Convenience Retail Asia

Convenience Retail Asia Limited

利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00831

Interim Report 2011

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Member of the Li & Fung Group

Contents

Corporate Information	2
Highlights	4
Chairman's Statement	6
Management Discussion and Analysis	11
Corporate Governance	16
Other Information	21
Condensed Consolidated Profit and Loss Account	28
Condensed Consolidated Statement of Comprehensive Income	29
Condensed Consolidated Balance Sheet	30
Condensed Consolidated Statement of Changes in Equity	31
Condensed Consolidated Cash Flow Statement	32
Notes to the Condensed Consolidated Interim Financial Information	33

Corporate Information

Executive Directors	Mr. Richard YEUNG Lap Bun *(Chief Executive Officer)* Mr. PAK Chi Kin *(Chief Operating Officer)*
Non-executive Directors	Dr. Victor FUNG Kwok King+ *(Chairman)* Dr. William FUNG Kwok Lun Mr. Godfrey Ernest SCOTCHBROOK* Mr. Jeremy Paul Egerton HOBBINS*
Independent non-executive Directors	Dr. Raymond CH'IEN Kuo Fung*+ Mr. Malcolm AU Man Chung*+ Mr. Anthony LO Kai Yiu*
Group Chief Compliance Officer	Mr. James SIU Kai Lau
Company Secretary	Miss Maria LI Sau Ping
Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office and Principal Place of Business	5th Floor, LiFung Tower 888 Cheung Sha Wan Road Kowloon Hong Kong
Website	www.cr-asia.com
Legal Advisers	Mayer Brown JSM (as to Hong Kong Law) Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)

* *Audit Committee members*
\+ *Remuneration Committee members*

Auditor	PricewaterhouseCoopers *Certified Public Accountants*
Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited P.O. Box 609 Butterfield House 68 Fort Street Grand Cayman KY1-1107 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 and Shanghai Banking Corporation Limited
Stock Code	00831

Highlights

Interim Results
For the six months ended 30 June 2011

	Change	**2011** **HK$'000**	2010 HK$'000
Revenue	+14.1%	**1,886,668**	1,653,400
Financial gain on disposal of property, net of tax	N/A	**Nil**	17,981
Profit attributable to shareholders of the Company	+35.3%	**78,018**	57,683
Basic earnings per share (HK cents)	+34.9%	**10.66**	7.90
Interim dividend per share (HK cents)	+100%	**3.80**	1.90
Special dividend per share (HK cents)	N/A	**Nil**	2.40

Operation Highlights

- Successful transfer from GEM Board to Main Board on 20 June 2011
- Strong growth in profitability and comparable store sales across all operations
- Challenging outlook for the second half of 2011 due to inflationary trend and increasing rental and labour costs
- Strong cash position of HK$649.4 million without any bank borrowings as of 30 June 2011

Number of Stores as of 30 June 2011

Circle K Stores	
Hong Kong	319
Guangzhou	61
Shenzhen	1
Subtotal	**381**
Franchised Circle K Stores	
Guangzhou	6
Macau	22
Zhuhai	13
Subtotal	**41**
Total number of Circle K Stores	**422**
Saint Honore Cake Shops	
Hong Kong	88
Macau	7
Guangzhou	21
Shenzhen	1
Total number of Saint Honore Cake Shops	**117**
Total number of Stores under Convenience Retail Asia	**539**

Chairman's Statement

Financial Review

I am pleased to report the unaudited interim results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 June 2011.

During the first half of 2011, the Group's turnover increased by 14.1% to HK$1,886.7 million compared to the same period last year. Net profit attributable to shareholders increased by 35.3% to HK$78 million. As of 30 June 2011, the Group had a net cash balance of HK$649.4 million with no bank borrowings.

The Board of Directors has resolved to declare an interim dividend of 3.8 HK cents per share.

Review of the Hong Kong Market

The retail market in Hong Kong enjoyed robust sales growth in the first half of 2011 as a result of increasing tourist arrivals from the Chinese Mainland and sanguine consumer sentiment driven by overall economic growth, improved income and better job prospects.

For the first five months of 2011, total visitor arrivals from the Chinese Mainland saw significant cumulative growth of 20%[1], and this was the main factor accounting for the remarkable sales increases in categories related to tourist spending, which include miscellaneous consumer durables, electrical goods and photographic equipment, jewellery, watches and valuable gifts. Hence, for the first five months of 2011, total retail sales also increased by 23.6%[2] in value and 18.4%[2] in volume compared to a year earlier.

On the other hand, daily consumable categories such as food, alcoholic drinks and tobacco decreased by 8.7%[2] in May when compared with a year earlier, reflecting mounting pressure from inflation.

Notes:

1. *Published by the Hong Kong Tourism Board on 27 June 2011.*
2. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 4 July 2011.*

Review of the Hong Kong Operations

The Group's operations in Hong Kong achieved healthy sales growth during the period under review by leveraging buoyant consumer sentiment with aggressive marketing programmes, the introduction of new products and a continued commitment to high-quality customer service.

Circle K Hong Kong was recognised as the Service Category Leader of the Year for 2010 and twice named the Service Leader in the Convenience Store Category for the periods of November 2010 to January 2011 and March to May 2011 in the quarterly Mystery Shopper Report by the Hong Kong Retail Management Association[3]. This is a well-regarded industry award for retailers who set new benchmarks for quality customer service.

In a brand recognition survey conducted by the multinational market research company TNS and released by Campaign Asia-Pacific magazine[4], Circle K Hong Kong was voted the 10th Most Trusted Brand in Hong Kong, a big leap from the 17th position in the previous year. Circle K Hong Kong is also the only convenience store brand to be included among the top 10 brands. This marked an important milestone in the Group's persistent efforts to build the Circle K brand through continuous marketing, advertising and promotional campaigns as well as quality customer service at all the stores.

The Group launched a series of major operational and marketing initiatives for Saint Honore Cake Shop in the first six months of 2011, including the opening of a new cake shop in Langham Place, Mongkok, on 1 April. It is designed to target a younger customer group through a rejuvenated brand image and an elegant, stylish store ambience that projects an even more premium and contemporary brand appeal. New uniform designs for store staff were also introduced in January this year to achieve the same objective.

An image-building television ad campaign was launched in June featuring premium Belgium chocolate cake and positioning Saint Honore cakes as must-have items for birthday celebrations as well as the best choice for quality and taste. Celebrity artist Moses Chan, a popular television idol among the target customer group, was selected as the spokesman for the Saint Honore advertising campaign.

Review of the Retail Market on the Chinese Mainland

The Chinese Mainland enjoyed strong and steady economic growth in the first half of 2011, with GDP growth of 9.6%[5] and cumulative retail sales growth of 16.8%[5].

Inflation continued to be an ongoing issue. In June the Consumer Price Index surged to its highest level in three years at 6.4%[6]. The erratic escalation of the price of food, which climbed 14.4%[6] in June, is of particular concern to the Government due to its immediate impact on daily household expenditures and its dampening effect on general consumer confidence.

Notes:

3. *Quarterly results of the Mystery Shoppers Programme organised by the Hong Kong Retail Management Association.*
4. *Published in the July 2011 issue of Campaign Asia-Pacific magazine.*
5. *Published by the National Bureau of Statistics of China on 13 July 2011.*
6. *Published by the National Bureau of Statistics of China on 11 July 2011.*

Review of the Guangzhou Operations

The Group's operations in Guangzhou continued to make progress in improving overall productivity and profitability on a per-store basis while pressing ahead with the new store opening programme.

One of the key contributors to daily store sales and margin opportunities is Circle K Guangzhou's Hot & In food service. The Group has devoted considerable resources to expanding this category offering by developing new products in the form of innovative hot drinks, snacks and dessert items. This exclusive product range, created under the private label of Hot & In, is intended to reinforce Circle K's positioning as a daily destination for instant solutions to thirst and hunger with over-the-counter fast food and cup drinks.

Successful Transfer to the Main Board of The Stock Exchange of Hong Kong Limited

On 20 June 2011, Convenience Retail Asia Limited was officially listed on the Main Board of The Stock Exchange of Hong Kong Limited after its successful transfer from the Growth Enterprise Market.

The listing on the Main Board was intended to enhance liquidity in the Group's shares, raise the Group's corporate profile, and set the stage for our future aggressive business growth and network expansion. This major milestone is also testimony to the Group's business growth over the past 10 years.

Corporate Governance

With the Main Board listing, the Group will continue to operate with integrity as always, and with a total commitment to good corporate governance. This will be ensured by consistently exercising prudent management, constantly enhancing shareholder value and always upholding the principles of transparency, accountability and independence.

Corporate Sustainability

The Group duly recognises the risks of climate change and is committed to being an environmentally responsible corporate citizen as an essential part of its corporate culture and dedication to operational integrity.

The Group firmly believes that putting the principles of corporate sustainability into daily practices makes good business sense. Saving energy means saving costs, and being environmentally friendly is also being customer-friendly.

Since its inception two years ago, the Group's sustainability task force has made considerable progress in reducing energy and paper consumption across all operations. In 2011 we continue to roll out various sustainability initiatives that cover all aspects of our working environment through the launch of the "Green Day" programme, which aims to reduce energy consumption in air conditioning, refrigeration, signage, lighting and other execution details.

The Group participated in the annual "Earth Hour" lights-off campaign organised by the World Wide Fund for Nature (WWF) on 26 March 2011 from 8:30 pm to 9:30 pm. Over 460 Circle K stores and Saint Honore Cake Shops in Hong Kong, Guangzhou and Macau switched off their signage lighting, spotlights, air conditioning and other non-essential lighting in support of this meaningful event.

Among the Group's other achievements in corporate governance and sustainability are the Hong Kong Council of Social Service's "5 Years Plus Caring Company"[7] award for Circle K Hong Kong and the "Caring Company"[7] award for Saint Honore Cake Shop from 1 March 2011 to 29 February 2012. The criteria for these awards are "Volunteering, Giving, Caring for the Employee and Caring for the Environment"; for Circle K's 5 Years Plus Award, "Mentoring" was another consideration.

Outlook for 2011

Looking ahead to the coming six months, the Group has identified significant challenges in the markets where it operates.

First and foremost, costs shall continue to rise. Costs of operations, food and raw materials are all increasing as a result of inflation; labour is more expensive following the enforcement of the minimum wage and the keen competition for human resources that has resulted; and rentals will continue to increase due to the general retail market boom. Together, they have serious implications for the Group's profit potential, even though the forecast for comparable store sales growth may still be strong over the coming six months due to positive consumer sentiment.

In order to protect its profitability against these entrenched market dynamics, the Group will continue to implement cost-saving initiatives across all operations. Simultaneously, the Group has also focused on improving margin opportunities with quick-response category management efforts; new product introductions and service expansion in order to broaden the current customer base; building daily store sales volume and value; and improving margin performance.

The Group will remain vigilant and responsive to any new market developments in the areas of price inflation, labour cost and retail rental so that it can take prompt action to minimise the impact of cost increases and maintain competitiveness in the market.

Note:

7. Published by The Hong Kong Council of Social Service in the Caring Company Yearbook 2010/11 on 19 April 2011.

In Guangzhou, the Group anticipates that the retail market will continue to grow steadily, driven by rising disposable income and the government policy to encourage domestic consumption.

It is anticipated that the Group's convenience store and cake shop business models will provide good opportunities to help consumers maximise the lifestyle upgrade that comes with increased disposable income. In addition, the Group's trusted retail brands will help consumers achieve their aspirations for safe, reliable, high-quality products at affordable prices, as well as a clean, tidy and inviting shopping environment with quality customer service.

A strategic initiative on which the Group has placed high priority is the search for acquisition opportunities, which could improve the critical mass of the Group's operations on the Chinese Mainland. Selection criteria for such targets would be relevancy and adjacency to the Group's current business models – i.e. a small retailing footprint plus an offering of daily consumables with highly repeatable purchase potential that appeals to the emerging middle-income customer group, yet with the long-term vision to become a mass-market proposition.

Victor FUNG Kwok King
Chairman

Hong Kong, 27 July 2011

Management Discussion and Analysis

Financial Review

During the six months ended 30 June 2011, the Group's turnover increased by 14.1% to HK$1,886.7 million compared to the same period last year.

The turnover of the Circle K convenience store operation increased by 13.1% year on year to HK$1,516.6 million. This was mainly attributable to the opening of new stores and comparable convenience stores sales growth (stores in existence throughout 2010 and 2011). Comparable convenience stores sales in Hong Kong and Southern China grew by 10.6% and 14.2% respectively over the same period last year.

Turnover at the Saint Honore Cake Shop operations increased by 18.5% to HK$403.4 million compared to the first half of 2010. Comparable store sales experienced double-digit growth.

Gross margin and other income as a percentage of turnover increased to 37%, compared to 36.5% in the first half of 2010. This was mainly due to the higher gross margin achieved across all operations. The increase in tobacco duty in February 2011 also had a favourable impact on the gross margin of a certain amount of inventory that was purchased before the announcement.

Operating expenses decreased from 32.5% of turnover to 32.1% of turnover year on year due to tight operational control and a higher sales base.

In the first half of 2011, the Group recorded a net operating profit of HK$78 million, representing an increase of 96.5% over the corresponding period in 2010 before factoring in the gain on the disposal of a real estate property last year. Including this one-off gain, the Group recorded year-on-year growth in net profit attributable to shareholders of 35.3%.

For the first half of 2011, basic earnings per share increased by 96%, from 5.44 HK cents to 10.66 HK cents, before factoring in the gain on the disposal of a real estate property in 2010. Including the one-off gain, basic earnings per share rose 34.9% from 7.9 HK cents to 10.66 HK cents.

The Group continued to maintain a strong financial position with net cash of HK$649.4 million without bank borrowings. The Group's cash balances were mainly deposits in HK dollars and Renminbi with major banks in Hong Kong. Most of the Group's assets, liabilities, revenues and payments were held in either HK dollars or Renminbi. The Group had limited foreign exchange exposure in Renminbi as a result of its business operations on the Chinese Mainland. The Group is subject to interest rate risks on the interest income earned from short-term bank deposits. The Group will continue its policy of placing surplus cash in short-term HK dollar or Renminbi bank deposits in order to be prepared for funding requirements of any future acquisition projects.

In the first six months of 2011 the Group opened a total of 27 new stores and closed 16 stores, taking the total number of company managed stores to 498, an addition of 11 stores. The number of store closures was higher than the previous years due to some very aggressive demands for rental increases during lease renewal negotiations.

The Board of Directors has resolved to declare an interim dividend of 3.8 HK cents per share.

Operation Review

Circle K Hong Kong

Service Excellence

On 25 March 2011 – Circle K Hong Kong's Service Day – a new theme was introduced to take customer service training to a new level of excellence through strong emphasis on "customised service". This means customer greetings and suggestive selling become target-specific depending on factors such as the profile of the customers, the time of the day, and product availability and seasonality. In order to create a happy working environment in all the stores, the new focus for customer service training is to turn every Circle K store into a home away from home for customers and store staff.

Marketing and Promotion

In support of the "Always Something New" consumer proposition, the Group launched two premium promotions during the first half of 2011 that achieved significant incremental sales results.

The Group created a tactical category promotion to generate higher awareness of its food services and position Circle K stores as destinations for 24-hour snacking. This was supported by the microwave facilities as well as comprehensive ranges of chilled dim sum, cup noodle and steam-station products available at select stores.

In addition to employing traditional media to communicate advertising messages, the Group has also allocated considerable resources to internet and mobile marketing, in particular with the deployment of social media and a Circle K mobile site.

The Group was pleased to receive two recognitions reflecting positive market perception of the Circle K brand in Hong Kong: being included as one of the Top 10 Motivating Advertisers; and being ranked the 10^{th} Most Trusted Brand in online customer surveys conducted by TNS and published by Campaign magazine in June and July respectively.

Category Management

The Group launched an exclusive new product concept in the form of a soft-serve ice-cream sundae cup under a private label called "Creamy Cow" in the second quarter of 2011. It is designed to provide the texture and taste of soft-serve ice-cream but with a more hygienic delivery system. During the initial test market stage consumer acceptance was exceptionally positive, and the product is now being rolled out in 168 stores.

In the food service category, nonstop searching for new product ideas is critical to building incremental sales. In the past six months various new products have been introduced, such as chilled soba noodles, to enhance Circle K's food service offerings.

The Group has also strategically expanded the range of convenience services by introducing battery charging for mobile phones, Ta-Q-Bin courier service and e-voucher retailing over the past six months.

Circle K Guangzhou

The Group's operations in Guangzhou enjoyed healthy double-digit sales growth for comparable stores in the first six months of 2011. This was partly due to innovations in the food service product range, plus the launch of a VIP loyalty programme that has generated considerable repeat purchases and proven to be quite effective in expanding the loyal customer base.

Innovative hot drinks such as ginger milk tea and red bean milk tea were added to complement old favourites such as soya bean milk and corn juice. Served over the counter as exclusive private label products, the expanded range of cup drinks is designed to deliver higher gross margin than packaged drinks in other convenience store categories.

A major operational initiative being implemented in Guangzhou since the beginning of the year is the Total Service Management programme. This is based on Circle K Hong Kong's customer service training manual with a similar focus on "Speed, Tidiness and Friendliness".

Saint Honore Cake Shop

The Saint Honore Cake Shops in Hong Kong reported high single-digit comparable store sales growth for the first six months of 2011 as a result of successful premium promotions and new product introductions in the cake and bread categories. The robust performance of festive products during the Chinese New Year and Dragon Boat Festival holidays also contributed to incremental sales, thanks to the excitement generated by new offerings.

In a strategic initiative to upgrade overall product taste, quality and presentation, a new birthday cake catalogue was launched featuring more premium-quality cakes. This also provided an excellent opportunity for upward price adjustments. Tactical cake promotions were created with special themes for Valentine's Day, Mother's Day and Father's Day, and innovative presentations helped project a contemporary, trendy and tasteful image for the brand.

Erratic food costs due to inflation, together with the labour cost adjustments required by the minimum wage implementation on 1 May, posed considerable challenges to the profitability of the Saint Honore operations. However, with healthy comparable store sales growth, and higher sales and profit contributions from festive product sales, the Group is able to report a satisfactory increase in net profit for the Saint Honore operations in Hong Kong.

The Group opened the first Saint Honore Cake Shop with an onsite bakery in Huadu, Guangzhou, in May 2011, an experiment that will test the onsite bakery store model outside of Hong Kong and Macau. In the Saint Honore operations in Guangzhou, the Group launched the "Quality, Taste and Freshness" management programme as a major initiative to further upgrade overall quality standards and improve competitiveness in the market.

The Group opened its first Saint Honore Cake Shop in Shenzhen in June 2011, right next to the Jusco Department Store at Citic City Plaza. This is the first attempt to work with Jusco as a strategic partner and to gauge whether the cake shop can benefit from the department store's customer traffic.

Employees

As of 30 June 2011, the Group had a total of 6,204 employees, of whom 4,184 were based in Hong Kong and 2,020 were based in Macau, Guangzhou and Shenzhen. Regular part-time employees accounted for 34% of the Group's total headcount.

Total staff costs for the six months ended 30 June 2011 were HK$324.3 million, compared with HK$285 million for the same period last year.

The Group offers competitive remuneration packages to our employees, with discretionary bonus and share options granted to eligible individuals based on personal performance and business results.

A Circle K "Care" programme was launched at the beginning of the year that scheduled senior management visits to Circle K stores regularly to deliver personal greetings and thank the operations teams for the hard work they put in all year.

Future Prospects

Although the Group is able to report some very encouraging financial performances for the first half of 2011, external conditions make it difficult to expect that such growth momentum will continue in the second half of 2011, especially in terms of net profit performance.

For the Group's operations in Hong Kong, three major market factors are putting very real pressure on operating margins; namely, the aftermath of the minimum wage implementation, the tobacco tax increase and the continuous escalation of retail rental.

The impact of the minimum wage is not limited to one-off salary adjustments in compliance with the new regulation. The real financial repercussion for operating costs can only be measured after the annual salary review in the second half of 2011, which has to take into consideration the ripple effect of the new minimum wage benchmark, requiring a more substantial upward adjustment across the board. The new regulation has also created keener competition in the labour market, which was already being fuelled by the mini-boom of the retail sector.

The tobacco tax increase in February 2011 resulted in a drop in cigarette sales across all legitimate retail channels when smokers started to switch to the grey market for their purchases. The market shrinkage may not seem significant when measured by dollar value as a result of the unit price increase, but all cigarette retailers are suffering erosions in unit sales and profit margin. Despite a gradual recovery in cigarette sales since February this year, the Group anticipates that the worst hit to margin performance for the category will likely occur in the second half of 2011.

With the general retail market boom and rampant speculation in the retail property market, aggressive and irrational demands from landlords for rental increases have become the norm during lease renewal negotiations. This is expected to accelerate the increase in the Group's overall store rental expenditure in the coming years.

To mitigate these negative impacts on margin performance, the Group has devoted major efforts to improving overall productivity and control store expenses. The effectiveness of these efforts was duly reflected in the 0.8% decrease in store expenses to 25.7% over the past six months.

A positive note amid this challenging outlook is that consumer sentiment in markets where the Group operates seems to have remained sanguine for now, despite the inflationary trend. Therefore, the Group has good reason to believe that its continuous efforts to grow comparable stores sales stand a good chance of success in the second half of 2011.

The Group will continue to focus on marketing and brand-building initiatives that position Circle K and Saint Honore as preferred brands for consumers in the major markets in the Pearl River Delta, while actively seeking out acquisition opportunities that will help to improve the Group's position on the Chinese Mainland and expand the business to a wider consumer base.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 27 July 2011

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 2011 are in line with those practices set out in the Company's 2010 Annual Report.

The Board

The Board is currently composed of the non-executive Chairman, two executive Directors and six non-executive Directors (of whom three are independent).

In order to reinforce independence, accountability and responsibility, the roles of Chairman and Chief Executive Officer are held separately by Dr. Victor Fung Kwok King and Mr. Richard Yeung Lap Bun. Their respective responsibilities are clearly established and defined by the Board in writing.

The Board held three meetings to date in 2011 (with an average attendance rate of directors of about 86%) to discuss the overall strategies, 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 Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules") and, where appropriate, the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") subsequent to the transfer of listing of the Company's shares from GEM to the Main Board on 20 June 2011.

The Group Chief Compliance Officer, as appointed by the Board, attends all Board and committee meetings to advise on corporate governance matters covering risk management, internal controls and compliance issues relating to business operations, mergers and acquisitions, 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. Raymond CH'IEN Kuo Fung* – *Committee Chairman*
Mr. Malcolm AU Man Chung*
Mr. Anthony LO Kai Yiu*
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 Listing Rules.

The Audit Committee met three times to date in 2011 (with an average attendance rate of about 87%) to consider and review with senior management and the Company's internal (Corporate Governance Division ("CGD")) and external auditors various matters as set out in the Committee's terms of reference, which included the following:

- the audit plans, findings and reports of CGD and external auditor;

- the independence of external auditor, their related terms of engagement and fees;

- the Group's accounting principles and practices, compliance with the Listing Rules and statutory requirements, connected transactions, internal controls, risk management and financial reporting matters; and

- the adequacy of resources, qualifications and experience of the staff of the Group's accounting and financial reporting function, as well as their training programmes and budget.

The Audit Committee has reviewed with the management this unaudited interim report for the six months ended 30 June 2011 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. Victor FUNG Kwok King+ – *Committee Chairman*
Dr. Raymond CH'IEN Kuo Fung*
Mr. Malcolm AU Man Chung*

+ *Non-executive Director*
* *Independent non-executive Director*

The Remuneration Committee is responsible for reviewing the Group's remuneration and human resources policy and making recommendations to the Board on the Group's policy and structure for all remuneration of 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 2011 (with an attendance rate of about 67%) to review the fees to executive Directors.

Code of Conduct and Business Ethics

The Group places great emphasis on staff's ethical standards and integrity in all aspects of its operations. 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. The code is posted on the Company's internal electronic bulletin board for ease of reference and as a constant reminder to all staff.

Directors' and Relevant Employees' 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 and, where appropriate, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") subsequent to the transfer of listing of the Company's shares from GEM to the Main Board on 20 June 2011. Specific confirmation of compliance has been obtained from each Director for the six months ended 30 June 2011.

Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than those set out in the GEM Listing Rules and, where appropriate, the Model Code subsequent to the transfer of listing of the Company's shares. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2011.

Internal Control and Risk Management

The Board is responsible for ensuring that the Group maintains a sound and effective system of internal controls, and for reviewing the adequacy and effectiveness of such system through the Audit Committee. Such system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and that it aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Audit Committee reports to the Board on any material issues and makes relevant recommendations.

The Board has delegated to executive management the design, implementation and ongoing monitoring of the 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. Details of the Company's internal control and risk management processes are set out in the Corporate Governance Report on pages 29 to 31 of the Company's 2010 Annual Report.

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, compliance with the Listing Rules, 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. The scope of the internal audit review covers all material controls including financial, operational and compliance controls, as well as risk management policies and procedures. Summary of the scope of reviews and key recommendations is presented at the Audit Committee meetings. The implementation of all agreed recommendations is being followed up on a three-month basis and the progress of implementation is reported to the Audit Committee at each committee meeting.

Based on the assessments made by senior management and CGD (Internal Audit), the Audit Committee considered that for the six months ended 30 June 2011:

- the internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorisation and the financial statements were reliable for publication.

- there was 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

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 and, where appropriate, the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules subsequent to the transfer of listing of the Company's shares on 20 June 2011, throughout the six months ended 30 June 2011.

Investor Relations and Communication

The Group continues to pursue a policy of volunteered transparency in corporate communication and investor relations. Regular communications programmes include person-to-person analyst briefing and/or via email at results announcements, active participation in investor conferences, regular company visits and ad hoc meetings with institutional shareholders and analysts for any special announcements.

The Group also maintains a corporate website (www.cr-asia.com) as one of the channels to promote effective communication with the investors and the general public. The website is used to disseminate company announcements, shareholder information and other relevant financial and non-financial information in an electronic format on a timely basis. The website is hyperlinked to the Li & Fung Group website for investors' ease of reference and an overview of the Li & Fung Group's business activities.

Corporate Social Responsibility and Sustainability

The Group has continued its commitment to corporate social responsibility and sustainability. Considerable efforts have been dedicated to staff training, career development and staff well-being. Workplace safety and hygiene practices are reinforced in daily works via training and communication.

The Group also strives for environmental protection, energy saving, reduction in waste and carbon emission. Details of the Group's initiatives on corporate social responsibility and sustainability are set out in the Company's 2010 Annual Report.

Other Information

Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures

As at 30 June 2011, the Directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the required standard of dealing by the Directors under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange and/or the Code of Conduct for dealings in securities adopted by the Company:

Long positions in shares and underlying shares of the Company

	Number of shares					
Name of Directors	Personal interests	Family interests	Corporate/ Trust interests	Equity derivatives (share options)	Total interests	Approximate percentage of interests
Dr. Victor Fung Kwok King	–	–	337,792,000 *(Note 1)*	–	337,792,000	46.04%
Dr. William Fung Kwok Lun	–	–	337,792,000 *(Note 1)*	–	337,792,000	46.04%
Mr. Richard Yeung Lap Bun	19,196,000	–	–	3,200,000 *(Note 2)*	22,396,000	3.05%
Mr. Pak Chi Kin	800,000	–	–	2,900,000 *(Note 2)*	3,700,000	0.50%
Dr. Raymond Ch'ien Kuo Fung	1,000,000	–	–	–	1,000,000	0.13%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	–	–	180,000	0.02%

Notes:

1. King Lun Holdings Limited ("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 337,792,000 shares in the Company. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, the remaining 50% is owned by Dr. William Fung Kwok Lun.

2. These interests represented the interests in the share options (being regarded as unlisted physically settled equity derivatives) granted by the Company to these Directors as beneficial owners, the details of which are set out in the section headed "Share Options" below.

Save as disclosed above, as at 30 June 2011, none of the Directors, chief executives and their associates had any other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations. Besides, at no time during the period, the Directors and chief executives (including their spouse and children under the age of 18) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations required to be disclosed pursuant to the SFO.

Interests and Short Positions of Shareholders in the Shares and Underlying Shares

As at 30 June 2011, other than the interests of the Directors or chief executives of the Company as disclosed above, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares of the Company

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	337,792,000	Trustee *(Note 1)*	46.04%
King Lun Holdings Limited	337,792,000	Corporate interests *(Note 1)*	46.04%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	87,790,000	Other *(Note 2)*	11.96%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000	Other	12.62%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000	Other *(Note 3)*	12.62%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000	Corporate interests *(Note 4)*	12.62%

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 HSBC Trustee (C.I.) Limited, King Lun, LF (1937) and LFR are taken to be interested in the shares pursuant to the SFO. Please refer to Note 1 in the above section headed "Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures".

2. The Aberdeen Group held the shares on behalf of accounts (under discretionary or segregated mandates) managed by the Aberdeen Group.

3. These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager.

4. These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager. Arisaig Partners is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely, through Skye Partners Limited (directly owned as to 33.33% by Mr. Cooper), and in turn Skye Partners Limited wholly owns Arisaig Partners (Holdings) Ltd., which in turn wholly owns Arisaig Partners.

Save as disclosed above, as at 30 June 2011, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

Share Options

1. 2001 Share Option Scheme

On 6 January 2001, the 2001 Share Option Scheme was approved by the shareholders of the Company by way of written resolution with certain amendments subsequently adopted on 24 April 2002. On 10 May 2010, shareholders of the Company approved at the annual general meeting the termination of the 2001 Share Option Scheme, pursuant to which, no further options will be granted under the 2001 Share Option Scheme but in all other respects the provisions of the 2001 Share Option Scheme shall remain in full force and effect. All options granted prior to the termination of the 2001 Share Option Scheme and not then exercised shall remain valid.

2. 2010 Share Option Scheme

On 10 May 2010, the 2010 Share Option Scheme was approved by the shareholders at the annual general meeting of the Company in view of the termination of the 2001 Share Option Scheme.

Details of the movement of share options under the abovementioned Share Option Schemes during the six months ended 30 June 2011 were as follows:

(a) Continuous contract employees

Number of share options									
As at 1 January 2011	Granted *(Note 1)*	Exercised *(Note 2)*	Lapsed *(Note 3)*	Expired *(Note 4)*	As at 30 June 2011	Exercise price HK$	Grant date	Exercisable from	Exercisable until
672,000	–	–	–	(672,000)	–	2.905	10 March 2006	10 March 2007	9 March 2011
364,000	–	(66,000)	–	(298,000)	–	2.905	10 March 2006	10 March 2008	9 March 2011
332,000	–	(60,000)	(6,000)	–	266,000	2.93	29 August 2006	29 August 2007	28 August 2011
112,000	–	(72,000)	(34,000)	–	6,000	2.93	29 August 2006	29 August 2008	28 August 2011
1,076,000	–	(328,000)	(18,000)	–	730,000	3.00	30 March 2007	30 March 2008	29 March 2012
248,000	–	(66,000)	–	–	182,000	3.00	30 March 2007	30 March 2009	29 March 2012
2,260,000	–	(320,000)	(80,000)	–	1,860,000	3.39	3 May 2007	3 May 2009	2 May 2012
2,260,000	–	(240,000)	(80,000)	–	1,940,000	3.39	3 May 2007	3 May 2010	2 May 2013
2,260,000	–	(140,000)	(80,000)	–	2,040,000	3.39	3 May 2007	3 May 2011	2 May 2014
458,000	–	(16,000)	(14,000)	–	428,000	3.46	19 November 2007	19 November 2009	18 November 2012
640,000	–	(20,000)	(20,000)	–	600,000	3.46	19 November 2007	19 November 2010	18 November 2013
620,000	–	–	–	–	620,000	3.46	19 November 2007	19 November 2011	18 November 2014
740,000	–	(440,000)	–	–	300,000	2.04	21 December 2009	21 December 2010	20 December 2014
120,000	–	–	(20,000)	–	100,000	2.04	21 December 2009	21 December 2011	20 December 2014
–	14,950,000	–	–	–	14,950,000	3.22	10 March 2011	1 April 2014	31 March 2017
12,162,000	14,950,000	(1,768,000)	(352,000)	(970,000)	24,022,000				

(b) Directors

	Number of share options									
	As at 1 January 2011	**Granted** *(Note 1)*	**Exercised** *(Note 2)*	**Lapsed**	**Expired**	**As at 30 June 2011**	**Exercise price** HK$	**Grant date**	**Exercisable from**	**Exercisable until**
Mr. Richard Yeung Lap Bun	400,000	–	–	–	–	400,000	3.39	3 May 2007	3 May 2009	2 May 2012
	400,000	–	–	–	–	400,000	3.39	3 May 2007	3 May 2010	2 May 2013
	400,000	–	–	–	–	400,000	3.39	3 May 2007	3 May 2011	2 May 2014
	–	2,000,000	–	–	–	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
Mr. Pak Chi Kin	300,000	–	–	–	–	300,000	3.39	3 May 2007	3 May 2009	2 May 2012
	300,000	–	–	–	–	300,000	3.39	3 May 2007	3 May 2010	2 May 2013
	300,000	–	–	–	–	300,000	3.39	3 May 2007	3 May 2011	2 May 2014
	–	2,000,000	–	–	–	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
Ms. Louisa Wong Yuk Nor *(Note 5)*	200,000	–	(200,000)	–	–	–	3.39	3 May 2007	3 May 2009	2 May 2012
	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2010	2 May 2013
	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2011	2 May 2014
	–	375,000	–	–	–	375,000	3.22	10 March 2011	1 April 2014	31 March 2017
	2,700,000	4,375,000	(200,000)	–	–	6,875,000				

Notes:

1. During the period, share options to subscribe for a total of 19,325,000 shares were granted on 10 March 2011. The closing price of the shares immediately before the date on which the options were granted was HK$3.02.

2. Share options to subscribe for 1,968,000 shares were exercised during the period. The weighted average closing price per share immediately before the dates on which the options were exercised was approximately HK$3.63.

3. Share options to subscribe for 352,000 shares lapsed during the period following the cessation of employment of certain grantees.

4. Share options to subscribe for 970,000 shares expired during the period following the expiry of the options.

5. Ms. Louisa Wong Yuk Nor retired as Director of the Company with effect from 5 May 2011 and continues to be a qualifying participant under the Share Option Schemes.

6. The value of the options granted during the period is HK$11,475,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$3.22 at the grant date, exercise price shown above, standard deviation of expected share price returns of 29%, expected life of options of five years, expected dividend paid out rate of 3.9% and annual risk-free interest rate of 2.2%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Save as disclosed above, as at 30 June 2011, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates have been granted any other share options.

Changes in Directors' Information

Below are the changes of Directors' information since the 2010 Annual Report required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange:

Name of Directors	Changes
Dr. Victor Fung Kwok King	appointed as independent non-executive director of Koç Holding A.S., a company listed in Turkey, on 7 April 2011
	resigned as director of Integrated Distribution Services Group Limited (a former listed company) on 6 April 2011
Dr. William Fung Kwok Lun	became Executive Deputy Chairman of Li & Fung Limited, a company whose shares are listed on the Stock Exchange, on 18 May 2011
	resigned as director of Integrated Distribution Services Group Limited (a former listed company) on 6 April 2011
Mr. Jeremy Paul Egerton Hobbins	retired as director of Trinity Limited, a company whose shares are listed on the Stock Exchange, on 1 June 2011
	resigned as director of Integrated Distribution Services Group Limited (a former listed company) on 6 April 2011

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

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

Interim Dividend

The Board of Directors has resolved to declare an interim dividend for the six months ended 30 June 2011 of 3.8 HK cents (2010: 1.9 HK cents) per share to the shareholders of the Company.

Closure of Register of Members

The Register of Members of the Company will be closed from 15 August 2011 to 17 August 2011, 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 share registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 12 August 2011. Dividend warrants will be despatched on 19 August 2011.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2011

	Note	(Unaudited) Six months ended 30 June **2011** **HK$'000**	2010 HK$'000
Revenue	*3*	**1,886,668**	1,653,400
Cost of sales	*4*	**(1,227,386)**	(1,088,439)
Gross profit		**659,282**	564,961
Other income	*3*	**39,531**	37,756
Other gain, net	*5*	**4,364**	16,748
Store expenses	*4*	**(485,513)**	(438,615)
Distribution costs	*4*	**(44,775)**	(40,213)
Administrative expenses	*4*	**(80,294)**	(74,710)
Operating profit		**92,595**	65,927
Interest income	*6*	**3,432**	2,872
Profit before income tax		**96,027**	68,799
Income tax expenses	*7*	**(18,009)**	(11,116)
Profit attributable to shareholders of the Company		**78,018**	57,683
Earnings per share			
Basic (HK cents)	*8*	**10.66**	7.90
Diluted (HK cents)	*8*	**10.65**	7.90
Dividends	*9*	**27,874**	31,386

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Profit attributable to shareholders of the Company	**78,018**	57,683
Other comprehensive income for the period, net of tax		
Exchange differences	**71**	194
Total comprehensive income attributable to shareholders of the Company	**78,089**	57,877

Condensed Consolidated Balance Sheet

As at 30 June 2011

	Note	(Unaudited) 30 June 2011 HK$'000	(Audited) 31 December 2010 HK$'000
Non-current assets			
Fixed assets	*10*	**306,354**	309,196
Lease premium for land		**32,662**	33,098
Intangible assets		**357,465**	357,465
Available-for-sale financial asset		**1,895**	1,895
Rental and other long-term deposits		**55,711**	47,878
Bank deposits		**98,083**	97,729
Deferred tax assets		**9,267**	9,449
		861,437	856,710
Current assets			
Inventories		**154,804**	147,281
Rental deposits		**34,074**	34,654
Trade receivables	*11*	**32,762**	34,170
Other receivables, deposits and prepayments		**69,353**	62,050
Bank deposits		**161,256**	70,000
Cash and cash equivalents		**390,026**	454,227
		842,275	802,382
Current liabilities			
Trade payables	*12*	**479,678**	468,255
Other payables and accruals		**166,894**	177,438
Taxation payable		**24,876**	8,612
Cake coupons		**126,788**	123,810
		798,236	778,115
Net current assets		**44,039**	24,267
Total assets less current liabilities		**905,476**	880,977
Financed by:			
Share capital	*13*	**73,354**	73,157
Reserves		**771,591**	714,275
Proposed dividend		**27,874**	62,197
Shareholders' funds		**872,819**	849,629
Non-current liabilities			
Long service payment liabilities		**21,398**	20,397
Deferred tax liabilities		**11,259**	10,951
		905,476	880,977

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	(Unaudited) Attributable to shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total equity HK$'000
At 1 January 2011	**73,157**	**286,940**	**177,087**	**13,433**	**12,894**	**9,065**	**277,053**	**849,629**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**78,018**	**78,018**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**71**	**–**	**71**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**71**	**78,018**	**78,089**
Issue of new shares	**197**	**5,637**	**–**	**–**	**–**	**–**	**–**	**5,834**
Employee share option benefit	**–**	**1,529**	**–**	**–**	**(1,056)**	**–**	**1,044**	**1,517**
Dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(62,250)**	**(62,250)**
	197	**7,166**	**–**	**–**	**(1,056)**	**–**	**(61,206)**	**(54,899)**
At 30 June 2011	**73,354**	**294,106**	**177,087**	**13,433**	**11,838**	**9,136**	**293,865**	**872,819**
At 1 January 2010	72,992	281,614	177,087	13,433	13,761	8,662	214,457	782,006
Profit attributable to shareholders of the Company	–	–	–	–	–	–	57,683	57,683
Exchange differences	–	–	–	–	–	194	–	194
Total comprehensive income for the period	–	–	–	–	–	194	57,683	57,877
Employee share option benefit	–	–	–	–	45	–	1,072	1,117
Dividend	–	–	–	–	–	–	(43,795)	(43,795)
	–	–	–	–	45	–	(42,723)	(42,678)
At 30 June 2010	72,992	281,614	177,087	13,433	13,806	8,856	229,417	797,205

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2011

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Net cash generated from operating activities	**104,912**	76,043
Net cash (used in)/generated from investing activities	**(115,085)**	17,527
Net cash used in financing activities	**(56,416)**	(43,795)
(Decrease)/increase in cash and cash equivalents	**(66,589)**	49,775
Cash and cash equivalents at 1 January	**454,227**	365,888
Effect of foreign exchange rate changes	**2,388**	446
Cash and cash equivalents at 30 June	**390,026**	416,109

Notes to the Condensed Consolidated Interim Financial Information

1. General information

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Dealings in the shares on the Main Board commenced on 20 June 2011 pursuant to the approval granted by the Stock Exchange for the transfer of listing of the shares from the Growth Enterprise Market to the Main Board of the Stock Exchange.

2. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial information has been 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 Main Board of the Stock Exchange.

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 27 July 2011.

This condensed consolidated interim financial information should be read in conjunction with the 2010 consolidated financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the consolidated financial statements for the year ended 31 December 2010.

The Group has adopted new and amended standards and interpretations of Hong Kong Financial Reporting Standards which are mandatory for the accounting periods beginning on or after 1 January 2011 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated interim financial information and does not result in substantial changes to the Group's accounting policies.

3. Revenue, other income and segment information

The Group is principally engaged in the operation of chains of convenience stores and bakeries. Revenues recognised during the six months ended 30 June 2011 are as follows:

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**1,516,636**	1,341,475
Bakery sales revenue	**370,032**	311,925
	1,886,668	1,653,400
Other income		
Service items and miscellaneous income	**39,531**	37,756

Segment information

Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The management considers the business from both a product and geographic perspective. From a product perspective, management assesses the performance of convenience store and bakery business. For convenience store segment, revenues are mainly derived from a broad range of merchandise sales. For bakery segment, revenues are mainly comprised of bakery and festival products. Geographically, the management considers the performance of retailing business in Hong Kong and others, and the Chinese Mainland.

The segment information provided to the management for the reportable segments for the six months ended 30 June 2011 is as follows:

	(Unaudited) Six months ended 30 June 2011				
	Convenience Store		Bakery		
	HK & Others HK$'000	Chinese Mainland HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	Group HK$'000
Total segment revenue	1,455,039	61,602	390,792	24,994	1,932,427
Inter-segment revenue	(5)	–	(45,263)	(491)	(45,759)
Revenue from external customers	1,455,034	61,602	345,529	24,503	1,886,668
Total segment other income	38,001	1,145	1,455	76	40,677
Inter-segment other income	–	(13)	(1,133)	–	(1,146)
Other income	38,001	1,132	322	76	39,531
	1,493,035	62,734	345,851	24,579	1,926,199
Profit/(loss) after tax	76,607	(10,267)	12,024	(346)	78,018
Profit/(loss) after tax includes:					
Depreciation	(12,923)	(3,820)	(12,902)	(902)	(30,547)
Amortisation	–	(258)	(292)	–	(550)
Interest income	3,098	28	211	95	3,432
Income tax expenses	(14,795)	–	(3,130)	(84)	(18,009)

	(Unaudited) Six months ended 30 June 2010				
	Convenience Store		Bakery		
	HK & Others HK$'000	Chinese Mainland HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	Group HK$'000
Total segment revenue	1,287,477	54,000	330,694	18,299	1,690,470
Inter-segment revenue	(2)	–	(36,884)	(184)	(37,070)
Revenue from external customers	1,287,475	54,000	293,810	18,115	1,653,400
Total segment other income	36,839	518	1,530	57	38,944
Inter-segment other income	–	(59)	(1,129)	–	(1,188)
Other income	36,839	459	401	57	37,756
	1,324,314	54,459	294,211	18,172	1,691,156
Profit/(loss) after tax	47,979	(13,461)	22,936	229	57,683
Profit/(loss) after tax includes:					
Depreciation	(14,556)	(3,858)	(15,403)	(879)	(34,696)
Amortisation	–	(244)	(292)	–	(536)
Interest income	2,694	21	134	23	2,872
Income tax expenses	(10,344)	–	(697)	(75)	(11,116)

Revenue between segments is carried out at arm's length. The revenue from external parties is derived from numerous external customers and the revenue reported to the management is measured in a manner consistent with that of the condensed consolidated profit and loss account. The management assesses the performance of the operating segments based on a measure of profit after tax.

The segment assets and liabilities as at 30 June 2011 and 31 December 2010 are as follows:

	(Unaudited) As at 30 June 2011				
	Convenience Store		**Bakery**		
	HK & Others HK$'000	**Chinese Mainland HK$'000**	**HK & Others HK$'000**	**Chinese Mainland HK$'000**	**Group HK$'000**
Total segment assets	**482,629**	**86,439**	**720,027**	**24,388**	**1,313,483**
Total segment assets include:					
Additions to segment non-current assets	**18,431**	**5,711**	**9,761**	**2,500**	**36,403**
Total segment liabilities	**530,035**	**29,521**	**228,820**	**6,382**	**794,758**

	(Audited) As at 31 December 2010				
	Convenience Store		Bakery		
	HK & Others HK$'000	Chinese Mainland HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	Group HK$'000
Total segment assets	434,647	60,570	703,897	21,887	1,221,001
Total segment assets include:					
Additions to segment non-current assets	54,731	5,775	21,425	914	82,845
Total segment liabilities	531,748	27,273	225,106	5,773	789,900

The amounts provided to the management with respect to total assets and total liabilities are measured in a manner consistent with that of the condensed consolidated balance sheet. These assets and liabilities are allocated based on the operations of the segment.

Reportable segment assets are reconciled to total assets as follows:

	(Unaudited) **30 June** **2011** **HK$'000**	(Audited) 31 December 2010 HK$'000
Segment assets for reportable segments	**1,313,483**	1,221,001
Unallocated:		
Deferred tax assets	**9,267**	9,449
Corporate bank deposits	**380,962**	428,642
Total assets per condensed consolidated balance sheet	**1,703,712**	1,659,092

Reportable segment liabilities are reconciled to total liabilities as follows:

	(Unaudited) **30 June** **2011** **HK$'000**	(Audited) 31 December 2010 HK$'000
Segment liabilities for reportable segments	**794,758**	789,900
Unallocated:		
Deferred tax liabilities	**11,259**	10,951
Taxation payable	**24,876**	8,612
Total liabilities per condensed consolidated balance sheet	**830,893**	809,463

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$1,761,318,000 (2010: HK$1,549,584,000) and the total of revenue from external customers from other countries is HK$125,350,000 (2010: HK$103,816,000) for the six months ended 30 June 2011.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK$679,652,000 (as at 31 December 2010: HK$680,660,000) and the total of these non-current assets located in other countries is HK$72,540,000 (as at 31 December 2010: HK$66,977,000) as at 30 June 2011.

4. Expenses by nature

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Amortisation of lease premium for land	**550**	536
Depreciation of owned fixed assets	**30,547**	34,696
Other expenses	**1,806,871**	1,606,745
Total cost of sales, store expenses, distribution costs and administrative expenses	**1,837,968**	1,641,977

5. Other gain, net

Other gain, net represents the net gain or loss on disposal of fixed assets and exchange gain or loss. For the six months ended 30 June 2010, other gain, net mainly included gain on disposal of a real estate property amounting to HK$17,633,000.

6. Interest income

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Interest income on bank deposits	**3,432**	2,872

7. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2011 and 2010. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2011 and 2010 at the rates prevailing in the countries in which the Group operates.

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

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**15,994**	12,528
Overseas profits tax	**1,502**	733
Deferred income tax	**513**	(2,145)
	18,009	11,116

8. Earnings per share

The calculation of the Group's basic and diluted earnings per share is based on the unaudited profit attributable to shareholders of the Company for the corresponding periods.

The basic earnings per share is based on the weighted average number of ordinary shares in issue during the corresponding periods.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options as dilutive potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Profit attributable to shareholders of the Company	**78,018**	57,683
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**732,187,698**	729,915,974
Adjustment for:		
Share options	**399,052**	–
Weighted average number of ordinary shares for diluted earnings per share	**732,586,750**	729,915,974

9. Dividends

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	HK$'000
Interim dividend, proposed of 3.8 HK cents (2010: 1.9 HK cents) per share	**27,874**	13,868
Special dividend, proposed of nil (2010: 2.4 HK cents) per share	**–**	17,518
	27,874	31,386

These proposed dividends have not been reflected as a dividend payable in the condensed consolidated balance sheet.

10. Fixed assets

	(Unaudited) 30 June 2011	(Unaudited) 30 June 2010
	HK$'000	HK$'000
Opening net book amount	**309,196**	300,717
Additions	**28,495**	21,874
Disposals	**(1,060)**	(1,020)
Depreciation	**(30,547)**	(34,696)
Exchange differences	**270**	190
Closing net book amount	**306,354**	287,065

11. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables 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 2011, the aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2011 HK$'000	(Audited) 31 December 2010 HK$'000
0-30 days	**27,476**	28,265
31-60 days	**1,862**	2,624
61-90 days	**840**	1,514
Over 90 days	**2,584**	1,767
	32,762	34,170

12. Trade payables

At 30 June 2011, the aging analysis of the trade payables is as follows:

	(Unaudited) 30 June 2011 HK$'000	(Audited) 31 December 2010 HK$'000
0-30 days	**271,884**	246,858
31-60 days	**117,195**	127,358
61-90 days	**48,998**	46,912
Over 90 days	**41,601**	47,127
	479,678	468,255

13. Share capital

	(Unaudited) 30 June 2011 Shares of HK$0.10 each		(Audited) 31 December 2010 Shares of HK$0.10 each	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
At end of the period	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
At beginning of the period	**731,567,974**	**73,157**	729,915,974	72,992
Issue of shares on exercise of share options *(note)*	**1,968,000**	**197**	1,652,000	165
At end of the period	**733,535,974**	**73,354**	731,567,974	73,157

Note:

During the period, 1,968,000 (year ended 31 December 2010: 1,652,000) shares were allotted and issued pursuant to the exercise of share options by the qualifying participants of the Company.

14. Capital commitments

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

	(Unaudited) 30 June 2011 HK$'000	(Audited) 31 December 2010 HK$'000
Contracted but not provided for	**4,984**	6,995
Authorised but not contracted for	**3,239**	2,320
	8,223	9,315

15. Related party transactions

All of the related party transactions of the Company were entered into with companies controlled by or related to Li & Fung (Retailing) Limited, a substantial shareholder of the Company which owns 46% of the Company's shares.

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

(a) Fellow subsidiaries

		(Unaudited) Six months ended 30 June	
	Note	**2011 HK$'000**	2010 HK$'000
Income			
Service income and reimbursement of office and administrative expenses	*(i)*	**3,486**	3,315
Expenses			
Reimbursement of office and administrative expenses	*(ii)*	**1,157**	982
Rental payable	*(iii)*	**4,154**	3,787
Net purchases	*(iv)*	**7,095**	5,093

(b) Key management personnel compensation

	(Unaudited) Six months ended 30 June	
	2011 HK$'000	2010 HK$'000
Fees	**802**	525
Discretionary bonuses	**5,688**	4,125
Salaries, share options and other allowances	**5,940**	5,891
Pension costs – defined contribution scheme	**30**	36
	12,460	10,577

(c) Period-end balances with related parties

	(Unaudited) 30 June 2011 HK$'000	(Audited) 31 December 2010 HK$'000
Amounts due from fellow subsidiaries	**649**	347
Amounts due to fellow subsidiaries	**(3,403)**	(4,909)

The balances with the related parties included in other receivables, trade payables and other payables are unsecured, interest free and repayable on demand.

Notes:

(i) Service income and reimbursements receivable from fellow subsidiaries in respect of office and administrative expenses incurred are charged on an actual cost recovery basis and in accordance with the terms of agreements.

(ii) Reimbursements payable to fellow subsidiaries in respect of office and administrative expenses incurred, are charged on an actual cost recovery basis.

(iii) Rentals are payable to fellow subsidiaries in accordance with the terms of agreements.

(iv) Purchases from fellow subsidiaries were carried out in ordinary course of business and on terms mutually agreed between the Group and fellow subsidiaries.