



Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 08052

Half Year Report 2008



利亞零售



Member of the Li & Fung Group



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report (the “Report”), for which the Directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Convenience Retail Asia Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this Report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this Report misleading; and (3) all opinions expressed in this Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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CORPORATE INFORMATION

Executive Directors	Yeung Lap Bun, Richard (<i>Chief Executive Officer</i>) Li Kwok Ho, Bruno (<i>Chief Financial Officer</i>)
Non-executive Directors	Dr. Fung Kwok King, Victor ⁺ (<i>Chairman</i>) Dr. Fung Kwok Lun, William Godfrey Ernest Scotchbrook* Jeremy Paul Egerton Hobbins* Wong Yuk Nor, Louisa
Independent non-executive Directors	Dr. Ch'ien Kuo Fung, Raymond** Au Man Chung, Malcolm** Lo Kai Yiu, Anthony*
Group Chief Compliance Officer	Siu Kai Lau, James
Company Secretary	Li Sau Ping, Maria (ACIS)
Qualified Accountant	Hui Chi Ho, Sam (HKICPA)
Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands
Head Office and Principal Place of Business	12th Floor, LiFung Centre 2 On Ping Street Siu Lek Yuen Shatin New Territories Hong Kong
Company's Website Address	www.cr-asia.com
Legal Advisers	JSM (as to Hong Kong Law) Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)

* *Audit Committee members*

+ *Remuneration Committee members*



Auditor	PricewaterhouseCoopers <i>Certified Public Accountants</i>
Principal Share Registrar and Transfer Office	Butterfield Fund Services (Cayman) Limited P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong Share Registrar and Transfer Office	Tricor Abacus Limited 26th Floor, Tesbury Centre 28 Queen's Road East Hong Kong
Principal Banker	The Hongkong & Shanghai Banking Corporation Limited
Stock Code	08052

**HALF YEAR RESULTS
FOR THE PERIOD ENDED 30 JUNE 2008**

Three months ended 30 June		2008	2007
• Revenue	+11.5%	HK\$810,759,000	HK\$727,136,000
• Profit attributable to shareholders of the Company	+0.4%	HK\$25,623,000	HK\$25,523,000
• Earnings per share	0%	HK3.51 cents	HK3.51 cents
Six months ended 30 June		2008	2007
• Revenue	+20.1%	HK\$1,589,376,000	HK\$1,323,901,000
• Profit attributable to shareholders of the Company	+4.8%	HK\$39,320,000	HK\$37,503,000
• Earnings per share	+1.9%	HK5.39 cents	HK5.29 cents
• Interim dividend per share	0%	HK1.7 cents	HK1.7 cents

HIGHLIGHTS

- ☑ Maintained business growth despite exceptionally wet weather and huge surge in cost and operating expenses.
- ☑ Substantial food cost inflation resulted in margin squeeze in the bakery business.
- ☑ Pilot testing of Circle K franchising business model in Guangzhou well under way.
- ☑ Net cash position of HK\$427.3 million as of 30 June 2008.

NUMBER OF STORES AS OF 30 JUNE 2008

Circle K Convenience Stores	
Hong Kong	278
Guangzhou	69
Dongguan	5
Shenzhen	3
Subtotal	355
<hr/>	
Franchised Circle K Stores	
Guangzhou	3
Macau	15
Zhuhai	12
Subtotal	30
<hr/>	
Total number of Circle K Stores	385
<hr/>	
Saint Honore Group	
Hong Kong – Cake Shop	70
– Bread Boutique	11
Subtotal	81
<hr/>	
Macau – Cake Shop	7
Guangzhou – Cake Shop	14
Subtotal	21
<hr/>	
Total number of Saint Honore Stores	102
<hr/>	
Total number of Stores under Convenience Retail Asia	487
<hr style="border-top: 3px double #000;"/>	



CHAIRMAN'S STATEMENT

Financial Review

I am pleased to report the unaudited half-year results of Convenience Retail Asia Limited and its subsidiaries (the “Group”) for the period ended 30 June 2008.

During the second quarter of 2008, the Group's turnover increased by 11.5% to HK\$810.8 million compared to the same period last year. Net profit attributable to shareholders increased slightly by 0.4% to HK\$25.6 million. The decelerated growth in profitability was mainly due to food cost inflation, which placed significant pressure on the gross margin of the bakery business and the food services category of the convenience store operations. At the end of the second quarter, the Group had a net cash balance of HK\$427.3 million with no bank borrowings.


In view of the Group's profitability and cash position, the Board of Directors has resolved to pay an interim dividend of 1.7 HK cents per share.

Review of the Hong Kong Market

During the second quarter of 2008, a perceptible change in consumer sentiment was noted, resulting from the global economic slowdown, the ongoing financial market turbulence and accelerated inflation rate driven by escalating energy and commodity prices. Following an exceptional period of double-digit growth in the second half of 2007, which was more or less sustained in the first quarter of 2008, overall retail sales started to record moderated growth in May and June this year.

The unemployment rate remained stable at 3.3%¹ in April – June 2008, with underemployment rate increased slightly from 1.8% to 1.9%¹. Despite the continued buoyancy in the labour market, consumer mood was very much dampened by the inflation of prices for basic foodstuffs and energy supplies, higher rental costs and rising prices for a range of goods and services. In June 2008, the overall consumer price index rose by 6.1%² against the same period a year earlier. The average wage for all major sectors, on the other hand, rose by just 3.8%³ as measured in March 2008 against the same period a year earlier. The discrepancy between the two figures provided a strong indication that overall consumer sentiment would be affected inevitably.

1. Published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 17 July 2008.
2. Published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 21 July 2008.
3. Published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 26 June 2008.



Despite these macro-economic issues and the unusually wet and cool weather during the second quarter, the Group's Circle K operations in Hong Kong managed to sustain fairly healthy sales growth. Gross margin was placed under pressure by suppliers pushing for price increases.

To neutralise these negative impacts on margin performance, the Group focused on improving productivity and implementing cost-saving measures. These initiatives, together with ongoing marketing efforts to grow comparable store sales, complemented by market-wide price adjustments, helped to expand the total sales turnover base and maintain an acceptable net profit margin for the Circle K operation in Hong Kong.

With a year's operating experience following the integration of the Saint Honore businesses, the Group realised that food and labour costs at the manufacturing centres were key factors affecting gross margin performance. In the first half of 2008, the abrupt escalation in food and labour costs on the Chinese Mainland had an immediate impact on gross margin of the bakery business as the full cost increases was too huge to be passed on to the consumers in immediate retail price adjustments. However, the Group envisages that with a series of gradual retail price adjustments over a period of time, the negative impact on gross margin will be neutralised eventually.

Extremely tight control was exercised over expenses and overheads in the manufacturing centres in order to maintain an acceptable level of gross margin. As a result of the decline in net profit margin of the bakery business, overall growth in the profitability of the Group was adversely affected.

Review of the Retail Market on the Chinese Mainland

On the Chinese Mainland, retail sales growth continued to be robust in May with 22%⁴ year-on-year growth nationwide and 19.3%⁵ growth in Guangzhou. Momentum decelerated slightly compared with April due to a shorter labour holiday and a slight easing in inflation. Set against the same period a year ago, Guangzhou consumer price inflation eased by 1.6%⁶ to 7.5%⁶ from April to May, 2008. Price inflation of foodstuffs still stood at a high 19.5%⁶ compared to the past year, but was nonetheless 1.4%⁶ lower than in the previous month.

Together with the implementation of government regulations on minimum wage requirements, all retailers were faced with severe squeeze in net profit margin.

4. Published by National Bureau of Statistics of China on 15 June 2008.

5. Published by Statistics Bureau of Guangzhou on 30 June 2008.

6. Published by Statistics Bureau of Guangzhou on 12 June 2008.



Review of Guangzhou Operations

The Group is pleased to report the roll-out of three experimental franchising stores, which are intended to test the unique franchising model adopted in Guangzhou. This model is significantly different from other franchising models in the market. The Circle K franchising model was designed to strike a balance between the Group's need for management control of operational standards, protecting the integrity of the brand, and the flexibility required by franchisees to exercise entrepreneurial initiatives to improve productivity and profitability.

In the second quarter of 2008, eight new Circle K stores were opened in Guangzhou. All have high street or commercial centre locations with pedestrian traffic that fits the typical Circle K customer profile. The Group ended the quarter with 69 stores in Guangzhou.

The programme for opening new stores in Dongguan and Shenzhen has been put on hold in order to focus on business expansion in Guangzhou and the experimentation of the franchising model.

Since the beginning of 2008, the Guangzhou operations of the Saint Honore Cake Shop have been fully integrated into the organisation structure of the Convenience Retail Southern China management team.

Five new Saint Honore bakery stores were opened in Guangzhou. Together with the nine existing stores, a total of 14 outlets in prime retail locations means Saint Honore's market presence in Guangzhou has been greatly enhanced.

Outlook for 2008

In all the markets where the Group operates, it is anticipated that the second half of 2008 will pose more challenges for the Group's operation teams.

In Hong Kong, the perceived change in consumer sentiment has not yet been fully reflected in overall retail sales, but might become more evident. There is no sign that the food price inflation cycle will come to an end this year, nor that payroll increases will catch up with inflation.

From a global perspective, economic indicators remain volatile in the near future. Olympic events in August may stimulate consumption for a period of time, but the outlook for the retail sales trend after the Games is less optimistic.

On the Chinese Mainland, the overall economic outlook remains buoyant despite a slight drop in GDP growth in the second quarter which was reported to be 10.1%⁷. Consumer confidence will continue to be strong in Guangzhou, especially with the latest adjustment in food prices and the official effort to hold price inflation at about 7%.

7. Published by National Bureau of Statistics of China on 17 July 2008.



For the Group's convenience store and bakery operations in Hong Kong and Guangzhou, the issues of escalating operation cost and margin erosion will continue to put pressure on the overall business performance.

In order to respond to the ever-changing market dynamics, the Group has reviewed the strategic priorities for the coming six months. These are now set to be cost control, margin improvement and maintaining strong sales growth momentum in comparable stores.

The Group will also continue to rejuvenate the Saint Honore Cake Shop chain in Hong Kong with the introduction of new store designs, rationalisation of old, unprofitable stores and the opening of new stores.

The Group is constantly looking at new business opportunities on the Chinese Mainland, particularly those that are adjacent to the current business and provide strategic opportunities to augment the scale of operation and increase profit potential.

Fung Kwok King, Victor
Chairman

Hong Kong, 4 August 2008



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the three months ended 30 June 2008, the Group's turnover increased by 11.5% to HK\$810.8 million compared to the same period last year. The turnover of the convenience stores business increased by 9.9% to HK\$660.1 million compared to the same period last year. These increases were mainly attributable to the opening of new stores and to an increase in sales at comparable convenience stores (stores in existence throughout the first and second quarters of both 2007 and 2008). Sales for comparable convenience stores in Hong Kong and Southern China increased by 5.4% and 13.3% respectively against the same quarter last year. The turnover of the bakery business increased by 21.4% to HK\$163.7 million compared to the same period last year, due mainly to the opening of new stores.

Gross margin and other income (excluding interest income as a percentage of turnover) decreased to 36.8% during the second quarter of 2008, compared to 37.3% achieved in the same period last year. The decrease was caused mainly by the substantial increase in food costs, which had a negative impact on the gross margin of the bakery business.

Operating expenses were carefully controlled and decreased from 33.2% to 33% of turnover for the second quarter compared to 2007.

For the six months ended 30 June 2008 and the second quarter of 2008, the operating profit of the convenience store business increased by 19.8% and 13.7% to HK\$44.6 million and HK\$26.4 million when compared to 2007. The increase was due mainly to increases in convenience stores turnover and effective control of the operating expenses. Over the same time period, the operating profit for the bakery business decreased by 28.5% and 24% to HK\$6.3 million and HK\$6.2 million compared to 2007. This decrease was due mainly to margin squeeze caused by the substantial rise in food costs.

Compared to 2007, net profit attributable to shareholders for the six months ended 30 June 2008 and the second quarter of 2008, increased by 4.8% and 0.4% to HK\$39.3 million and HK\$25.6 million. For the six months ended 30 June 2008, basic earnings per share increased by 1.9% from 5.29 HK cents to 5.39 HK cents.

The Group had limited foreign exchange exposure in Renminbi as a result of its business operations in the Chinese Mainland. The Group continued to maintain a strong financial position with net cash of HK\$427.3 million with no bank borrowings.

The Board of Directors has resolved to declare an interim dividend of 1.7 HK cents per share.



Operation Review – Hong Kong

During the second quarter, the Group opened seven new Circle K stores in Hong Kong and maintained a moderate pace of expansion in its store network as the retail rental market continued to hold up, sustained by the double-digit increase in tourist arrivals and the steady growth in domestic consumption. The Group closed the second quarter with 278 Circle K stores in Hong Kong and has revised the target number of stores to 290 by year-end.

For the first six months of 2008, compared to the same period a year ago, convenience store comparable store sales growth was 6.3%. This was achieved despite unusually cool and wet weather in the months of May and June, which led to a slight drop in transactions per store.

Operational initiatives to reduce energy consumption were rolled out chain-wide and achieved significant savings. The introduction of interactive roster scheduling enabled the stores to maintain an optimum headcount without compromising service quality.

Mass customised store models were launched as planned, with the tactical objectives of meeting different customer needs in different neighbourhoods. Consistent efforts were devoted to updating and upgrading the stores. Store interiors were redesigned to create a modern, spacious and user-friendly shopping environment with smarter energy utilisation and smoother operation processes. Exteriors have been redesigned to make a statement about the brand and to stand out from the retail clutter.

Employees

As of 30 June 2008, the Group had a total of 6,086 employees, of whom 4,061 were based in Hong Kong and 2,025 were based in Macau, Guangzhou, Dongguan and Shenzhen. Regular part-time staff accounted for 30% of the total headcount. Total headcount of the Group includes the Saint Honore operations.

The “Speed, Tidiness and Friendliness” training programme to promote service excellence has been put to practice for the last nine years and is still going strong. In the second quarter, over 80 “Service Stars” were recruited from the frontline as role models. Over the past six years the “Service Star” leadership programme has proven to be an effective morale booster.

A new series of leadership training initiatives for Circle K frontline staff was launched. Objectives include creating a positive working environment at the stores and enabling the store managers to lead their staff to achieve outstanding performance.

For the Saint Honore operations, a training and career ladder was set up to facilitate a learning culture at the frontline and to enhance the competitiveness of the customer service standard.



Marketing and Promotion

In support of the “Always Something New” advertising platform, the Group continued its non-stop creative promotion programme in the second quarter. Initiatives included an Astro Boy premium promotion which gave away a series of colourful scotch tapes featuring a group of licensed Japanese cartoon characters.

A soccer theme EPOS lucky draw promotion was launched in June 2008 to tie in with the European Cup competition and to promote packaged drink, beer, snack and confectionery – all very much in demand for late night television viewing of the matches.

These innovative promotions were designed to enhance the shopping experience at Circle K by providing the excitement of “something new” to customers every time they visit the stores.

Category Management

Snack and confectionery registered strong category sales growth during the second quarter. The main contributor to the satisfactory sales performance was imported Japanese confectionery. The enhanced Japanese product mix was supported by prominent shelf displays and advertising communication.

During the second quarter, Hot & In food counters were introduced to another 11 Circle K stores. With a total of over 50 Hot & In counters in the Circle K chain in Hong Kong, more Circle K customers are able to enjoy over-the-counter fresh food and drink services in the stores. The introduction of a new range of high quality steamed food items greatly enhanced the competitiveness of food offerings at the Circle K stores.

On 8 May 2008, Circle K was appointed by the Disney Theme Park to be the exclusive convenience store outlet for the Park’s ticketing service. This represents a new addition to the wide range of convenient services already available at Circle K.

Supply Chain Management and Logistics

The data-processing facility and telephone system of the new call centre, launched in March 2008 to serve frontline staff and other business units, was further upgraded in the second quarter. This upgrade anticipates the ultimate integration of the internal call centre with the customer service hotline by the end of August 2008.

By the beginning of 2009, it is intended that the call centre will serve not only the Circle K operations but also the Saint Honore operations in Hong Kong, and eventually the Circle K and the Saint Honore operations in the Pearl River Delta.



A common call centre data-processing support system will provide a seamless service platform with borderless central support for the frontline. This will minimise operational issues by fostering two-way communication between the frontline and the headquarters.

Operation Review – Guangzhou

In the second quarter, the Group opened eight new Circle K stores in Guangzhou. At the close of the quarter, the Group had 77 Circle K stores in the Pearl River Delta, including Guangzhou, Dongguan and Shenzhen. To enhance overall profitability, three stores in Dongguan and two stores in Shenzhen were closed.

A significant strategic development was the conversion of three Circle K stores into franchised stores as experimental franchise prototypes. Before the end of the year, the Group expects to be able to summarise the key learning from the experiment and will proceed to prepare for a full scale launch of the franchise model.

Comparable store sales growth registered a healthy 18.2% for the first half of 2008 compared to the same period last year. The main contributors to the growth were strong category sales performance of confectionery, snacks, packaged beverages and food services.

To enhance the competitiveness of the Group's customer service standard in Guangzhou, a consulting firm was recruited to review and improve the "Mystery Shopper" programme. The programme was designed to measure the performance of the frontline staff and provide consistent tracking of customer service standards.

Improving the merchandising mix and implementing multi-tier pricing for stores in different neighbourhoods achieved a significant margin improvement for the convenience store product categories compared with last year. The Hot & In product offerings were reviewed and upgraded with the introduction of new products including meal boxes, packaged bakery products and novelty flavour cup drinks served over the counter.

In June 2008, the new government regulation banning free plastic bag was enforced. New shopping bags are being designed to comply with the regulation.

In the Group's bakery business, healthy sales growth for the Saint Honore operations was offset by the steep increase in food costs. Wheat flour, sugar and dairy products were the headline inflationary items.



Another negative variance was the increase in the labour cost of the manufacturing centre. Actions were taken immediately to review the overhead cost and to bring about drastic reductions in operation expenses.

During the first six months of 2008, the Group devoted considerable resources to upgrade the product quality and enhance the product range of the Saint Honore Cake Shop. Some very tangible incremental sales were registered with the introduction of new product lines.

Prospects

In the coming six months, uncertain prospects for the global economy and the general weakening of consumer confidence will inevitably impact on the overall retail market performance in Hong Kong.

However, both the convenience stores and the bakery chains are engaged in retailing consumer products that are basic daily necessities with low transaction value, so it is anticipated that the Group's operations will be less affected than most other retail trades. But the main challenges for the Group are to control cost, minimise margin erosion and improve profitability.

Aggressive marketing and promotion programme, together with enhanced category management, superior products and quality customer service will help to achieve the sales target set for 2008.

To improve margin and profitability, the Group has to tackle persistent, global issues such as price inflation, labour and logistics cost increases, escalating retail rental and other rising operating expenses. These issues will remain part of the operating environment in the second half of 2008.

As of 30 June 2008, there were 77 company-owned and -managed Circle K stores outside Hong Kong, together with 3 franchised stores in Guangzhou, 27 licensed stores in Macau and Zhuhai – giving a total of 107 Circle K stores outside Hong Kong. Adding these to the 278 stores in Hong Kong, the Group operates a total of 385 Circle K stores in the Pearl River Delta. Together with the Saint Honore chain, which currently has a total of 102 stores in Hong Kong, Macau and Guangzhou, the Group operates a total store network of 487 outlets as at the end of the second quarter of 2008.

Yeung Lap Bun, Richard
Chief Executive Officer

Hong Kong, 4 August 2008



CORPORATE GOVERNANCE

The Board of Directors and management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasise transparency, accountability and independence. Corporate governance practices adopted by the Company during the six months ended 30 June 2008 are in line with those practices set out in the Company's 2007 Annual Report.

The Board

The Board is composed of the non-executive Chairman, two executive Directors including the Chief Executive Officer, and seven non-executive Directors (of whom three are independent).

In order to reinforce their respective independence, accountability and responsibility, the role of the Chairman is separate from that of the Chief Executive Officer. Their respective responsibilities are clearly established and defined by the Board in writing.

The Board held three meetings to date in 2008 (with an average attendance rate of about 93%) to discuss the overall corporate strategic direction and objectives, as well as operational and financial performance of the Group.

The Board has established the Audit Committee and Remuneration Committee (all chaired by non-executive Directors) with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

The Group Chief Compliance Officer, as appointed by the Board, attends all Board and committee meetings to advise on corporate compliance matters covering risk management and compliance issues relating to mergers and acquisitions, secretarial, accounting and financial reporting.



Audit Committee

The Audit Committee was established in January 2001 to review the Group's financial reporting, internal controls, corporate governance and risk management matters and to make recommendations to the Board. The Audit Committee is chaired by an independent non-executive Director and the majority of the committee members are independent non-executive Directors. Its current members include:

Dr. Ch'ien Kuo Fung, Raymond* – *Committee Chairman*

Mr. Au Man Chung, Malcolm*

Mr. Lo Kai Yiu, Anthony*

Mr. Godfrey Ernest Scotchbrook⁺

Mr. Jeremy Paul Egerton Hobbins⁺

* *Independent non-executive Director*

⁺ *Non-executive Director*

All committee members possess appropriate professional qualifications, accounting and related financial management expertise as required under the GEM Listing Rules.

The Audit Committee met three times to date in 2008 (with an average attendance rate of about 93%) to review with senior management and the Company's internal (Corporate Governance Division ("CGD")) and external auditors the Group's significant internal control and financial matters as set out in the Audit Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, the GEM Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters.

The Audit Committee has reviewed with the management this unaudited half year report for the six months ended 30 June 2008 before recommending it to the Board for approval.

Remuneration Committee

The Remuneration Committee was established in January 2005 and is chaired by the non-executive Chairman. Its current members include:


Dr. Fung Kwok King, Victor⁺ – *Committee Chairman*

Dr. Ch'ien Kuo Fung, Raymond*

Mr. Au Man Chung, Malcolm*

⁺ *Non-executive Director*

* *Independent non-executive Director*



The Remuneration Committee is responsible for the review of the Group's remuneration and human resources policy and the approval of the remuneration policy for all executive Directors and senior management, including the allocation of share options to employees under the Company's Share Option Scheme.

The Remuneration Committee met once to date in 2008 with an attendance rate of about 67% to review the remuneration of executive Directors and fees to Directors. Written resolutions were also signed by members of the Remuneration Committee in relation to the allotment of shares upon exercise of share options by the employees.

Code of Conduct and Business Ethics

Guidelines of the Group's business ethical practices as endorsed by the Board are set out in the Company's Code of Conduct and Business Ethics. All Directors and staff are expected to share the same responsibilities to comply with the Code at all times. For ease of reference and as a constant reminder to all staff, a copy of the guidelines is posted on the Company's internal electronic bulletin board.


Directors' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation of compliance has been obtained from all Directors for the six months ended 30 June 2008. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines which are of no less exacting terms than those set out in the GEM Listing Rules. No incident of non-compliance was noted by the Company for the six months ended 30 June 2008.

Internal Control and Risk Management

The Board assumes the overall responsibility for reviewing the adequacy and effectiveness of the Group's system of internal controls and risk management through the Audit Committee. Such system aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the design, implementation and ongoing monitoring of such system of internal controls covering financial, operational and compliance controls and risk management procedures. Qualified personnel throughout the Group maintain and monitor this system of controls on an ongoing basis.

The Corporate Compliance Group (comprising CGD and Corporate Secretarial Division), under the supervision of the Group Chief Compliance Officer, in conjunction with our external advisors reviews the adherence to relevant laws and regulations, listing rules compliance, public disclosure requirements and our standards of compliance practices.



The staff of CGD (Internal Audit) independently review the controls and evaluate their adequacy, effectiveness and compliance. Summary of major findings and recommendations is reported to the Audit Committee on a quarterly basis. The implementation of all agreed recommendations is being followed up on a three-month basis.

Based on the assessments made by senior management and CGD (Internal Audit) for the six months ended 30 June 2008, the Audit Committee is satisfied that:

- the internal controls and accounting systems of the Group have been in place and functioning effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorisation and the accounts are reliable for publication.
- there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Compliance with the Code on Corporate Governance Practices of the GEM Listing Rules

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules during the six months ended 30 June 2008.

Investor Relations and Communication

The Company continues to pursue a policy of promoting investor relations and communication by conducting analysts' briefings after interim and final results announcement, conducting road shows after each quarterly results announcement, participating in investor conferences and making corporate presentations during the conferences, arranging company visits and holding regular meetings with institutional shareholders and analysts.

As a channel to further promote effective communication, the Company maintains a website (www.cr-asia.com) to disseminate announcements, shareholder information and other relevant financial and non-financial information electronically on a timely basis.

INTERESTS AND SHORT POSITIONS OF DIRECTORS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND CERTAIN MAJOR ASSOCIATED CORPORATIONS

As at 30 June 2008, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations (*Note 1*) (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

The Company

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
	(i) shares	(ii) underlying shares		
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate (<i>Note 2</i>)	51.20%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate (<i>Note 2</i>)	51.20%
Mr. Yeung Lap Bun, Richard	19,196,000	1,200,000 (<i>Note 3</i>)	Personal/ beneficiary	2.79%
Mr. Li Kwok Ho, Bruno	2,676,000	600,000 (<i>Note 4</i>)	Personal/ beneficiary	0.45%
Ms. Wong Yuk Nor, Louisa	1,588,000	600,000 (<i>Note 5</i>)	Personal/ beneficiary	0.30%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.14%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	Personal/ beneficiary	0.02%


Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of		Nature of interests/ Holding capacity	Approximate percentage of interests
			(i) shares	(ii) underlying shares		
Dr. Fung Kwok King, Victor	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate (Note 6)	100%
	LiFung Trinity Limited	Ordinary share	1	–	Corporate (Note 7)	100%
	Trinity Limited	Ordinary shares	799,673,555	–	Corporate (Note 8)	66.35%
Dr. Fung Kwok Lun, William	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate (Note 6)	100%
	LiFung Trinity Limited	Ordinary share	1	–	Corporate (Note 7)	100%
	Trinity Limited	Ordinary shares	799,673,555	–	Corporate (Note 8)	66.35%
Mr. Jeremy Paul Egerton Hobbins	Trinity Limited	Ordinary shares	4,234,500	–	Corporate (Note 9)	0.35%

Notes:

- Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited (“King Lun”) and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.56 of the GEM Listing Rules for the disclosure of Directors’ interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 16 July 2008. Accordingly, the companies under the section headed “Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations” are only the major associated corporations of the Company and are not intended to be exhaustive.

- 
2. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited (“LFR”) (a wholly owned subsidiary of Li & Fung (1937) Limited (“LF (1937)”)) held 373,692,000 shares in the Company. 50% of the issued share capital of King Lun is owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor, the remaining 50% is owned by Dr. Fung Kwok Lun, William.
 3. On 3 May 2007, Mr. Yeung Lap Bun, Richard was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 1,200,000 shares at an exercise price of HK\$3.39 per share. The options are to be vested in Mr. Yeung Lap Bun, Richard in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
 4. On 3 May 2007, Mr. Li Kwok Ho, Bruno was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK\$3.39 per share. The options are to be vested in Mr. Li Kwok Ho, Bruno in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
 5. On 3 May 2007, Ms. Wong Yuk Nor, Louisa was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK\$3.39 per share. The options are to be vested in Ms. Wong Yuk Nor, Louisa in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
 6. King Lun through its wholly owned subsidiary, LF (1937) held 13,800,000 shares in Li & Fung (Distribution) Limited. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in Note 2 above.
 7. King Lun through its indirect wholly owned subsidiary, LFR (a wholly owned subsidiary of LF (1937)) held 1 share in LiFung Trinity Limited. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in the share through their respective interests in King Lun and LF (1937) and indirect interests in LFR as set out in Note 2 above.
 8. King Lun through its indirect wholly owned subsidiary, LiFung Trinity Limited (a wholly owned subsidiary of LFR) held 799,673,555 shares in Trinity Limited. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun, LF (1937), LFR and LiFung Trinity Limited as set out in Notes 2 & 7 above.
 9. 4,234,500 shares in Trinity Limited were held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

Save as disclosed above, as at 30 June 2008, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2008, the interests and short positions of shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

Long positions in shares

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate (Note 1)	51.20%
Commonwealth Bank of Australia	59,520,000	Corporate (Note 2)	8.15%
Aberdeen Asset Management Plc and its Associates	55,916,000	Other (Note 3)	7.66%
Arisaig Greater China Fund Limited ("Arisaig China")	89,346,000	Other	12.24%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	89,346,000	Other (Note 4)	12.24%
Cooper Lindsay William Ernest ("Mr. Cooper")	89,346,000	Corporate (Note 5)	12.24%



Notes:

1. These shares were held by LFR. King Lun indirectly owns 100% interests in LFR through its wholly owned subsidiary, LF (1937). All of King Lun, LFR and LF (1937) are taken to be interested in the shares pursuant to SFO. Please refer to Note 2 in the above section headed “Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations”.
2. These shares were indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Holding Company Ltd, Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investments (UK Holdings) Ltd, SI Holdings Ltd, First State Investment Management (UK) Ltd and First State Investments International Ltd.
3. Aberdeen Asset Management Plc and its Associates (together “the Aberdeen Group”) held the shares on behalf of accounts managed by the Aberdeen Group.
4. These shares were held by Arisaig China of which Arisaig Partners is the fund manager.
5. These shares were held by Arisaig China. Arisaig Partners, which is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely Madelene Ltd. (100%), Arisaig Partners (Holdings) Ltd. (33.33%) and Arisaig Partners (BVI) Limited (100%), is the fund manager of Arisaig China.

Save as disclosed above, as at 30 June 2008, the Company had not been notified of any other shareholders’ interests or short positions which are required to be kept under section 336 of SFO.



OTHER INFORMATION

Share Options

On 6 January 2001, a share option scheme (the “Scheme”) was approved by a written resolution of the shareholders of the Company. On 24 April 2002, the Scheme was amended to comply with the changes to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001 concerning the share option schemes of listed issuers on the Stock Exchange. A summary of the major terms of the Scheme is as follows:

(i) *Purpose of the Scheme*

The purpose of the Scheme is to attract and retain the best quality employees for the development of the Company’s businesses and to provide additional incentives or rewards to selected qualifying participants of the Scheme for their contribution to the creation of the Company’s shareholders value.

(ii) *Qualifying participants*

Any employee (whether full time or part time employee including any executive or non-executive Directors of the Company or any Affiliate (the “Affiliate”) as defined in the Scheme) or any consultant, agent, advisor, business alliance, joint venture partner or supplier of goods or services to the Group or any Affiliate or any employee of the business alliance, joint venture partner or supplier of goods or services to the Group or any Affiliate.

(iii) *Maximum number of shares*

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the pre-IPO share option plan) must not in aggregate exceed 10% of the shares in issue as at the date of approval of the Scheme. The total number of shares available for issue, save for those already granted, under all the schemes is 18,832,000, representing approximately 2.58% of the issued share capital of the Company as at the date of this Report.

(iv) *Limit for each participant*

The total number of shares issued and to be issued upon exercise of the options (whether exercised or outstanding) in any 12-month period granted to each qualifying participant must not exceed 1% of the shares in issue, unless specially approved by the independent shareholders of the Company.



(v) *Option period*

In respect of any particular option, such period as the Board may in its absolute discretion determine, save that such period shall not expire less than three years nor more than ten years from the commencement date (the “Commencement Date”). The Commencement Date is deemed to have taken effect from the date on which that option was offered to the qualifying participants.

(vi) *Amount payable on application or acceptance*

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the Commencement Date. An offer of the grant of the option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the relevant option duly signed by the grantee, together with a remittance in favour of the Company of HK\$1.00 by way of consideration of the grant thereof is received by the Company.

(vii) *Subscription price*

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but it shall not be less than whichever is the highest of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the Commencement Date (ii) the average closing price of the shares for the five business days immediately preceding the Commencement Date on which there were dealings in shares on the Stock Exchange and (iii) the nominal value of a share.

(viii) *The remaining life of the Scheme*

The Board shall be entitled at any time within ten years commencing on 6 January 2001 to offer the grant of an option to any qualifying participants.

Details of the share options granted and remain outstanding as at 30 June 2008 are as follows:

(A) Continuous contract employees

Grant date	Options held at 1 January 2008	Options granted during the period	Options exercised during the period (Note 2)	Options lapsed during the period (Note 3)	Options expired during the period (Note 4)	Options held at 30 June 2008	Exercise price HK\$	Exercisable from	Exercisable until
20 May 2003	508,000	-	(508,000)	-	-	-	1.69	20 May 2004	19 May 2008
20 May 2003	308,000	-	(284,000)	-	(24,000)	-	1.69	20 May 2005	19 May 2008
30 September 2003	10,000	-	-	-	-	10,000	2.225	30 September 2004	29 September 2008
30 September 2003	54,000	-	-	-	-	54,000	2.225	30 September 2005	29 September 2008
29 March 2004	324,000	-	(10,000)	-	-	314,000	2.535	29 March 2005	28 March 2009
29 March 2004	48,000	-	-	-	-	48,000	2.535	29 March 2006	28 March 2009
6 August 2004	76,000	-	(8,000)	-	-	68,000	2.40	6 August 2005	5 August 2009
6 August 2004	290,000	-	-	-	-	290,000	2.40	6 August 2006	5 August 2009
4 May 2005	480,000	-	-	(8,000)	-	472,000	2.86	4 May 2006	3 May 2010
4 May 2005	362,000	-	-	(10,000)	-	352,000	2.86	4 May 2007	3 May 2010

(A) Continuous contract employees (*continued*)

Grant date	Options held at 1 January 2008	Options granted during the period	Options exercised during the period (Note 2)	Options lapsed during the period (Note 3)	Options expired during the period (Note 4)	Options held at 30 June 2008	Exercise price HK\$	Exercisable from	Exercisable until
14 September 2005	1,654,000	-	-	-	-	1,654,000	2.53	14 September 2006	13 September 2010
14 September 2005	140,000	-	-	-	-	140,000	2.53	14 September 2007	13 September 2010
10 March 2006	794,000	-	(26,000)	-	-	768,000	2.905	10 March 2007	9 March 2011
10 March 2006	576,000	-	-	(66,000)	-	510,000	2.905	10 March 2008	9 March 2011
29 August 2006	434,000	-	-	-	-	434,000	2.93	29 August 2007	28 August 2011
29 August 2006	180,000	-	-	(20,000)	-	160,000	2.93	29 August 2008	28 August 2011
30 March 2007	1,172,000	-	-	-	-	1,172,000	3.00	30 March 2008	29 March 2012
30 March 2007	354,000	-	-	(34,000)	-	320,000	3.00	30 March 2009	29 March 2012
3 May 2007	2,640,000	-	-	-	-	2,640,000	3.39	3 May 2009	2 May 2012
3 May 2007	2,640,000	-	-	-	-	2,640,000	3.39	3 May 2010	2 May 2013
3 May 2007	2,640,000	-	-	-	-	2,640,000	3.39	3 May 2011	2 May 2014

(A) Continuous contract employees (*continued*)

Grant date	Options held at 1 January 2008	Options granted during the period	Options exercised during the period (Note 2)	Options lapsed during the period (Note 3)	Options expired during the period (Note 4)	Options held at 30 June 2008	Exercise price HK\$	Exercisable from	Exercisable until
19 November 2007	540,000	-	-	-	-	540,000	3.46	19 November 2009	18 November 2012
19 November 2007	740,000	-	-	-	-	740,000	3.46	19 November 2010	18 November 2013
19 November 2007	740,000	-	-	-	-	740,000	3.46	19 November 2011	18 November 2014
	<u>17,704,000</u>	<u>-</u>	<u>(836,000)</u>	<u>(138,000)</u>	<u>(24,000)</u>	<u>16,706,000</u>			

(B) Directors

Grant date	Options held at 1 January 2008	Options granted during the period	Options exercised during the period	Options lapsed during the period	Options expired during the period	Options held at 30 June 2008	Exercise price HK\$	Exercisable from	Exercisable until
3 May 2007 (Note 1)	800,000	-	-	-	-	800,000	3.39	3 May 2009	2 May 2012
3 May 2007 (Note 1)	800,000	-	-	-	-	800,000	3.39	3 May 2010	2 May 2013
3 May 2007 (Note 1)	800,000	-	-	-	-	800,000	3.39	3 May 2011	2 May 2014
	<u>2,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>			



Notes:

1. Share options to subscribe for 1,200,000, 600,000 and 600,000 shares were respectively granted to the Directors, Messrs. Yeung Lap Bun, Richard and Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa. Please refer to the section headed “Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations” for details.
2. Share options to subscribe for 836,000 shares were exercised during the period. The weighted average closing market price per share immediately before the dates on which the options were exercised was HK\$2.84.
3. Share options to subscribe for 138,000 shares lapsed during the period following the cessation of employment of certain grantees.
4. Share options to subscribe for 24,000 shares expired during the period following the expiry of the options.

Save as disclosed above, as at 30 June 2008, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Scheme.



Interests in Competing Business

During the period under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Interim Dividend

At a meeting held on 4 August 2008, the Board of Directors has resolved to declare an interim dividend of 1.7 HK cents (2007: 1.7 HK cents) per share to the shareholders for the six months ended 30 June 2008.

Closure of Register of Members

The Register of Members will be closed from 25 August 2008 to 29 August 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22 August 2008. Dividend warrants will be despatched on 1 September 2008.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2008

	Note	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue	2	810,759	727,136	1,589,376	1,323,901
Cost of sales	3	(571,201)	(505,490)	(1,120,496)	(946,250)
Gross profit		239,558	221,646	468,880	377,651
Other income	2	60,640	51,212	107,661	103,340
Store expenses	3	(215,270)	(192,507)	(419,661)	(349,076)
Distribution costs	3	(20,351)	(16,604)	(40,371)	(28,237)
Administrative expenses	3	(32,001)	(32,391)	(65,651)	(57,674)
Operating profit		32,576	31,356	50,858	46,004
Finance costs	4	–	(445)	–	(745)
Profit before income tax		32,576	30,911	50,858	45,259
Income tax expenses	5	(6,953)	(6,659)	(11,538)	(10,325)
Profit for the period		25,623	24,252	39,320	34,934
Profit attributable to:					
Shareholders of the Company		25,623	25,523	39,320	37,503
Minority interests		–	(1,271)	–	(2,569)
		25,623	24,252	39,320	34,934
Dividend	6	12,409	12,384	12,409	12,384
Earnings per share for profit attributable to the shareholders of the Company					
– Basic earnings per share	7	HK3.51 cents	HK3.51 cents	HK5.39 cents	HK5.29 cents
– Diluted earnings per share	7	HK3.51 cents	HK3.50 cents	HK5.39 cents	HK5.27 cents

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2008

	<i>Note</i>	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
Non-current assets			
Fixed assets	9	246,560	241,355
Lease premium for land		176,967	180,680
Intangible assets		357,465	357,465
Available-for-sale financial assets		1,895	1,895
Rental deposits		40,537	37,244
Bank deposits		50,000	50,000
Deferred tax assets		4,805	3,613
		<hr/>	<hr/>
		878,229	872,252
		<hr/>	<hr/>
Current assets			
Inventories		104,637	110,450
Amount due from immediate holding company		888	227
Rental deposits		25,521	25,797
Trade receivables	10	29,769	30,688
Other receivables, deposits and prepayments		56,350	53,048
Taxation recoverable		685	2,091
Cash and cash equivalents		377,260	392,844
		<hr/>	<hr/>
		595,110	615,145
		<hr/>	<hr/>
Current liabilities			
Trade payables	11	446,254	455,352
Other payables and accruals		124,062	140,660
Taxation payable		20,811	10,935
Cake coupons		124,270	127,613
		<hr/>	<hr/>
		715,397	734,560
		<hr/>	<hr/>
Net current liabilities		(120,287)	(119,415)
		<hr/>	<hr/>
Total assets less current liabilities		757,942	752,837
		<hr/> <hr/>	<hr/> <hr/>



		(Unaudited)	(Audited)
		30 June	31 December
		2008	2007
	<i>Note</i>	HK\$'000	HK\$'000
Financed by:			
Share capital	12	72,992	72,907
Reserves		649,691	614,584
Proposed dividend		12,409	40,111
		<hr/>	<hr/>
Shareholders' funds		735,092	727,602
Minority interests		(8,256)	(7,954)
		<hr/>	<hr/>
		726,836	719,648
Non-current liabilities			
Long service payment liabilities		12,783	14,180
Deferred tax liabilities		18,323	19,009
		<hr/>	<hr/>
		757,942	752,837
		<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	(Unaudited)	
	Six months ended	
	30 June	
	2008	2007
	HK\$'000	HK\$'000
Net cash generated from operating activities	55,349	66,159
Net cash used in investing activities	(33,868)	(302,968)
Net cash used in financing activities	(38,661)	(24,657)
Decrease in cash and cash equivalents	(17,180)	(261,466)
Cash and cash equivalents at 1 January	392,844	514,785
Effect of foreign exchange rate changes	1,596	75
Cash and cash equivalents at 30 June	<u>377,260</u>	<u>253,394</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2008

(Unaudited)

	Attributable to shareholders of the Company							Minority	Total
	Share capital	Share premium	Merger reserve	Capital reserve	Employee share-based compensation reserve	Exchange reserve	Retained earnings	interests	equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	67,714	125,556	177,087	13,433	4,646	1,445	139,149	(8,173)	520,857
Issue of shares	451	11,853	-	-	-	-	-	-	12,304
Acquisition of subsidiaries	4,664	139,914	-	-	-	-	-	-	144,578
Employee share option benefit	-	486	-	-	868	-	-	-	1,354
Exchange differences	-	-	-	-	-	1,004	-	255	1,259
Acquisition of additional interest in subsidiary	-	-	-	-	-	-	(5,212)	5,083	(129)
Profit/(loss) for the period	-	-	-	-	-	-	37,503	(2,569)	34,934
Dividend	-	-	-	-	-	-	(36,216)	-	(36,216)
At 30 June 2007	<u>72,829</u>	<u>277,809</u>	<u>177,087</u>	<u>13,433</u>	<u>5,514</u>	<u>2,449</u>	<u>135,224</u>	<u>(5,404)</u>	<u>678,941</u>
At 1 July 2007	72,829	277,809	177,087	13,433	5,514	2,449	135,224	(5,404)	678,941
Issue of shares	78	1,784	-	-	-	-	-	-	1,862
Employee share option benefit	-	442	-	-	2,138	-	8	-	2,588
Exchange differences	-	-	-	-	-	1,827	-	202	2,029
Profit/(loss) for the period	-	-	-	-	-	-	49,364	(2,752)	46,612
Dividend	-	-	-	-	-	-	(12,384)	-	(12,384)
At 31 December 2007	<u>72,907</u>	<u>280,035</u>	<u>177,087</u>	<u>13,433</u>	<u>7,652</u>	<u>4,276</u>	<u>172,212</u>	<u>(7,954)</u>	<u>719,648</u>
At 1 January 2008	72,907	280,035	177,087	13,433	7,652	4,276	172,212	(7,954)	719,648
Issue of shares	85	1,397	-	-	-	-	-	-	1,482
Employee share option benefit	-	182	-	-	2,129	-	74	-	2,385
Exchange differences	-	-	-	-	-	4,446	-	(302)	4,144
Profit for the period	-	-	-	-	-	-	39,320	-	39,320
Dividend	-	-	-	-	-	-	(40,143)	-	(40,143)
At 30 June 2008	<u>72,992</u>	<u>281,614</u>	<u>177,087</u>	<u>13,433</u>	<u>9,781</u>	<u>8,722</u>	<u>171,463</u>	<u>(8,256)</u>	<u>726,836</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“the GEM Listing Rules”).

These condensed consolidated interim accounts should be read in conjunction with the 2007 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2007. The Group has adopted new/revised standards and interpretations of Hong Kong Financial Reporting Standards which are effective for accounting periods commencing on or after 1 January 2008. The adoption of such new/revised standards and interpretations does not have material impact on the accounts and does not result in substantial changes to the Group’s accounting policies.

2. Revenue, other income and segment information

The Group is principally engaged in the operation of a chain of convenience stores and bakeries. Revenues recognised during the three months and six months ended 30 June 2008 are as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2008 HK\$’000	2007 HK\$’000	2008 HK\$’000	2007 HK\$’000
Revenue				
Merchandise sales revenue	660,096	600,885	1,287,839	1,155,017
Bakery sales revenue	150,663	126,251	301,537	168,884
	<u>810,759</u>	<u>727,136</u>	<u>1,589,376</u>	<u>1,323,901</u>
Other income				
Supplier rebate and promotion fees	41,784	39,012	75,864	77,070
Service items and miscellaneous income	15,195	10,838	26,745	21,655
Interest income	1,459	1,362	2,850	4,615
Gain on disposal of properties	2,202	–	2,202	–
	<u>60,640</u>	<u>51,212</u>	<u>107,661</u>	<u>103,340</u>

Primary reporting format – business segments

	(Unaudited)			(Unaudited)		
	Three months ended 30 June 2008			Three months ended 30 June 2007		
	Convenience Store HK\$'000	Bakery HK\$'000	Group HK\$'000	Convenience Store HK\$'000	Bakery HK\$'000	Group HK\$'000
Total segment revenue	660,096	163,662	823,758	600,885	134,856	735,741
Inter-segment revenue	–	(12,999)	(12,999)	–	(8,605)	(8,605)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Revenue	660,096	150,663	810,759	600,885	126,251	727,136
Other income	56,941	2,240	59,181	49,529	321	49,850
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	717,037	152,903	869,940	650,414	126,572	776,986
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment results	25,474	5,643	31,117	22,055	7,939	29,994
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Interest income			1,459			1,362
Finance costs			–			(445)
			<hr/>			<hr/>
Profit before income tax			32,576			30,911
Income tax expenses			(6,953)			(6,659)
			<hr/>			<hr/>
Profit for the period			25,623			24,252
			<hr/>			<hr/>
			<hr/>			<hr/>
	(Unaudited)			(Unaudited)		
	Six months ended 30 June 2008			Six months ended 30 June 2007		
	Convenience Store HK\$'000	Bakery HK\$'000	Group HK\$'000	Convenience Store HK\$'000	Bakery HK\$'000	Group HK\$'000
Total segment revenue	1,287,839	324,733	1,612,572	1,155,017	179,662	1,334,679
Inter-segment revenue	–	(23,196)	(23,196)	–	(10,778)	(10,778)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Revenue	1,287,839	301,537	1,589,376	1,155,017	168,884	1,323,901
Other income	102,270	2,541	104,811	98,319	406	98,725
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,390,109	304,078	1,694,187	1,253,336	169,290	1,422,626
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Segment results	42,489	5,519	48,008	32,945	8,444	41,389
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Interest income			2,850			4,615
Finance costs			–			(745)
			<hr/>			<hr/>
Profit before income tax			50,858			45,259
Income tax expenses			(11,538)			(10,325)
			<hr/>			<hr/>
Profit for the period			39,320			34,934
			<hr/>			<hr/>
			<hr/>			<hr/>

Secondary reporting format – geographical segments

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue and other income				
Hong Kong and others	819,994	738,730	1,598,318	1,353,459
Chinese Mainland	52,843	39,287	101,992	70,461
	<u>872,837</u>	<u>778,017</u>	<u>1,700,310</u>	<u>1,423,920</u>
Inter-segment revenue	(2,897)	(1,031)	(6,123)	(1,294)
	<u>869,940</u>	<u>776,986</u>	<u>1,694,187</u>	<u>1,422,626</u>
Segment results				
Hong Kong and others	43,975	36,445	70,051	54,497
Chinese Mainland	(12,858)	(6,451)	(22,043)	(13,108)
	<u>31,117</u>	<u>29,994</u>	<u>48,008</u>	<u>41,389</u>

3. Expenses by nature

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Amortisation of lease premium for land	961	1,050	2,010	1,474
Depreciation of owned fixed assets	18,250	16,292	36,069	28,849
Loss on disposal of fixed assets	1,244	759	1,897	904
Other expenses	818,368	728,891	1,606,203	1,350,010
	<u>838,823</u>	<u>746,992</u>	<u>1,646,179</u>	<u>1,381,237</u>
Total cost of sales, store expenses, distribution costs and administrative expenses				

4. Finance costs

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Interest expenses on bank loans	–	445	–	745

5. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the three months and six months ended 30 June 2008. Taxation on overseas profits has been calculated on the estimated assessable profits for the three months and six months ended 30 June 2008 and 2007 at the rates prevailing in the countries in which the Group operates.

The amount of income tax expenses charged/(credited) to the consolidated profit and loss account represents:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Current income tax				
– Hong Kong profits tax	8,473	7,705	13,146	10,278
– Overseas profits tax	25	(303)	270	(360)
Deferred income tax	(1,545)	(743)	(1,878)	407
	<u>6,953</u>	<u>6,659</u>	<u>11,538</u>	<u>10,325</u>

6. Dividend

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Interim dividend – proposed after balance sheet date of 1.7 HK cents (2007: 1.7 HK cents) per share	<u>12,409</u>	<u>12,384</u>	<u>12,409</u>	<u>12,384</u>

This proposed dividend is not reflected as a dividend payable in these condensed accounts.

7. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30 June 2008 is based on the unaudited consolidated profit attributable to shareholders of the Company of HK\$25,623,000 (2007: HK\$25,523,000) and HK\$39,320,000 (2007: HK\$37,503,000) respectively.

The basic earnings per share is based on the weighted average number of 729,882,656 (2007: 726,325,206) and 729,579,006 (2007: 708,946,611) shares in issue during the three months and six months ended 30 June 2008 respectively.

The diluted earnings per share is based on 729,900,785 (2007: 729,048,906) and 729,791,660 (2007: 711,352,673) shares which is the weighted average number of 729,882,656 (2007: 726,325,206) and 729,579,006 (2007: 708,946,611) shares in issue plus the weighted average number of 18,129 (2007: 2,723,700) and 212,654 (2007: 2,406,062) shares deemed to be issued at no consideration if all outstanding options granted by the Company had been exercised during the three months and six months ended 30 June 2008 respectively.

8. Loss attributable to shareholders from convenience store operations in Chinese Mainland

Included in profit attributable to shareholders of the Company, there is a loss of HK\$20,833,000 (2007: HK\$11,284,000) from the Group's convenience store operations in Chinese Mainland.

9. Fixed assets

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
Opening net book amount	241,355	99,093
Acquisition of subsidiaries	–	140,579
Additions	40,991	64,204
Disposals	(2,022)	(2,001)
Depreciation	(36,069)	(63,202)
Exchange differences	2,305	2,682
	<hr/>	<hr/>
Closing net book amount	<u>246,560</u>	<u>241,355</u>

10. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivable on income from suppliers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 30 June 2008, the aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
0-30 days	25,595	23,434
31-60 days	1,460	3,784
61-90 days	928	1,886
Over 90 days	1,786	1,584
	<u>29,769</u>	<u>30,688</u>

11. Trade payables

At 30 June 2008, the aging analysis of the trade payables is as follows:

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
0-30 days	247,125	231,973
31-60 days	117,944	133,527
61-90 days	51,094	62,322
Over 90 days	30,091	27,530
	<u>446,254</u>	<u>455,352</u>

12. Share capital

	(Unaudited) 30 June 2008		(Audited) 31 December 2007	
	Shares of HK\$0.10 each		Shares of HK\$0.10 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
At end of the period	<u>2,000,000,000</u>	<u>200,000</u>	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid:				
At beginning of the period	729,071,974	72,907	677,142,000	67,714
Issue of shares on exercise of share options (<i>note a</i>)	844,000	85	5,292,000	529
Issue of shares for acquisition of subsidiaries	<u>–</u>	<u>–</u>	<u>46,637,974</u>	<u>4,664</u>
At end of the period	<u>729,915,974</u>	<u>72,992</u>	<u>729,071,974</u>	<u>72,907</u>

Note:

- (a) During the period, 844,000 (year ended 31 December 2007: 5,292,000) shares were allotted and issued pursuant to the exercise of share options by the employees of the Company in accordance with terms of the share option scheme.

13. Capital commitments

The Group had commitments to make payments in respect of the acquisition of fixed assets.

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
Contracted but not provided for	6,357	7,324
Authorised but not contracted for	<u>11,309</u>	<u>12,032</u>
	<u>17,666</u>	<u>19,356</u>

14. Related party transactions

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 51.2% of the Company's shares. The remaining 48.8% of the shares are widely held. The ultimate holding company of the Group is King Lun Holdings Limited (incorporated in British Virgin Islands).

The following is a summary of significant related party transactions carried out in the normal course of the Group's business during the period:

(a) Immediate holding company

(Unaudited)		
Six months ended		
30 June		
	2008	2007
<i>Note</i>	HK\$'000	HK\$'000
Management fee and reimbursement of office and administrative expenses	(i) 3,533	9,314
Rental payable	(ii) 267	373
	<u> </u>	<u> </u>

(b) Fellow subsidiaries

(Unaudited)		
Six months ended		
30 June		
	2008	2007
<i>Note</i>	HK\$'000	HK\$'000
Management fee and reimbursement of office and administrative expenses	(i) 8,130	–
Rental payable	(ii) 2,719	2,004
Net purchases	(iii) 3,885	4,205
	<u> </u>	<u> </u>

(c) Key management personnel compensation

(Unaudited)		
Six months ended		
30 June		
	2008	2007
	HK\$'000	HK\$'000
Fees	350	350
Discretionary bonuses	2,477	3,211
Salaries, share options and other allowances	5,843	6,232
Pension costs – defined contribution scheme	42	40
	<u> </u>	<u> </u>
	<u>8,712</u>	<u>9,833</u>

(d) Period-end balances with related parties

	(Unaudited) 30 June 2008 HK\$'000	(Audited) 31 December 2007 HK\$'000
Amounts due from/(to):		
– Immediate holding company	888	227
– Fellow subsidiaries	(3,479)	(2,926)
	<u> </u>	<u> </u>

The balances with the related parties are unsecured, interest free and repayable on demand.

Notes:

- (i) Management fee and reimbursements payable to the immediate holding company and fellow subsidiary in respect of office and administrative expenses incurred, including certain Directors' emolument paid by the immediate holding company and fellow subsidiary, are charged on an actual cost recovery basis.
- (ii) Rentals are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.
- (iii) Purchases from fellow subsidiaries were carried out in ordinary course of business and on terms mutually agreed between the Group and the related companies.