will continue to be sheltered from the potential increase of rental costs, which is expected as the retailing business sector improves.

To fulfill the Group's commitment of providing a 'one-stop' premier shopping experience and quality customer services to its customers, the Group will launch its privilege Sogo Club. Based on an evaluation of customer needs, the Group decided to renovate the 11th to 16th floors of New Wing of its store into a "privilege" club. The renovation work has already commenced and is scheduled for completion by the end of the year. The resulting 55,000 sq.ft. facility will include attractions such as a mega book club, an organic restaurant, a spa, a hair salon, a beauty salon and a cultural center. It is expected that the Sogo Club, equipped with high quality facilities and professional services, will provide a perfect environment for mental and physical relaxation and enhance the one-stop shopping experience offered to our loyal customers, with a further touch of lifestyle personal care. Operators for various services of the club have been recruited and the launching of membership to our existing customers will start soon.

## *Jiu Guang Department Store and Cityplaza in Shanghai*

To strategically expand the Group's operations to Shanghai and to take advantage of the rapid economical expansion in the PRC, the Group has agreed to acquire substantial interests in both property and retailing joint-ventures in Shanghai, Jingan District for the operation of the Jiu Guang Department Store ("Jiu Guang Store"). The whole retailing complex consists of 690,000 sq.ft. of department store space and 310,000 sq.ft. of shopping mall. It is the Group's aim to replicate the Sogo business operation model in this new Shanghai store, which is situated at a prime commercial location in the Jingan District served by two arterial subways. The Certificate of Approval for operating as a retailing department store for the Jiu Guang Store was granted by the PRC Ministry of Commerce (中國商務部) in Beijing in early June 2004. The business licence of the operation joint venture operating Jiu Guang Store was also issued by the Shanghai Administration of Industry and Commerce (上海市工商行政管理局) on 27th July, 2004. The soft-opening of the retailing area has taken place in mid June, 2004 and the pilot operation of the shopping mall within the same complex has commenced in early July 2004. Major sales and promotional activities will begin in around mid September this year. The grand openings of the Jiu Guang Store and the shopping mall are scheduled to be on 1st October, 2004. Over 470 counters of prestige international brands and famous national brands are starting up their business in Jiu Guang Store.

The Group plans to complete the acquisition during the last quarter of 2004. The management expects that the department store and the shopping mall will soon be in full operation.

## LISTING/USE OF NET PROCEEDS

On 15th April, 2004, the Company was listed on the Main Board of the Stock Exchange. An aggregate of 207,000,000 shares were issued and the Company raised net proceeds of approx. HK\$1,600 million from the IPO. The existing shareholding structure of the Company is as follows:

Shareholders	Number of Shares	Approximate % of shareholding
Real Reward Limited	540,000,000	72.29
Public shareholders	207,000,000	27.71
	<u>747,000,000</u>	<u>100.00</u>

Up to 30th June, 2004, proceeds of approx. HK\$450,000 of the said net proceeds were applied to renovation and expansion of the existing Sogo Store. Not more than HK\$500,000 out of such proceeds is anticipated to be applied for the agreed acquisition of the equity interests in the PRC property joint-venture company – 上海九百城市廣場有限公司 (Shanghai Joinbuy City Plaza Co., Ltd.) and in operation joint-venture company – 上海久光百貨有限公司 (Shanghai Ongoing Department Store Limited) for the Company's expansion in Shanghai retailing industry as per executed acquisition agreement described in the prospectus of the IPO. Another sum of around HK\$30,000,000 out of these proceeds will be used to pay up the registered capital of the operation joint-venture company. The completion of the acquisition is expected to be around the last quarter of 2004. Further announcement in this regard will be made in due course.

For the remaining net proceeds, the Group has arranged according to its treasury policy for short term interest-bearing deposits and money market instruments with financial institutions. Currently, the Group has no fixed plan for any repayment of its existing bank loans other than as required in loan documentation, so as to take advantages of the existing low interest rate scenario. The Group would from time to time evaluate the situation and its policy in maximizing its possible return to the funds.

## DIRECTORS' INTERESTS

As at 30th June, 2004, the interests of the Directors and chief executive in the shares of the Company ("Shares"), underlying shares in respect of equity derivatives and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:-

### (1) Long positions in the Shares of the Company

Name of Director	Nature of interest and capacity	Total number of Ordinary Shares	Approximate percentage of interest
Lau Luen Hung, Thomas	Corporate (Note)	540,000,000	72.29%

Note: United Goal Resources Limited ("United Goal Resources"), which has 50% interest in Real Reward Limited ("Real Reward"), is ultimately owned by Mr. Lau Luen Hung, Thomas ("Mr. Thomas Lau") and a family trust with certain family members of Mr. Lau Luen Hung, Joseph ("Mr. Joseph Lau") as eligible beneficiaries. By virtue of the SFO, Mr. Thomas Lau is deemed to be interested in 540,000,000 Shares held by Real Reward.

## (2) Interests in the shares of associated corporation

Name of director	Name of associated corporation	Nature of interest and capacity	Total number of shares held	Approximate percentage of interest
Lau Luen Hung, Thomas	Real Reward	Corporate (Note 1)	1	50%
	World First Holdings Limited	Corporate (Note 2)	2	100%
	Crystal Key Investment Limited	Corporate (Note 2)	1	100%
	Grandville Venture Corp.	Corporate (Note 2)	50,000	100%
	Global Centre Investments Limited	Corporate (Note 2)	1	100%

Note 1: United Goal Resources, which has 50% interest in Real Reward, is ultimately owned by Mr. Thomas Lau and a family trust with certain family members of Mr. Joseph Lau as eligible beneficiaries. By virtue of the SFO, Mr. Thomas Lau is deemed to be interested in 1 share in Real Reward.

Note 2: United Goal Resources, which has 50% interest in Real Reward, is ultimately owned by Mr. Thomas Lau and a family trust with certain family members of Mr. Joseph Lau as eligible beneficiaries. World First Holdings Limited, Crystal Key Investment Limited, Grandville Venture Corp. and Global Centre Investments Limited are, either directly or indirectly, wholly owned subsidiaries of Real Reward. By virtue of SFO, Mr. Thomas Lau is deemed to be interested in the shares held by Real Reward directly or indirectly in World First Holdings Limited, Crystal Key Investment Limited, Grandville Venture Corp. and Global Centre Investments Limited.

All the interests stated above represented long positions. As at 30th June, 2004, the Directors and chief executive had no short positions recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June, 2004, as far as known to the Directors, the following persons (other than the Directors or chief executive of the Company) who had 5% or more interests in the Shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

### Long positions in the Shares

Name of Shareholder	Nature of interest and capacity	Total number of shares held	Approximate percentage of interest
Real Reward	Beneficial owner	540,000,000	72.29%
United Goal Resources	Corporate (Note 1)	540,000,000	72.29%
Asia Prime Assets Limited ("Asia Prime Assets")	Corporate (Note 1)	540,000,000	72.29%
Go Create Limited ("Go Create")	Corporate (Note 2)	540,000,000	72.29%
Chow Tai Fook Enterprises Limited ("Chow Tai Fook")	Corporate (Note 2)	540,000,000	72.29%
JPMorgan Chase & Co. (formerly J.P. Morgan Chase & Co.)	Interests of controlled corporations (Note 3)	59,941,000	8.02%
J.P. Morgan Fleming Asset Management Holdings Inc.	Interests of controlled corporations (Note 3)	40,888,000	5.47%
J.P. Morgan Fleming Asset Management (Asia) Inc.	Interests of controlled corporations (Note 3)	40,888,000	5.47%
JF Asset Management Limited	Investment Manager/ Interests of controlled corporation (Note 3)	40,329,500	5.40%

Note 1: Asia Prime Assets which is wholly owned by Mr. Thomas Lau, holds more than one-third of the entire issued share capital of United Goal Resources, a 50% shareholder of Real Reward. By virtue of the SFO, Asia Prime Assets and United Goal Resources are deemed to be interested in the Shares held by Real Reward.

Note 2: Go Create, a company wholly owned by Chow Tai Fook of which family members of Dató Dr. Cheng Yu Tung have controlling interests, has 50% interest in Real Reward. By virtue of the SFO, Chow Tai Fook and Go Create are deemed to be interested in the Shares held by Real Reward.

Note 3: JF Asset Management Limited ("JF Asset") was a subsidiary of J.P. Morgan Fleming Asset Management (Asia) Inc. ("JPM Fleming Asset") and therefore the shares referred to in the interest of JF Asset were part of the same parcel of the shares referred to in the interests of JPM Fleming Asset.

JPM Fleming Asset was in turn a wholly-owned subsidiary of J.P. Morgan Fleming Asset Management Holdings Inc. ("JPM Fleming Asset Management") and therefore the shares referred to in the interest of JPM Fleming Asset were in the same parcel of the shares referred to in the interest of JPM Fleming Asset Management.

JPM Fleming Asset Management was a wholly-owned subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase") and therefore the shares referred to in the interest of JPM Fleming Asset Management were part of the same parcel of the shares referred to in the interest of JPMorgan Chase.

All the interests stated above represented long positions. As at 30th June, 2004, the substantial shareholders of the Company had no short positions recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing 27th March, 2004 pursuant to a written resolution of the sole shareholder for the purpose of providing incentives or rewards to selected full-time employees and Directors for their contribution.

Under the Scheme, the Company may grant options to selected full-time employees and Directors of the Company and its subsidiaries, to subscribe for Shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

No option has been granted under the Scheme since its adoption.

## OTHER INFORMATION

### Employees

As at 30th June, 2004, the total number of employees for the Group was about 800. Employees' cost (excluding directors' emoluments) amounted to HK\$73 million (2003: HK\$67 million). The Group ensures that the pay levels of its employees are competitive according to market trend that its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

4,500,000 shares of the Company were subscribed by the employees on a preferential basis at HK\$8.30 per share on the flotation of the Company in April this year.

In respect of the share option scheme for employees adopted by the Company on 27th March, 2004, no option was granted since its adoption.

### **Purchase, Sale or Redemption of Listed Shares of the Company**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2004.

### **Code of Best Practice and Model Code**

In the opinion of the Directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited since 15th April, 2004 (its listing date) until 30th June, 2004, except that the non-executive directors and independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement and re-election at each Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

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"). Having made specific enquiry of all Directors of the Company, the Directors have complied with the required standard set out in the Model Code since 15th April, 2004 (being the listing date of the Company) until 30th June, 2004.

### **Audit Committee**

An Audit Committee ("Committee") has been established by the Company to review and supervise the financial reporting process and internal controls procedures of the Company. The Group's interim report for the six months ended 30th June, 2004 was reviewed by the Committee and the Company's auditors. The Committee comprises the four independent non-executive directors of the Company.

## **APPRECIATION**

I would like to thank the Board, management and all 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, 16th August, 2004