



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 2010



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 Stock 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 the information contained in this Report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Report misleading.

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Corporate Information

Executive Director	Mr. Richard YEUNG Lap Bun (<i>Chief Executive Officer</i>)
Non-executive Directors	Dr. Victor FUNG Kwok King ⁺ (<i>Chairman</i>) Dr. William FUNG Kwok Lun Mr. Godfrey Ernest SCOTCHBROOK* Mr. Jeremy Paul Egerton HOBBS* Ms. Louisa WONG Yuk Nor
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 <i>Certified Public Accountants</i>
Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited P.O. Box 705 Butterfield House 68 Fort Street George Town 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 & Shanghai Banking Corporation Limited
Stock Code	08052

Highlights

Half Year Results For the period ended 30 June 2010

Three months ended 30 June	Change	2010 HK\$'000	2009 HK\$'000
Revenue	+2.9%	838,564	815,262
Profit attributable to shareholders of the Company	+9.1%	23,859	21,871
Basic earnings per share (HK cents)	+9.0%	3.27	3.00
Six months ended 30 June	Change	2010 HK\$'000	2009 HK\$'000
Revenue	+2.3%	1,653,400	1,616,766
Financial gain on disposal of property	N/A	17,981	Nil
Profit attributable to shareholders of the Company	+61.3%	57,683	35,772
Basic earnings per share (HK cents)	+61.2%	7.90	4.90
Interim dividend per share (HK cents)	+11.8%	1.90	1.70
Special dividend per share (HK cents)	N/A	2.40	Nil

Operation Highlights

- Satisfactory growth in turnover and profitability in the second quarter
- Number of stores increased by six to 501 during the quarter
- Saint Honore operations reported healthy growth but margins affected by higher material prices in the second quarter
- Strong cash position of HK\$565.5 million without any bank borrowings as of 30 June 2010
- Due to the one-off financial gain generated by the disposal of an old manufacturing centre in Hong Kong in the first quarter, the Board resolved to pay a special dividend of 2.4 HK cents per share in addition to the interim dividend of 1.9 HK cents per share

Number of Stores as of 30 June 2010

Circle K Stores

Hong Kong	308
Guangzhou	54
Shenzhen	1

Subtotal	363
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Franchised Circle K Stores

Guangzhou	4
Macau	20
Zhuhai	12

Subtotal	36
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Total number of Circle K Stores	399
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Saint Honore Cake Shops

Hong Kong	83
Macau	7
Guangzhou	12

Total number of Saint Honore Cake Shops	102
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Total number of Stores under Convenience Retail Asia	501
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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 2010.

During the second quarter of 2010, the Group's turnover increased by 2.9% to HK\$838.6 million compared to the same period last year. Net profit attributable to shareholders increased by 9.1% to HK\$23.9 million.

At the end of the second quarter of 2010, the Group had a net cash balance of HK\$565.5 million with no bank borrowings.

The Board of Directors has resolved to declare an interim dividend of 1.9 HK cents per share. Due to the one-off financial gain generated by the disposal of an old manufacturing centre in Hong Kong in the first quarter, the Board has further resolved to pay a special dividend of 2.4 HK cents per share.

Review of the Hong Kong Market

In the second quarter of 2010 overall economic performance in Hong Kong remained largely positive despite increasing uncertainties in the external environment triggered by the sovereign debt crisis in the Eurozone.

Retail sales continued to register strong growth in May with a 19.7%¹ increase in value and 16.2%¹ increase in volume compared with a year earlier. This was partly due to a rapid rebound in inbound tourism which reported a record year-on-year growth of 38.9%² on visitors' arrival in May due to the significant growth across all market sectors including short haul and long haul, as well as a 46.8%² increase in visitors from the Chinese Mainland as a result of the implementation of the multiple entry permits for Shenzhen residents.

The outstanding increase in visitor arrivals and retail sales growth in May could also be explained by the low base of comparison last year due to the swine flu outbreak in May 2009. However, with a total of 15.2%¹ volume growth in retail sales for the first five months taken together, there is every indication of a buoyant consumer sentiment.

However, it is noteworthy that retail sales volume started to dip slightly in recent months after consecutive monthly increases since mid-2009, suggesting that fluctuations in the local asset market together with uncertainties in the fragile global economic recovery may start to have some negative impact on consumer sentiment.

Notes:

¹ Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 2 July 2010.

² Published by the Hong Kong Tourism Board on 18 June 2010.

Review of the Hong Kong Operations

Despite some challenging market factors such as the plastic bag environmental levy, which continued to affect transaction count and basket size at convenience stores, the Group was able to report healthy sales growth in the second quarter due to effective consumer promotions and an increase in the number of stores as compared to the same period last year.

Television coverage of the World Cup, which started in mid-June, generated increased demand for take home consumption of packaged drinks, beer, snacks and confectionery, helping to boost sales of these core convenience store categories toward the end of the quarter, supported by aggressive category advertising and thematic promotion.

The Group's Saint Honore Cake Shop operations in Hong Kong also reported healthy growth in the second quarter. Incremental sales were driven by a series of quality improvement programmes and successful sales results of rice dumplings during the Dragon Boat Festival. Product innovation in the form of a new range of premium quality pound cakes also succeeded in enhancing the overall brand image of Saint Honore.

Review of the Retail Market on the Chinese Mainland

In the second quarter of 2010, the economic growth of the Chinese Mainland continued its momentum, reporting a GDP growth of 10.3%³ while for the first six months of 2010, reported GDP growth was 11.1%³. The Consumer Price Index was kept within a single digit of 3.1%⁴ increase for the month of May 2010, whilst food costs registered a higher 6.1%⁴ increase which exerted some pressure on the Group's raw material expenses.

A positive Consumer Confidence Index of 108.0⁵ was duly reflected in the overall retail sales growth of 18.7%⁶ year-on-year and an accumulated growth of 18.2%⁶ for the first five months of 2010. This was an anticipated outcome in the wake of a series of government measures to encourage domestic consumption.

The emerging middle class, with a rapidly rising disposable household income in the urban areas, have become the engine of the fast expanding consumption of food and drinks, apparel and fashion accessories, electronic appliances and digital equipment.

Notes:

3 Published by the National Bureau of Statistics of China on 15 July 2010.

4 Published by the National Bureau of Statistics of China on 28 June 2010.

5 Published by the National Bureau of Statistics of China on 12 July 2010.

6 Published by the National Bureau of Statistics of China on 28 June 2010.

Review of the Guangzhou Operations

After implementing key initiatives in category management by enhancing “Hot & In” food service offerings and customising store models to fit consumer demand in different neighbourhoods, comparable store sales of the Guangzhou operations started to report a positive turnaround with 1.5% growth in the second quarter. With the commencement of summer and hotter weather, the upward trend of daily store sales appears to be gathering steady momentum.

The discontinuance of the cigarette category continued to affect the overall sales and profit performance of the Guangzhou operations together with the loss of other incomes generated by the cigarette category. Timely restructuring of the support function at the end of 2009 enabled the Group to achieve substantial savings in administrative and operational overheads.

Riding on buoyant consumer sentiment, the Saint Honore Cake Shop operations in Guangzhou registered healthy comparable store sales growth. A continuous effort to upgrade product quality and enhance product range contributed to the satisfactory sales performance.

Corporate Governance

The Group has continued to operate with integrity through its expressed commitment to good corporate governance; by consistently exercising prudent management, constantly enhancing shareholder value and always upholding principles of transparency, accountability and independence.

Corporate Sustainability

The Group fully recognises the risks posed by climate change and is committed to be environmentally responsible as a corporate citizen.

More importantly, the Group believes that sustainable operations make good business sense. Not only is it conducive to cost saving, but through implementation of the sustainability initiatives we are able to build a strong link with our customers and the communities in which we operate, who are becoming more and more environmentally conscious.

Hence, being environmentally responsible has become an important pillar of the Group’s corporate culture and is an essential part of the Group’s upheld principle of operating with integrity.

Since 7 July 2009, when the Government of the Hong Kong Special Administrative Region implemented a new policy of imposing an environmental levy for plastic bags, the Circle K convenience store chain in Hong Kong has operated in full compliance at the frontline, being among the first to register for the scheme. The success of the scheme's implementation was clearly indicated by the significantly reduced number of plastic bags being handed out with the levy.

In addition to full compliance with the new legislation, the Group went one step further to embrace the spirit of environmental protection and rolled out energy saving and waste reduction initiatives in all aspects of the Group's operations, resulting in an effective reduction of carbon footprint as well as energy consumption in the past twelve months.

Outlook for 2010

In the coming six months, local consumer demand in Hong Kong and to a lesser extent on the Chinese Mainland will be subject to uncertainties against the backdrop of a prevailing but fragile global recovery.

The evolving sovereign debt crisis in Europe and the possibility of a second dip in the United States economy could become cause for serious concern and will have an inevitable dampening effect on market sentiment should the global economic situation actually deteriorate.

The Group will continue to execute operational initiatives which were well defined at the beginning of the year with the set objectives of increasing shareholder value through maximising turnover sales growth, increasing store productivity and optimising of margin opportunities.

In conclusion, the Board would like to take this opportunity to express its sincere appreciation for the dedication and commitment shown by the management and staff in maintaining a satisfactory business performance despite the challenging market environment.

Victor FUNG Kwok King

Chairman

Hong Kong, 2 August 2010

Management Discussion and Analysis

Financial Review

During the three months ended 30 June 2010, the Group's turnover increased by 2.9% to HK\$838.6 million compared to the same period last year.

The turnover of Circle K convenience stores operation increased by 1.9% to HK\$682.3 million compared to the same period last year. Such increase was mainly attributable to the opening of new stores and increase in comparable convenience stores sales (stores in existence throughout 2009 and 2010). Comparable convenience stores sales in Hong Kong and Southern China increased by 0.8% and 1.5% (after adjusting for a difference in tax treatments on certain sales category in Southern China) respectively over the same period last year.

The turnover of Saint Honore cake and bakery operation increased by 6.1% to HK\$170.3 million compared to the same period last year. Comparable store sales for the cake and bakery operation experienced a single digit increase when compared to the same period last year.

Gross margin and other income as a percentage of turnover increased to 37.1% during the second quarter of 2010, compared to 36.7% achieved in the same period last year.

Store expenses as a percentage of turnover increased from 26.5% to 26.7% for the second quarter when compared with 2009. The increase was mainly due to increased rental expenses and advertising and promotional expenses.

Distribution costs as a percentage of turnover decreased from 2.5% to 2.4% for the second quarter when compared with 2009.

Administrative expenses as a percentage of turnover increased from 4.2% to 4.6% for the second quarter when compared with 2009. The increase was mainly due to higher staff cost and result of one-off expenses incurred for various projects.

Compared to 2009, net profit attributable to shareholders, before the gain on the disposal of a real estate property in the first quarter of 2010, for the six months ended 30 June 2010 and the second quarter of 2010 increased by 11% and 9.1% to HK\$39.7 million and HK\$23.9 million. Including the one-off gain, the Group recorded a net profit attributable to shareholders of HK\$57.7 million during the six months ended 30 June 2010, representing an increase of 61.3% over the same period last year.

For the six months ended 30 June 2010, before the gain on the disposal of a real estate property in the first quarter of 2010, basic earnings per share increased by 11% from 4.9 HK cents to 5.44 HK cents. Including the one-off gain, basic earnings per share increased by 61.2% from 4.9 HK cents to 7.9 HK cents.

The Group continued to maintain a strong financial position with net cash of HK\$565.5 million without bank borrowings. The Group's cash balances were mainly deposits in HK dollars 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 dollars or Renminbi bank deposits in order to be prepared for funding requirements of any future acquisition projects.

The Board of Directors has resolved to declare an interim dividend of 1.9 HK cents per share. Due to the one-off financial gain generated by the disposal of an old manufacturing centre in Hong Kong in the first quarter, the Board has further resolved to pay a special dividend of 2.4 HK cents per share.

Operation Review – Hong Kong

In the second quarter of 2010, the Group opened seven new stores and closed two stores, taking the total number of Circle K stores in Hong Kong to 308, an addition of 16 stores when compared to the same period in 2009.

Employees

As of 30 June 2010, the Group had a total of 5,791 employees, of whom 3,812 were based in Hong Kong and 1,979 were based in Macau, Guangzhou and Shenzhen. Regular part-time staff accounted for 34% of the Group's total headcount.

Total staff costs for the six months ended 30 June 2010 were HK\$285 million compared with HK\$277 million for the same period last year.

The Group offers competitive remuneration schemes to staff, with discretionary bonus and share options granted to eligible staff based on individual and company performance.

Service Excellence

People development has always been an important element of the Group's service excellence initiative. A leadership training programme "CARE for your staff, be a Credible Leader" was created for the Circle K store managers in the first six months of 2010.

In order to groom and retain the selected frontline talents, another newly designed "Second Tier Development Programme" was introduced. Target participants were the potential store supervisors. The main objective was to enhance their retail operation knowledge, coaching ability and service skills.

The Circle K operations in Hong Kong was the Service Category Leader – Convenience Stores Category of the Mystery Shoppers Programme organised by the Hong Kong Retail Management Association in March 2010 – May 2010, a timely recognition of the high standard of service excellence offered by the frontline staff.

Circle K Hong Kong also won the Silver and Copper Prize of the inaugural Hong Kong Coffee Making Competition organised by the Association of Coffee and Tea of Hong Kong. It was an unexpected honour – one that totally changed the general perception of coffee connoisseurs who normally would not expect to be served quality coffee at a convenience store outlet.

Marketing and Promotion

With a proprietary promotion mechanic under the theme of "OK Fun", a Winnie-the-Pooh plush premium promotion was launched in the second quarter. The promotion proved to be quite effective in inducing regular Circle K customers to increase their purchases to over \$20 per transaction, which would then entitle them to a "Fun" stamp.

The promotion not only succeeded in generating considerable incremental sales but also became a hot topic in the social media by generating a lot of online discussion and dialogue among Circle K customers on the promotion theme of Winnie-the-Pooh as a travel mate.

To promote sales during the World Cup event, an electronic lucky draw promotion was launched and customers were pleasantly surprised with the instant win prizes of the draw.

Category Management

During the second quarter of 2010, an important initiative undertaken by the category management team was the enhancement of the meal solution offering to position Circle K as the destination for take away lunch. The launch of a range of gourmet sandwiches was very popular with customers. New microwavable pasta dishes were also introduced to add variety to the meal boxes available in the chilled open case.

The scope of convenience services offered by Circle K was further expanded with new service introductions such as the sale of Turbo Jet tickets, retailing of Octopus card accessories and pre-ordering of festive items including red wine, flowers and health care products for Mother's Day proving popular.

A thematic "World Mug" promotion was launched at the start of the televised World Cup soccer events using giant-sized beer mugs as the key prizes for an instant electronic lucky draw. Supported by the very hot weather during the promotion period, packaged drink categories, ice cream and snack food categories enjoyed significant incremental sales.

Supply Chain Management and Logistics

The Group undertook a major project of removing the distribution centre from Shatin to a new location in Kowloon Bay in the second quarter. It was an effort to maximise operation efficiency and reduce logistic costs for the Circle K operations in Hong Kong.

To further improve operation efficiency and achieve higher accuracy in goods receiving at the frontline, a WiFi-based handheld terminal device was introduced and pilot-tested, targeting for a full scale chain-wide launch of the Phase One implementation by the end of 2010.

Operation Review – Guangzhou

Encouraged by the favourable profit performance of the franchised stores in Guangzhou, the Group continued to roll out the experiment of converting self owned stores into franchised stores during the second quarter.

Another experiment being conducted at the frontline was a mini-store model which was customised as a kiosk at the lobby of office buildings, offering food services, packaged drinks, snack and confectionery as the core product categories. After the launch of a couple of mini-stores a financial analysis will be conducted to determine the feasibility of adopting such a store model.

Over the years the operation team in Guangzhou has consistently worked at reducing the capital expenditure for new store openings. With its cumulative learning, the Group is able to open new stores in Guangzhou with a drastically reduced capital expenditure.

The Saint Honore Operations in Hong Kong

The key initiatives of the Saint Honore Cake Shop operations in Hong Kong in the past six months were to enhance the brand image and customer loyalty with the continuous upgrade of product quality and expansion of the product range.

A new set of packaging design for cake boxes and shopping bags was introduced in the second quarter to project a contemporary, elegant and vibrant image for the Saint Honore brand.

A loyalty programme in the form of a VIP discount card was launched at the frontline which enlisted a significant number of loyal customer members. Through social media marketing, a Saint Honore affinity Facebook group was formed which provided an online platform for the communication of new product information as well as promotion mechanics.

Riding on the success of the Belgium 55° and 75° chocolate cakes, the “Belgium Banana Chocolate Cake” was introduced in the second quarter as a line extension and quickly became the best selling birthday cake. New varieties of oriental buns were also launched with notable sales success as well as margin improvement.

A main driver of the Saint Honore’s comparable store sales growth in the past six months was the continual use of innovative promotions, such as the Rilakuma Happy Cups and Happy Plates free premium giveaways. These promotions created additional value and motivated consumers to make purchases.

In order to improve operational efficiency, an auto-forecasting model was introduced to facilitate product ordering at the frontline and ensure accuracy in sales projection. An electronic attendance and roster system was installed to manage human resource allocation and maximise store productivity.

Future Prospects

In Hong Kong, as long as the strong trend in the growth of inbound tourism continues, it will render support for the retail business growth. However, it is also generally anticipated that the high double digit retail sales growth registered in the first five months of 2010 may not be sustainable in the coming months as a result of the uncertainties in the Eurozone and the global economic environment, as well as the renewed increase in unemployment rate locally, from 4.4%¹ in February-April 2010 to 4.6%¹ in March-May 2010.

In view of these market uncertainties, the Group will maintain a conservative projection in the overall business performance for the operations in Hong Kong.

Note:

¹ Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 17 June 2010.

However, the potential pressure for an increase in rental and labour costs in both Hong Kong and the Chinese Mainland operations might pose a serious threat to the Group's operating margin. Another cost component facing a possible inflationary challenge would be the food costs which have always been a major cost of good sold in some of the Group's operations, particularly as raw material cost for the Saint Honore Cake Shop and the food services of Circle K.

In order to neutralise these negative impacts on margin, the Group will undertake initiatives to review the pricing and operation cost structure in both markets and implement rational pricing adjustments for the right products at the appropriate time and circumstances.

Richard YEUNG Lap Bun

Chief Executive Officer

Hong Kong, 2 August 2010

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 2010 are in line with those practices set out in the Company's 2009 Annual Report.

The Board

The Board is composed of the non-executive Chairman, one executive Director (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 2010 (with an average attendance rate of directors of about 89%) 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 GEM Listing Rules.

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 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 HOBBS⁺

* *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 2010 (with an average attendance rate of 80%) 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 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, listing rules and statutory compliance, connected transactions, internal controls, risk management and financial reporting matters. The Committee's review also considers the adequacy of resources, qualifications and experience of the staff of the Group's accounting and financial reporting function, and their training programmes and budget.

The Audit Committee has reviewed with the management this unaudited half year report for the six months ended 30 June 2010 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'EN 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 2010 (with an attendance rate of about 67%) to review the fees to 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. 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 2010. 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 2010.

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 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 26 to 27 of the Company's 2009 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 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 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), the Audit Committee considered that for the six months ended 30 June 2010:

- 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 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 throughout the six months ended 30 June 2010.

Investor Relations and Communication

The Company continues to pursue a policy of promoting investor relations and communication by conducting analyst briefing via email at each 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.

Other Information

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 2010, 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 shares			Number of underlying shares (share options)	Total interests	Approximate percentage of interests
	Personal interests	Family interests	Corporate/ Trust interests			
Dr. Victor Fung Kwok King	-	-	373,692,000 <i>(Note 2)</i>	-	373,692,000	51.19%
Dr. William Fung Kwok Lun	-	-	373,692,000 <i>(Note 2)</i>	-	373,692,000	51.19%
Mr. Richard Yeung Lap Bun	19,196,000	-	-	1,200,000 <i>(Note 3)</i>	20,396,000	2.79%
Ms. Louisa Wong Yuk Nor	1,588,000	-	-	600,000 <i>(Note 4)</i>	2,188,000	0.30%
Dr. Raymond Ch'ien Kuo Fung	1,000,000	-	-	-	1,000,000	0.14%
Mr. Jeremy Paul Egerton Hobbins	180,000	-	-	-	180,000	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. Victor Fung Kwok King	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	(Note 5)	100%
	LiFung Trinity Limited	Ordinary share	1	–	(Note 6)	100%
Dr. William Fung Kwok Lun	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate interests (Note 5)	100%
	LiFung Trinity Limited	Ordinary share	1	–	Corporate interests (Note 6)	100%

Notes:

- Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun 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 of 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 13 July 2010. Accordingly, the companies under this 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.
- 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 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.
- On 3 May 2007, Mr. Richard Yeung Lap Bun was granted share options pursuant to the 2001 Share Option Scheme (as defined in the section headed “Share Options” below) 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. Richard Yeung Lap Bun in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Upon confirmation of vesting, the options in relation to the performance year 2007 and 2008 became exercisable during the period from 3 May 2009 to 2 May 2012 and from 3 May 2010 to 2 May 2013 respectively. The remaining options in relation to the performance year 2009 would be exercisable during the period of 3 May 2011 to 2 May 2014.
- On 3 May 2007, Ms. Louisa Wong Yuk Nor was granted share options pursuant to the 2001 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. Louisa Wong Yuk Nor in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Upon confirmation of vesting, the options in relation to the performance year 2007 and 2008 became exercisable during the period from 3 May 2009 to 2 May 2012 and from 3 May 2010 to 2 May 2013 respectively. The remaining options in relation to the performance year 2009 would be exercisable during the period of 3 May 2011 to 2 May 2014.

5. King Lun through its wholly owned subsidiary, LF (1937) held 13,800,000 shares in Li & Fung (Distribution) Limited. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun 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.
6. King Lun through its indirect wholly owned subsidiary, LFR (a wholly owned subsidiary of LF (1937)) held 1 share in LiFung Trinity Limited. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun 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.

Save as disclosed above, as at 30 June 2010, 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 2010, 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
HSBC Trustee (C.I.) Limited	373,692,000	Trustee (Note 1)	51.19%
King Lun Holdings Limited	373,692,000	Corporate interests (Note 1)	51.19%
Commonwealth Bank of Australia	50,574,000	Corporate interests (Note 2)	6.93%
Aberdeen Asset Management Plc and its associates	59,314,000	Other (Note 3)	8.12%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000	Other	12.68%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000	Other (Note 4)	12.68%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000	Corporate interests (Note 5)	12.68%

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 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.
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 Asia of which Arisaig Partners is the fund manager.
5. 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 2010, the Company had not been notified of any other shareholders' interests or short positions as recorded in the register required to be kept under section 336 of SFO.

Share Options

1. 2001 Share Option Scheme

On 6 January 2001, a share option scheme (the "2001 Share Option Scheme") was approved by a written resolution of the shareholders of the Company 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. 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.

Details of the movement of share options granted under the 2001 Share Option Scheme during the six months ended 30 June 2010 are as follows:

(a) *Continuous contract employees*

As at 1 January 2010	Number of share options				As at 30 June 2010	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)					
418,000	-	-	-	(418,000)	-	2.86	4 May 2005	4 May 2006	3 May 2010
332,000	-	-	-	(332,000)	-	2.86	4 May 2005	4 May 2007	3 May 2010
1,588,000	-	-	-	-	1,588,000	2.53	14 September 2005	14 September 2006	13 September 2010
140,000	-	-	-	-	140,000	2.53	14 September 2005	14 September 2007	13 September 2010
756,000	-	-	-	-	756,000	2.905	10 March 2006	10 March 2007	9 March 2011
450,000	-	-	(76,000)	-	374,000	2.905	10 March 2006	10 March 2008	9 March 2011
374,000	-	-	-	-	374,000	2.93	29 August 2006	29 August 2007	28 August 2011
126,000	-	-	(14,000)	-	112,000	2.93	29 August 2006	29 August 2008	28 August 2011
1,104,000	-	-	-	-	1,104,000	3.00	30 March 2007	30 March 2008	29 March 2012
310,000	-	-	(52,000)	-	258,000	3.00	30 March 2007	30 March 2009	29 March 2012
2,720,000	-	-	(80,000)	-	2,640,000	3.39	3 May 2007	3 May 2009	2 May 2012
2,680,000	-	-	(40,000)	-	2,640,000	3.39	3 May 2007	3 May 2010	2 May 2013
2,680,000	-	-	(120,000)	-	2,560,000	3.39	3 May 2007	3 May 2011	2 May 2014

Number of share options									
As at 1 January 2010	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)	As at 30 June 2010	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
508,000	-	-	(50,000)	-	458,000	3.46	19 November 2007	19 November 2009	18 November 2012
700,000	-	-	(60,000)	-	640,000	3.46	19 November 2007	19 November 2010	18 November 2013
700,000	-	-	(60,000)	-	640,000	3.46	19 November 2007	19 November 2011	18 November 2014
740,000	-	-	-	-	740,000	2.04	21 December 2009	21 December 2010	20 December 2014
180,000	-	-	(60,000)	-	120,000	2.04	21 December 2009	21 December 2011	20 December 2014
16,506,000	-	-	(612,000)	(750,000)	15,144,000				

(b) *Directors*

Number of share options										
	As at 1 January 2010	Granted	Exercised	Lapsed	Expired	As at 30 June 2010	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
Ms. Louisa Wong Yuk Nor	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
	1,800,000	-	-	-	-	1,800,000				

Notes:

1. No share option was granted during the period.
2. No share option was exercised during the period.
3. Share options to subscribe for 612,000 shares lapsed during the period following the cessation of employment of certain grantees.
4. Share options to subscribe for 750,000 shares expired during the period following the expiry of the options.

2. 2010 Share Option Scheme

On 10 May 2010, shareholders of the Company approved at the annual general meeting a new share option scheme (the "2010 Share Option Scheme") in view of the forthcoming expiring of the 2001 Share Option Scheme. No share options were granted, exercised, lapsed or cancelled during the period under the 2010 Share Option Scheme.

Save as disclosed above, as at 30 June 2010, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted any other share options.

Directors' Interest 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.

Changes in Directors' Information

Below are the changes of Directors' information since the 2009 Annual Report required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules:

Dr. Victor Fung Kwok King, Chairman of the Company, retired as an independent non-executive director of CapitaLand Limited of Singapore in April 2010. In public service, Dr. Fung became Honorary Chairman of the International Chamber of Commerce in July 2010 following two years as its Chairman. He was also awarded the Grand Bauhinia Medal by the Hong Kong Government in 2010.

Dr. William Fung Kwok Lun, a non-executive Director of the Company, retired as a non-executive director of HSBC Holdings plc of United Kingdom in May 2010.

Dr. Raymond Ch'ien Kuo Fung, an independent non-executive Director of the Company, was appointed as an independent non-executive director of China Resources Power Holdings Company Limited, a company listed in Hong Kong, in April 2010.

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

The Board of Directors has resolved to declare an interim dividend of 1.9 HK cents (2009: 1.7 HK cents) per share to the shareholders for the six months ended 30 June 2010.

Special Dividend

Due to the one-off financial gain generated by the disposal of an old manufacturing centre in Hong Kong in the first quarter, the Board of Directors has further resolved to pay a special dividend of 2.4 HK cents per share to the shareholders of the Company.

Closure of Register of Members

The Register of Members will be closed from 23 August 2010 to 27 August 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 20 August 2010. Dividend warrants will be despatched on 31 August 2010.

Condensed Consolidated Profit and Loss Account

For the three months and six months ended 30 June 2010

	Note	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2010	2009	2010	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2	838,564	815,262	1,653,400	1,616,766
Cost of sales	3	(547,119)	(532,968)	(1,088,439)	(1,059,563)
Gross profit		291,445	282,294	564,961	557,203
Other income	2	19,631	16,739	37,756	33,362
Other gain/(loss), net	4	(415)	(1,239)	16,748	(3,654)
Store expenses	3	(223,711)	(216,376)	(438,615)	(433,009)
Distribution costs	3	(20,515)	(20,508)	(40,213)	(40,739)
Administrative expenses	3	(37,925)	(33,670)	(74,710)	(67,574)
Operating profit		28,510	27,240	65,927	45,589
Interest income	5	1,514	628	2,872	1,359
Profit before income tax		30,024	27,868	68,799	46,948
Income tax expenses	6	(6,165)	(5,997)	(11,116)	(11,176)
Profit attributable to shareholders of the Company		23,859	21,871	57,683	35,772
Earnings per share					
Basic (HK cents)	7	3.27	3.00	7.90	4.90
Diluted (HK cents)	7	3.27	3.00	7.90	4.90
Dividends	8	31,386	12,409	31,386	12,409

Condensed Consolidated Statement of Comprehensive Income

For the three months and six months ended 30 June 2010

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to shareholders of the Company	23,859	21,871	57,683	35,772
Other comprehensive income/(loss) for the period, net of tax				
Exchange differences	124	42	194	(38)
Total comprehensive income attributable to shareholders of the Company	23,983	21,913	57,877	35,734

Condensed Consolidated Balance Sheet

As at 30 June 2010

	<i>Note</i>	(Unaudited) 30 June 2010 HK\$'000	(Restated) 31 December 2009 HK\$'000
Non-current assets			
Fixed assets	9	287,065	300,717
Lease premium for land		33,479	32,517
Intangible assets		357,465	357,465
Available-for-sale financial asset		1,895	1,895
Rental and other long-term deposits		51,750	43,597
Bank deposits		149,400	149,400
Deferred tax assets		11,193	9,754
		892,247	895,345
Current assets			
Inventories		124,194	127,920
Rental deposits		26,909	28,178
Trade receivables	10	32,627	29,531
Other receivables, deposits and prepayments		55,765	56,153
Taxation recoverable		382	1,039
Asset held for sale		–	20,537
Cash and cash equivalents		416,109	365,888
		655,986	629,246
Current liabilities			
Trade payables	11	445,022	432,696
Other payables and accruals		132,051	143,194
Taxation payable		21,239	9,585
Cake coupons		120,218	124,228
		718,530	709,703
Net current liabilities		(62,544)	(80,457)
Total assets less current liabilities		829,703	814,888
Financed by:			
Share capital	12	72,992	72,992
Reserves		692,827	665,219
Proposed dividends		31,386	43,795
Total equity		797,205	782,006
Non-current liabilities			
Long service payment liabilities		21,377	20,993
Deferred tax liabilities		11,121	11,889
		829,703	814,888

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	(Unaudited)								Minority interests HK\$'000	Total equity HK\$'000
	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			
At 1 January 2009	72,992	281,614	177,087	13,433	11,729	8,678	200,801	(8,256)	758,078	
Profit attributable to shareholders of the Company	-	-	-	-	-	-	35,772	-	35,772	
Exchange differences	-	-	-	-	-	(38)	-	-	(38)	
Total comprehensive income for the period	-	-	-	-	-	(38)	35,772	-	35,734	
Employee share option benefit	-	-	-	-	1,158	-	640	-	1,798	
Dividend	-	-	-	-	-	-	(40,145)	-	(40,145)	
	-	-	-	-	1,158	-	(39,505)	-	(38,347)	
At 30 June 2009	72,992	281,614	177,087	13,433	12,887	8,640	197,068	(8,256)	755,465	
At 1 July 2009	72,992	281,614	177,087	13,433	12,887	8,640	197,068	(8,256)	755,465	
Profit attributable to shareholders of the Company	-	-	-	-	-	-	54,677	-	54,677	
Exchange differences	-	-	-	-	-	22	-	-	22	
Total comprehensive income for the period	-	-	-	-	-	22	54,677	-	54,699	
Employee share option benefit	-	-	-	-	874	-	364	-	1,238	
Dividend	-	-	-	-	-	-	(12,409)	-	(12,409)	
Acquisition of additional interest in subsidiary	-	-	-	-	-	-	(25,243)	8,256	(16,987)	
	-	-	-	-	874	-	(37,288)	8,256	(28,158)	
At 31 December 2009	72,992	281,614	177,087	13,433	13,761	8,662	214,457	-	782,006	

(Unaudited)									
	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Merger reserve	Capital reserve	Employee share-based compensation reserve	Exchange reserve	Retained earnings	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
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 2010

	(Unaudited)	
	Six months ended	
	30 June	
	2010	2009
	HK\$'000	HK\$'000
Net cash generated from operating activities	76,043	59,913
Net cash generated from/(used in) investing activities	17,527	(37,917)
Net cash used in financing activities	(43,795)	(40,145)
Increase/(decrease) in cash and cash equivalents	49,775	(18,149)
Cash and cash equivalents at 1 January	365,888	418,490
Effect of foreign exchange rate changes	446	(12)
Cash and cash equivalents at 30 June	416,109	400,329

Notes to the Condensed Consolidated Interim Financial Information

1. 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 2 August 2010.

This condensed consolidated interim financial information should be read in conjunction with the 2009 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 2009.

The Group has adopted new and amended standards and interpretations of Hong Kong Financial Reporting Standards which are mandatory for accounting periods beginning on or after 1 January 2010. 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 except the reclassification of leasehold premium for land.

HKAS 17 (Amendment), “Leases”, requires leasehold land to be classified as a finance lease and stated at cost less accumulated depreciation if substantially all risks and rewards of the leasehold land have been transferred to the Group. As the present value of the minimum lease payments (i.e. the transaction price) of certain land held by the Group amounted to substantially all of the fair value of the land as if it were freehold, it has been classified as a finance lease. The amendment has been applied retrospectively to unexpired leases at the date of adoption of the amendment on the basis of information existing at the inception of the leases.

Effect of adopting HKAS 17 (Amendment) on the consolidated balance sheet and condensed consolidated profit and loss account are as follows:

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Increase/(decrease) in assets		
Fixed assets	85,628	86,754
Lease premium for land	(85,628)	(86,754)

	Six months ended 30 June 2010 HK\$'000	2009 HK\$'000
Increase/(decrease) in expenses		
Depreciation	1,126	1,570
Amortisation	(1,126)	(1,570)

Certain comparative information in the condensed consolidated interim financial information has been reclassified to conform to the current period's presentation.

2. 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 three months and six months ended 30 June 2010 are as follows:

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Merchandise sales revenue	682,266	669,511	1,341,475	1,317,415
Bakery sales revenue	156,298	145,751	311,925	299,351
	838,564	815,262	1,653,400	1,616,766
Other income				
Service items and miscellaneous income	19,631	16,739	37,756	33,362

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 three months and six months ended 30 June 2010 is as follows:

	(Unaudited)				
	Three months ended 30 June 2010				
	Convenience Store		Bakery		Group
HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000		
Total segment revenue	654,252	28,015	160,807	9,445	852,519
Inter-segment revenue	(1)	–	(13,867)	(87)	(13,955)
Revenue from external customers	654,251	28,015	146,940	9,358	838,564
Total segment other income	19,000	293	892	47	20,232
Inter-segment other income	–	(37)	(564)	–	(601)
Other income	19,000	256	328	47	19,631
	673,251	28,271	147,268	9,405	858,195
Profit/(loss) after tax	29,659	(6,389)	506	83	23,859
Profit/(loss) after tax includes:					
Depreciation	(7,135)	(1,903)	(7,536)	(407)	(16,981)
Amortisation	–	(127)	(146)	–	(273)
Interest income	1,426	7	67	14	1,514
Income tax (expenses)/credit	(6,357)	–	220	(28)	(6,165)

(Unaudited)					
Three months ended 30 June 2009					
	Convenience Store		Bakery		Group HK\$'000
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment revenue	635,084	34,430	151,000	9,431	829,945
Inter-segment revenue	(3)	–	(14,680)	–	(14,683)
Revenue from external customers	635,081	34,430	136,320	9,431	815,262
Total segment other income	15,704	1,034	621	8	17,367
Inter-segment other income	–	(88)	(540)	–	(628)
Other income	15,704	946	81	8	16,739
	650,785	35,376	136,401	9,439	832,001
Profit/(loss) after tax	29,866	(7,904)	595	(686)	21,871
Profit/(loss) after tax includes:					
Depreciation	(7,686)	(2,881)	(8,216)	(614)	(19,397)
Amortisation	–	(113)	(146)	–	(259)
Interest income	601	6	18	3	628
Income tax (expenses)/credit	(6,119)	–	(106)	228	(5,997)

(Unaudited)
Six months ended 30 June 2010

	Convenience Store		Bakery		Group HK\$'000
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment revenue	1,287,477	54,000	322,152	18,299	1,681,928
Inter-segment revenue	(2)	–	(28,342)	(184)	(28,528)
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)

(Unaudited)					
Six months ended 30 June 2009					
	Convenience Store		Bakery		Group HK\$'000
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment revenue	1,249,662	67,757	307,383	18,595	1,643,397
Inter-segment revenue	(4)	–	(26,627)	–	(26,631)
Revenue from external customers	1,249,658	67,757	280,756	18,595	1,616,766
Total segment other income	31,006	2,237	1,274	13	34,530
Inter-segment other income	–	(88)	(1,080)	–	(1,168)
Other income	31,006	2,149	194	13	33,362
	1,280,664	69,906	280,950	18,608	1,650,128
Profit/(loss) after tax	51,429	(16,575)	2,193	(1,275)	35,772
Profit/(loss) after tax includes:					
Depreciation	(15,372)	(6,014)	(16,342)	(1,272)	(39,000)
Amortisation	–	(224)	(292)	–	(516)
Interest income	1,278	11	56	14	1,359
Income tax (expenses)/credit	(10,608)	–	(1,013)	445	(11,176)

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 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 2010 and 31 December 2009 are as follows:

(Unaudited)					
As at 30 June 2010					
	Convenience Store		Bakery		Group
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment assets	377,450	59,263	696,515	24,030	1,157,258
Total segment assets include:					
Additions to segment non-current assets	19,354	3,254	8,741	131	31,480
Total segment liabilities	480,040	28,828	205,197	4,603	718,668

(Audited)					
As at 31 December 2009					
	Convenience Store		Bakery		Group
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment assets	412,369	64,966	733,650	20,142	1,231,127
Total segment assets include:					
Additions to segment non-current assets	20,455	3,075	35,108	442	59,080
Total segment liabilities	475,036	29,820	210,993	5,262	721,111

The amounts provided to the management with respect to total assets and total liabilities are measured in a manner consistent with that of the 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 2010 HK\$'000	(Audited) 31 December 2009 HK\$'000
Segment assets for reportable segments	1,157,258	1,231,127
Unallocated:		
Deferred tax assets	11,193	9,754
Taxation recoverable	382	1,039
Corporate bank deposits	379,400	282,671
Total assets per consolidated balance sheet	1,548,233	1,524,591

Reportable segment liabilities are reconciled to total liabilities as follows:

	(Unaudited) 30 June 2010 HK\$'000	(Audited) 31 December 2009 HK\$'000
Segment liabilities for reportable segments	718,668	721,111
Unallocated:		
Deferred tax liabilities	11,121	11,889
Taxation payable	21,239	9,585
Total liabilities per consolidated balance sheet	751,028	742,585

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK\$785,795,000 (2009: HK\$758,395,000) and HK\$1,549,584,000 (2009: HK\$1,502,921,000) for the three months and six months ended 30 June 2010 respectively, and the total of revenue from external customers from other countries is HK\$52,769,000 (2009: HK\$56,867,000) and HK\$103,816,000 (2009: HK\$113,845,000) for the three months and six months ended 30 June 2010 respectively.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong and other countries is HK\$662,466,000 (as at 31 December 2009: HK\$664,270,000) and HK\$67,293,000 (as at 31 December 2009: HK\$70,026,000) as at 30 June 2010 respectively.

3. Expenses by nature

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of lease premium for land	273	259	536	516
Depreciation of owned fixed assets	16,981	19,397	34,696	39,000
Other expenses	812,016	783,866	1,606,745	1,561,369
Total cost of sales, store expenses, distribution costs and administrative expenses	829,270	803,522	1,641,977	1,600,885

4. Other gain/(loss), net

Other gain/(loss), net represents the net gain/loss on disposal of fixed assets. For the six months ended 30 June 2010, other gain, net includes gain on disposal of a real estate property amounting to HK\$17,633,000.

5. Interest income

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income on bank deposits	1,514	628	2,872	1,359

6. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the three months and six months ended 30 June 2010 and 2009. Taxation on overseas profits has been calculated on the estimated assessable profits for the three months and six months ended 30 June 2010 and 2009 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) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Current income tax				
Hong Kong profits tax	8,037	7,895	12,528	12,157
Overseas profits tax	230	416	733	572
Deferred income tax	(2,102)	(2,314)	(2,145)	(1,553)
	6,165	5,997	11,116	11,176

7. 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)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to shareholders of the Company	23,859	21,871	57,683	35,772
	Number of shares	Number of shares	Number of shares	Number of shares
Weighted average number of ordinary shares in issue equal to the weighted average number of ordinary shares for diluted earnings per share	729,915,974	729,915,974	729,915,974	729,915,974

Diluted earnings per share for the three months and six months ended 30 June 2010 and 2009 equal to the basic earnings per share as the potential ordinary shares outstanding during the respective periods have no dilutive effect on the basic earnings per share for the corresponding periods.

8. Dividends

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interim dividend, proposed of 1.9 HK cents (2009: 1.7 HK cents) per share	13,868	12,409	13,868	12,409
Special dividend, proposed of 2.4 HK cents (2009: nil) per share	17,518	–	17,518	–
	31,386	12,409	31,386	12,409

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

9. Fixed assets

	(Unaudited) 30 June 2010 HK\$'000	(Restated) 31 December 2009 HK\$'000
Opening net book amount	300,717	389,935
Additions	21,874	59,080
Disposals/write off	(1,020)	(50,705)
Depreciation	(34,696)	(77,077)
Exchange differences	190	21
Transferred to asset held for sale	–	(20,537)
Closing net book amount	287,065	300,717

10. 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 2010, the aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2010 HK\$'000	(Audited) 31 December 2009 HK\$'000
0-30 days	27,691	24,102
31-60 days	1,841	2,676
61-90 days	1,617	1,431
Over 90 days	1,478	1,322
	32,627	29,531

11. Trade payables

At 30 June 2010, the aging analysis of the trade payables is as follows:

	(Unaudited) 30 June 2010 HK\$'000	(Audited) 31 December 2009 HK\$'000
0-30 days	234,022	209,726
31-60 days	121,209	120,347
61-90 days	49,241	58,894
Over 90 days	40,550	43,729
	445,022	432,696

12. Share capital

	(Unaudited) 30 June 2010 Shares of HK\$0.10 each		(Audited) 31 December 2009 Shares of HK\$0.10 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised	2,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid	729,915,974	72,992	729,915,974	72,992

13. Capital commitments

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

	(Unaudited) 30 June 2010 HK\$'000	(Audited) 31 December 2009 HK\$'000
Contracted but not provided for	2,970	1,609
Authorised but not contracted for	2,895	2,241
	5,865	3,850

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 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	2010 HK\$'000	2009 HK\$'000
Income			
Service income and reimbursement of office and administrative expenses	(i)	3,315	–
Expenses			
Management fee and reimbursement of office and administrative expenses	(ii)	982	10,439
Rental payable	(iii)	3,787	2,834
Net purchases	(iv)	5,093	5,292

(b) Key management personnel compensation

	(Unaudited) Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Fees	525	350
Discretionary bonuses	4,125	2,742
Salaries, share options and other allowances	5,891	6,485
Pension costs – defined contribution scheme	36	42
	10,577	9,619

(c) Period-end balances with related parties

	(Unaudited)	(Audited)
	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
Amounts due from fellow subsidiaries	811	–
Amounts due to fellow subsidiaries	(3,651)	(5,082)

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.
- (ii) Management fee and reimbursements payable to fellow subsidiaries in respect of office and administrative expenses incurred, including certain Directors' emolument paid by a fellow subsidiary, 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 the fellow subsidiaries.