Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

A member of the Li & Fung Retailing Group

Half Year Report 2005

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This 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 ("GEM Listing Rules") for the purpose of giving information with regard to Convenience Retail Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HALF YEAR RESULTS
FOR THE PERIOD ENDED 30 JUNE 2005

Three Months Ended 30 June		2005	2004 (Restated)
• Group Turnover	+20%	HK$515,416,000	HK$428,411,000
• Group Profit attributable to shareholders	+15%	HK$20,873,000	HK$18,172,000
• Earnings Per Share (Basic)	+15%	3.1 cents	2.7 cents
• Interim Dividend Per Share	+20%	1.5 cents	1.25 cents

Six Months Ended 30 June		2005	2004 (Restated)
• Group Turnover	+17%	HK$969,618,000	HK$826,734,000
• Group Profit attributable to shareholders	+12%	HK$29,787,000	HK$26,632,000
• Earnings Per Share (Basic)	+10%	4.4 cents	4.0 cents
• Interim Dividend Per Share	+20%	1.5 cents	1.25 cents

HIGHLIGHTS

- Strong growth in turnover and profitability on the back of robust retail market growth in Hong Kong.
- Number of stores in Hong Kong increased by six to 218 during the quarter.
- Number of stores in Guangzhou increased by seven to 29 during the quarter and new store opening programme is well on track.
- Strong surge in retail rentals in Hong Kong may put pressure on net profit margin.
- Obtained business licence to incorporate 100% foreign-owned subsidiary to operate Circle K stores in Dongguan.
- Awaiting Central Government approval on the formation of 60% JV with DG Sun-High to operate franchise stores in Dongguan under an alternate brand.
- Strong cash position with HK$566.9 million and no bank borrowings as at 30 June 2005.

CHAIRMAN'S STATEMENT

Financial Overview

I am pleased to report the unaudited half-year results for Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 June 2005.

The continuous growth of the Hong Kong economy and the Group's aggressive promotion launched in mid April contributed to a strong performance in the second quarter. The Group's turnover increased by 20% to HK$515.4 million during the quarter ended 30 June 2005 when compared to the same period last year. Net profit attributable to shareholders increased by 15% to HK$20.9 million. The Group had a net cash balance of HK$566.9 million without any bank borrowings.

In view of the Group's profitability and strong cash flow, the Board of Directors has resolved to increase the interim dividend to 1.5 cents per share, an increase of 20% over 2004's 1.25 cents.

Review of Hong Kong Operations

During the second quarter of 2005, robust growth in retail sales recorded in the first quarter was well sustained by strong consumer confidence, the continuously improving labour market and a generally optimistic economic outlook. Double-digit growth in tourist arrival figures from both regional and long-haul markets also helped to boost the overall retail market.

The Group was able to maximize the buoyant market trend and positive consumer sentiment with aggressive consumer promotions that generated encouraging sales results, which maintained double-digit growth for the total chain and 8.7% growth in comparable store sales in the second quarter. However, despite the significant growth in topline sales, gross margin actually under-performed compared to the same period in 2004 due to the decrease in the sales of the cold drink and the ice cream categories as a result of the prevalent rainy weather during the quarter.

Escalating retail rentals were further fueled by the growth of the retail market. It was the only disturbing note in an otherwise favourable retail environment.

In order to minimize the hazard of committing to unreasonably high rentals, the progress of new store openings was controlled at a more deliberate and cautious pace.

The Group is proud to be nominated one of the top 10 "Best Employers in Hong Kong" by Hewitt's, one of the leading global authorities in human resource management. The nomination is a gratifying recognition of the Group's professional and people-focused management culture.

Review of Guangzhou Operations

In Guangzhou, the economy maintained stable growth as reflected in the 13.7%* increase of cumulative retail sales from January to May 2005.

During the same period, the average consumer spending of the urban population increased by 9.0%*, while consumer pricing increased by 2.1%*, healthy indications of strong economic growth with inflation kept under control.

The competitive environment for convenience stores in Guangzhou remained unchanged over the past six months as competitive brands are struggling to achieve profitability.

The progress of the Group's operations in Guangzhou is on schedule. Seven new stores were opened during the second quarter, improving the market presence of the Circle K chain in Guangzhou. With the increased number of stores, significant sales growth for the total chain was well supported.

The Group began experimenting with a smaller Circle K store model which was launched in the second quarter. This new store model, without an in-store bakery, offers more localized food service. The objective of the smaller stores is to significantly reduce the capital expenditure that comes with bakery equipment and to enable the Group to open Circle K stores in smaller sites.

The business license application for operating Circle K stores in Dongguan as a 100% foreign-owned subsidiary was successfully concluded in June. The Group will soon launch Circle K convenience stores in Dongguan in the third quarter.

As part of an initiative to test an alternative brand and convenience store concept, as well as to gain knowledge of franchising in China, the Group has started the procedure and is currently waiting for the final approval from the Central Government for the acquisition of 60% of the DG Sun-High franchised convenience store chain. It is expected that we will be able to complete the acquisition in the third quarter of 2005.

* *Published by the Comprehensive Statistics Department, Guangzhou Municipal Bureau of Statistics on 15 June 2005.*

Business Outlook

Looking ahead, the health of the Hong Kong economic environment, the strong performance of the property market and a stable equity market will continue to nurture a "feel good" wealth effect and boost consumer confidence. Hence, buoyant retail sales trends are expected to be sustained well into the second half of 2005.

Aggressive marketing promotions have proven to be rewarding investments that have resulted in incremental sales and improved profitability. The Group will continue to launch tactical promotions to ensure that the momentum of daily store sales growth that was started in the second quarter will be successfully extended. These initiatives will be essential to counteract negative market factors such as the escalating retail rentals and the increasing labour costs which will put considerable pressure on the net margin – a challenge faced by all the retailers in the market.

In Guangzhou, the Group will focus resources on store network expansion while managing its market entry to Dongguan.

Other initiatives will be launched to reduce capital expenditure for store openings; to review and refine current store models to maximize store contribution, and to launch aggressive tactical and category promotions to ensure incremental sales and profitability growth.

In view of the encouraging business performance of the Circle K stores in Macau, the Group opened another three Circle K stores in neighbouring Zhuhai in July. It is a joint venture with a local partner. While major retailers like Carrefour, Jusco, KFC and McDonald's have already opened stores in Zhuhai, there are no convenience stores in the market thus far. The Group believes this is a market offering great potential for growth in the next five years and is pleased to be the first international store chain to open in Zhuhai.

In the second half of 2005, the Group's key initiative will be store network expansion in the Pearl River Delta. This will be achieved by entering more new markets as well as aggressively growing the number of stores in each market. In order to facilitate the effective implementation of such a key strategy, the Group will assume a very flexible approach in the management of retail properties, including the option of purchasing.

Compared with the first half of the year, which was devoted partly to strategic planning and review, the next six months will see a period of active implementation at a heightened pace as the management team accelerates the speed of store opening to capitalize on the upbeat and booming market environment in the Pearl River Delta.

Fung Kwok King, Victor
Chairman

Hong Kong, 3 August 2005

Executive Directors:
Yeung Lap Bun, Richard *(Chief Executive Officer)*
Li Kwok Ho, Bruno *(Chief Financial Officer)*

Non-executive Directors:
Dr. Fung Kwok King, Victor *(Chairman)*
Dr. Fung Kwok Lun, William
Jeremy Paul Egerton Hobbins
Wong Yuk Nor, Louisa
Godfrey Ernest Scotchbrook

Independent non-executive Directors:
Dr. Ch'ien Kuo Fung, Raymond
Au Man Chung, Malcolm
Lo Kai Yiu, Anthony

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the three months ended 30 June 2005, the Group's turnover increased by 20% to HK$515.4 million when compared to the same period last year. The increase in turnover was achieved both through the opening of new stores and an increase in turnover among comparable stores (stores in existence throughout the first and second quarter of 2004 and 2005), which registered growth of 8.7% in HK and 8.8% in Guangzhou.

Gross margin excluding interest decreased slightly from 33% in 2004 to 32.3% in 2005 during the quarter, mainly as a result of a decrease in sales of the higher-margin category, packaged beverages, which was caused by exceptionally cool and rainy weather during the second quarter.

During the quarter, store operating expenses as a percentage of sales increased from 23.1% in 2004 to 23.5% in 2005. The increase was mainly due to higher advertising and promotional spending as well as higher store operating expenses in Guangzhou.

During the quarter, distribution expenses were under control and administration expenses as a percentage of sales decreased from 3.7% in 2004 to 3.3% in 2005 as a result of increased productivity and operating leverage.

For the second quarter of 2005, net profit attributable to shareholders increased by 15% to HK$20.9 million driven by the robust growth in turnover.

The Group had limited foreign exchange exposure in RMB related to the joint venture operation on the Chinese Mainland. The Group's financial position continues to be strong with a total cash balance of HK$566.9 million and no borrowings. The Board of Directors has resolved to declare an interim dividend of 1.5 cents per share, an increase of 20% over the interim dividend in 2004.

In the six months ended 30 June 2005, the Group recorded a turnover of HK$969.6 million and a net profit of HK$29.8 million, an increase of 17% and 12% respectively when compared to the results for the six months ended 30 June 2004.

Operation Review – Hong Kong

Store Operations

With six new stores being opened during the second quarter and another six new leases committed, the store opening programme in Hong Kong has proceeded as scheduled despite the very challenging retail rental market. The Group closed the quarter with 218 stores, while maintaining the target store number at about 240 for the end of the year.

A noteworthy project launched during the quarter was a new generation of store design, code-named 3G. It involves major refitting of the cashier counter together with the cigarette display behind the counter. This design also features experimentation with a more modern colour scheme using a stylish grey to set off the red Circle K logo.

Image revamp for Circle K stores has been an ongoing, evolutionary exercise. It requires about two to three years to complete a full cycle covering all the stores in the chain. It is also a worthwhile and essential investment in order to enhance the overall customer shopping experience, widen the gap against the competition and further facilitate store operation flow.

Employees

As of 30 June 2005, the Group had a total of 2,830 employees; 78% of whom were based in Hong Kong and 22% in Guangzhou. Regular part-time staff accounted for 49% of total head count.

The Group continued to invest in the customer service training programme, which was attended by about 1,660 frontline staff during the quarter. A leadership training programme was also organized for the store management team with over 270 store managers attending these classes.

The Group offers its staff competitive remuneration schemes. In addition, share options are granted to eligible staff based on individual performance.

To promote the culture of continuous learning, a new bonus system was introduced to reward frontline staff who have obtained any of the four pre-determined skill sets. Fixed monthly allowances are given to those who have passed the specific examinations for the respective skill sets which are conducted regularly.

Marketing and Promotion

The highlight of the marketing and promotion calendar for the quarter had to be the McMug "Spell It Out" promotion, which was launched in mid-April and continued for about 12 weeks.

For every purchase of over $20, Circle K customers were given a free badge with the colourful design of one letter of the English alphabet together with McMug, a locally created cartoon character that has become a Hong Kong cultural icon. The 26 alphabet designs, with each letter given away randomly, not only became popular fashion accessories but also a much sought-after collector's item especially among loyal McMug fans.

Soon after the launch of the promotion, daily store sales increased steadily compared to the same period last year for the total chain, while the average daily transaction value also increased significantly. This momentum decelerated slightly after the first eight weeks but was sustained well into June with the introduction of new badge designs serving as a campaign booster. In providing the store staff with an attractive proposition for suggestive selling, the McMug promotion proved to be one of the most successful promotions ever run by Circle K Hong Kong.

Category Excellence

The most outstanding category performance in the second quarter was the double-digit sales growth of food services, including sub-categories like dim sum, microwavable meal boxes, sandwiches and bottled fresh fruit juices.

Another star product was the tofu flavour soft-serve ice cream, which was an instant hit and generated impressive incremental sales for the category. As a unique novelty flavour exclusive to Circle K, the product has the potential to become a destination shop item and a signature product.

Other categories reporting significant sales growth included in-store-baked fresh breads in stores offering Hot & In food services, a range of centrally delivered packaged bakery products and the dairy product category which outperformed the market in sales growth over the past 12 months.

The enhanced category of imported Japanese confectionery not only created more excitement on the shelves but also attracted new customers looking for novelty taste. In the media category, strong growth in magazine sales was recorded.

Supply Chain Management and Logistics

In order to handle growing sales volume and improve turnaround time, the Warehouse Supplementary System was implemented in the second quarter to streamline the distribution process and speed up order fulfillment. The introduction of intranet in the new system provides higher visibility of the overall work flow for daily process management, enabling improved efficiency in order-picking, stock-taking and order fulfillment.

The Distribution Centre also introduced a fleet of light goods vehicles in addition to the heavy goods vehicles for the daily delivery of fresh food, bakery products and other daily fresh merchandise. With such a specialized transport platform, fulfillment capabilities and quick response logistics have been greatly enhanced.

Operation Review – Guangzhou

Seven new stores were opened during the quarter, and the Group closed the second quarter with a total of 29 stores in Guangzhou. Another seven new stores sites have been committed and are at different stages of renovation.

Among these new stores, a smaller store model was introduced to test out as an alternative operation model. Instead of an in-store bakery, a steamed-food station has been installed in these stores offering fish balls, steamed buns and other traditional Chinese meal solutions such as steamed rice with chicken. As a result of this modification, capital expenditure per new store has been reduced by 35-40% compared to existing stores. Since the second phase of the operation model of these new stores has yet to be implemented, i.e. the introduction of a range of packaged bread under a house brand, it is still too early to evaluate the performance of the new store model.

The earlier-than-usual rain spells at the beginning of the quarter, customer traffic loss during Golden Week due to the exodus of local residents and the extended period of heavy rainfall in June all impacted rather negatively on store traffic and average daily sales per store for the quarter. However, with consistent promotional efforts, the average sales for comparable stores increased by about 9%.

Prospects

Consumer spending should continue to be underpinned by buoyant inbound tourism, improvement in employment income, and a generally positive economic outlook as economic recovery becomes more entrenched in Hong Kong in the coming months.

Incremental sales trends in the Group's operations will be sustained against the backdrop of strong consumer confidence and favourable market trends. Strategically planned marketing promotions together with target-driven category management will focus on driving top-line sales volume growth. With more new stores being added to the chain, the improved economy of scale will also have a positive effect on merchandising efficiency and margin opportunity.

Operational costs will be under some severe pressure due to the optimism prevalent in the retail market, which will create higher expectations in salary reviews as well as in retail rental reviews.

In Guangzhou, the steadily growing economy will continue to provide a favourable environment for business expansion, while the flexibility of having a smaller store model, once tested and refined, will certainly help to facilitate the process of new store site acquisition.

In Dongguan, as soon as the Central Government's approval for the joint venture with DG Sun-High comes through, the Group will allocate appropriate resources to develop the franchising business under an alternate brand. With Government approval for Circle K operations in Dongguan already in hand, the Group will proceed to open Circle K convenience stores as a 100% company owned and managed convenience chain. This dual-brand approach should enable us to expand very quickly into the Dongguan market.

The Group sees no reason to deviate from the strategic direction of aggressive expansion in the Pearl River Delta markets as set by the three-year plan at the beginning of the year. To date, there are a total of over 250 Circle K stores in the Pearl River Delta including Hong Kong, Guangzhou, Macau and Zhuhai. The Group expects that the number will increase to around 300 by the end of 2005. Together with the acquisition of the franchised convenience store chain operated by DG Sun-High, there will be a total of over 400 convenience stores within the Group in the Pearl River Delta by the end of 2005.

Yeung Lap Bun, Richard
Chief Executive Officer

Hong Kong, 3 August 2005

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2005

		(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2005	2004	**2005**	2004
	Note	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Turnover	*3*	515,416	428,411	969,618	826,734
Cost of sales		(390,525)	(321,380)	(740,981)	(626,439)
Gross profit		124,891	107,031	228,637	200,295
Other revenues	*3*	45,071	35,896	81,273	65,034
Store expenses		(121,339)	(99,177)	(229,542)	(190,394)
Distribution costs		(8,274)	(6,839)	(15,977)	(13,696)
Administrative expenses		(17,037)	(15,863)	(31,680)	(30,601)
Profit before taxation	*4*	23,312	21,048	32,711	30,638
Taxation	*5*	(3,905)	(4,199)	(5,682)	(6,561)
Profit after taxation		19,407	16,849	27,029	24,077
Attributable to:					
Shareholders of the Company		20,873	18,172	29,787	26,632
Minority interests		(1,466)	(1,323)	(2,758)	(2,555)
		19,407	16,849	27,029	24,077
Dividend	*6*	10,091	8,385	10,091	8,385
Earnings per share for profit attributable to the shareholders of the Company during the period					
– Basic	*7*	3.1 cents	2.7 cents	4.4 cents	4.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2005

	Note	(Unaudited) 30 June 2005 HK$'000	(Audited) 31 December 2004 HK$'000 (Restated)
Non-current assets			
Intangible assets	*8*	–	19
Fixed assets	*9*	82,581	81,339
Lease premium for land		15,262	15,450
Rental deposits		20,919	22,413
Deferred tax assets		1,371	1,651
		120,133	120,872
Current assets			
Inventories		76,273	67,361
Rental deposits		13,334	8,672
Trade receivables	*10*	15,410	19,828
Other receivables, deposits and prepayments		25,960	30,605
Lease premium for land		422	422
Bank balances and cash		566,934	531,360
		698,333	658,248
Current liabilities			
Amount due to immediate holding company		1,256	676
Trade payables	*11*	313,015	270,730
Other payables and accruals		46,332	58,647
Taxation payable		9,225	4,389
		369,828	334,442
Net current assets		328,505	323,806
Total assets less current liabilities		448,638	444,678
Financed by:			
Share capital	*12*	67,271	67,202
Reserves		371,256	350,098
Proposed dividend		10,091	25,205
		448,618	442,505
Minority interests		(9,358)	(6,613)
Total equity		439,260	435,892
Non-current liabilities			
Long service payment liabilities		7,748	7,721
Deferred tax liabilities		1,630	1,065
		448,638	444,678

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2005

	(Unaudited) Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Net cash generated from operating activities	73,341	67,397
Net cash used in investing activities	(13,532)	(13,695)
Net cash used in financing activities	(24,233)	(18,626)
Net increase in cash and cash equivalents	35,576	35,076
Cash and cash equivalents at 1 January	531,360	460,022
Effect of foreign exchange rate changes	(2)	19
Cash and cash equivalents at 30 June	566,934	495,117
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	566,934	495,117

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2005

(Unaudited)

	Attributable to shareholders of the Company							Minority interests	Total equity
	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$'000	HK$'000	HK$'000
At 1 January 2004, as previously reported as equity	66,921	115,076	177,087	13,433	–	43	28,688	–	401,248
At 1 January 2004, as previously separately reported as minority interests	–	–	–	–	–	–	–	(1,560)	(1,560)
Effect of changes in accounting policies									
– employee share option benefits	–	–	–	–	118	–	(118)	–	–
– amortisation of lease premium for land	–	–	–	–	–	–	(88)	–	(88)
At 1 January 2004, as restated	66,921	115,076	177,087	13,433	118	43	28,482	(1,560)	399,600
Issue of shares	155	1,325	–	–	–	–	–	–	1,480
Employee share option benefits	–	–	–	–	287	–	–	–	287
Exchange differences	–	–	–	–	–	35	–	20	55
Profit/(loss) for the period	–	–	–	–	–	–	26,632	(2,555)	24,077
Dividend	–	–	–	–	–	–	(20,106)	–	(20,106)
At 30 June 2004	67,076	116,401	177,087	13,433	405	78	35,008	(4,095)	405,393
At 1 July 2004	67,076	116,401	177,087	13,433	405	78	35,008	(4,095)	405,393
Issue of shares	126	1,159	–	–	–	–	–	–	1,285
Employee share option benefits	–	–	–	–	551	–	–	–	551
Exchange differences	–	–	–	–	–	(78)	–	(42)	(120)
Profit/(loss) for the period	–	–	–	–	–	–	39,644	(2,476)	37,168
Dividend	–	–	–	–	–	–	(8,385)	–	(8,385)
At 31 December 2004	67,202	117,560	177,087	13,433	956	–	66,267	(6,613)	435,892
At 1 January 2005, as previously reported as equity	67,202	117,560	177,087	13,433	–	–	67,156	–	442,438
At 1 January 2005, as previously separately reported as minority interests	–	–	–	–	–	–	–	(6,613)	(6,613)
Effect of changes in accounting policies									
– employee share option benefits	–	–	–	–	956	–	(956)	–	–
– amortisation of lease premium for land	–	–	–	–	–	–	67	–	67
At 1 January 2005, as restated	67,202	117,560	177,087	13,433	956	–	66,267	(6,613)	435,892
Issue of shares	69	914	–	–	–	–	–	–	983
Employee share option benefits	–	80	–	–	455	–	–	–	535
Exchange differences	–	–	–	–	–	24	–	13	37
Profit/(loss) for the period	–	–	–	–	–	–	29,787	(2,758)	27,029
Dividend	–	–	–	–	–	–	(25,216)	–	(25,216)
At 30 June 2005	67,271	118,554	177,087	13,433	1,411	24	70,838	(9,358)	439,260

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

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

These condensed consolidated interim accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

These interim accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS – Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 33, 36, 37 and 38 and HKAS – Int 15 did not result in substantial changes to the Group's accounting policies and they are adopted by the Group retrospectively. In summary:

– HKAS 1 has affected the presentation of minority interests and other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 27, 33, 36, 37 and 38 and HKAS – Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of lease premium for land from fixed assets to operating leases. The up-front prepayments made for the lease premium for land are expensed in the profit and loss account on a straight-line basis over the period of the leases or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the lease premium for land was accounted for at cost less accumulated depreciation and accumulated impairment and included in properties of fixed assets. HKAS 17 has been applied retrospectively.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for employee share option benefits. Until 31 December 2004, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 January 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods.

The effect of adopting HKAS 17 and HKFRS 2 on the condensed consolidated profit and loss account for the periods ended 30 June 2005 and 30 June 2004 and on the condensed consolidated balance sheet as at 30 June 2005 and 31 December 2004 are shown below:

Effect of adopting HKAS 17 and HKFRS 2 on the condensed consolidated profit and loss account are as follows:

	(Unaudited) Six months ended 30 June 2005		(Unaudited) Six months ended 30 June 2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Decrease/(Increase) in store expenses	88	(300)	60	(158)
Increase in distribution costs	–	(20)	–	(11)
Increase in administrative expenses	–	(215)	–	(118)
Total increase/(decrease) in profit	88	(535)	60	(287)
Increase/(decrease) in basic earnings per share	0.01 cent	(0.08 cents)	0.01 cent	(0.04 cents)

Effect of adopting HKAS 17 and HKFRS 2 on the condensed consolidated balance sheet are as follows:

	(Unaudited) 30 June 2005		(Audited) 31 December 2004	
	HKAS 17	**HKFRS 2**	HKAS 17	HKFRS 2
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(decrease) in assets				
Fixed assets	(15,529)	–	(15,805)	–
Lease premium for land (current and non-current)	15,684	–	15,872	–
Increase/(decrease) in liabilities/equity				
Share premium	–	80	–	–
Employee share-based compensation reserve	–	1,411	–	956
Retained earnings	155	(1,491)	67	(956)

(b) *New Accounting Policies*

The accounting policies used for the condensed consolidated interim accounts for the six months ended 30 June 2005 are the same as those set out in the notes to the 2004 annual accounts except for the following:

2.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

2.2 Share-based compensation

The Group operates an equity settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3. Turnover, other revenues and segment information

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the three months and six months ended 30 June 2005 are as follows:

	(Unaudited) Three months ended 30 June		**(Unaudited) Six months ended 30 June**	
	2005 *HK$'000*	2004 *HK$'000* (Restated)	**2005** *HK$'000*	2004 *HK$'000* (Restated)
Turnover				
Merchandise sales revenue	515,416	428,411	969,618	826,734
Other revenues				
Supplier rebate and promotion fees	34,521	29,909	61,263	53,073
Service items income	7,080	4,342	13,693	8,716
Interest income	3,470	1,645	6,317	3,245
	45,071	35,896	81,273	65,034
Total revenues	560,487	464,307	1,050,891	891,768

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Supplier rebate and promotion fees are recognised when the rights to receive payments are established in accordance with the terms of agreements with the vendors.

Revenue from provisions of services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Primary reporting format – geographical segments

The Group operates in two geographical areas: Hong Kong and Chinese Mainland.

	Hong Kong	(Unaudited) Chinese Mainland	Group
	Three months ended 30 June		
	2005	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover from external customers	502,305	13,111	515,416
Other revenues from external customers	40,392	1,209	41,601
	542,697	14,320	557,017
Segment results	23,873	(4,031)	19,842
Interest income			3,470
Profit before taxation			23,312
Taxation			(3,905)
Profit after taxation			19,407

	Hong Kong	(Unaudited) Chinese Mainland	Group
	Six months ended 30 June		
	2005	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover from external customers	946,149	23,469	969,618
Other revenues from external customers	72,727	2,229	74,956
	1,018,876	25,698	1,044,574
Segment results	33,998	(7,604)	26,394
Interest income			6,317
Profit before taxation			32,711
Taxation			(5,682)
Profit after taxation			27,029

	Hong Kong	(Unaudited) Chinese Mainland	Group
		Three months ended 30 June	
	2004	2004	2004
	HK$'000	*HK$'000*	*HK$'000*
	(Restated)	(Restated)	(Restated)
Turnover from external customers	421,593	6,818	428,411
Other revenues from external customers	33,659	592	34,251
	455,252	7,410	462,662
Segment results	23,194	(3,791)	19,403
Interest income			1,645
Profit before taxation			21,048
Taxation			(4,199)
Profit after taxation			16,849

	Hong Kong	(Unaudited) Chinese Mainland	Group
		Six months ended 30 June	
	2004	2004	2004
	HK$'000	*HK$'000*	*HK$'000*
	(Restated)	(Restated)	(Restated)
Turnover from external customers	815,327	11,407	826,734
Other revenues from external customers	60,743	1,046	61,789
	876,070	12,453	888,523
Segment results	34,719	(7,326)	27,393
Interest income			3,245
Profit before taxation			30,638
Taxation			(6,561)
Profit after taxation			24,077

There are no sales between the geographical segments.

4. Profit before taxation

Profit before taxation is stated after charging the following:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000* (Restated)
Amortisation of franchise licence (included in administrative expenses)	–	20	19	39
Amortisation of lease premium for land	105	101	211	206
Depreciation of owned fixed assets	9,478	9,267	18,476	19,006
Loss on disposal of fixed assets	69	–	122	15

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the three months and six months ended 30 June 2005 and 2004. No provision for taxation outside Hong Kong has been made as the Group has no estimated assessable profit outside Hong Kong for the three months and six months ended 30 June 2005 and 2004.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current taxation – Hong Kong profits tax	4,221	4,635	4,836	5,972
Deferred taxation relating to the origination and reversal of temporary differences	(316)	(436)	846	589
Taxation	3,905	4,199	5,682	6,561

6. Dividend

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interim dividend – proposed after balance sheet date of 1.5 HK cents (2004: 1.25 HK cents) per share	10,091	8,385	10,091	8,385

This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

7. **Earnings per share**

The calculation of the Group's basic and diluted earnings per share for the three months and six months ended 30 June 2005 and 2004 is based on the respective unaudited consolidated profit attributable to shareholders of HK$20,873,000 (2004: HK$18,172,000 (restated)) and HK$29,787,000 (2004: HK$26,632,000 (restated)).

The basic earnings per share is based on the weighted average of 672,579,143 (2004: 670,410,220) and 672,361,635 (2004: 669,978,956) shares of HK$0.10 each (the "Shares") in issue during the three months and six months ended 30 June 2005 and 2004 respectively.

Diluted earnings per share for the three months and six months ended 30 June 2005 and 2004 respectively are not shown as there is no dilutive effect arising from the share options granted by the Company.

8. **Intangible assets**

	(Unaudited) 30 June 2005 *HK$'000*	(Audited) 31 December 2004 *HK$'000*
Franchise licence, at cost	1,559	1,559
Less: accumulated amortization	(1,559)	(1,540)
	–	19

Franchise licence represents the exclusive territorial rights owned by the Group to operate convenience stores utilising the tradename, trademarks and Circle K System of The Circle K Stores Inc. of the United States of America.

9. **Fixed assets**

	(Unaudited) 30 June 2005 *HK$'000*	(Audited) 31 December 2004 *HK$'000* (Restated)
At beginning of the period as previously reported	97,144	97,197
Effect of changes in accounting policy		
– reclassification of lease premium for land	(15,805)	(15,636)
At beginning of the period as restated	81,339	81,561
Exchange adjustment	(9)	3
Additions	19,849	38,147
Disposals	(122)	(294)
Depreciation	(18,476)	(38,078)
At end of the period	82,581	81,339

10. Trade receivables

Majority of the Group's turnover are cash sales. The Group's credit terms on trade receivables from other revenues mainly range from 30 days to 60 days. At 30 June 2005, the ageing analysis of trade receivables was as follows:

	(Unaudited) 30 June 2005 *HK$'000*	(Audited) 31 December 2004 *HK$'000*
0-30 days	11,482	17,510
31-60 days	2,586	1,615
61-90 days	972	473
Over 90 days	370	230
	15,410	19,828

11. Trade payables

At 30 June 2005, the ageing analysis of the trade payables was as follows:

	(Unaudited) 30 June 2005 *HK$'000*	(Audited) 31 December 2004 *HK$'000*
0-30 days	144,725	127,753
31-60 days	86,645	78,966
61-90 days	41,581	41,545
Over 90 days	40,064	22,466
	313,015	270,730

12. Share capital

	(Unaudited) 30 June 2005 Shares of HK$0.10 each		(Audited) 31 December 2004 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	672,018,000	67,202	669,210,000	66,921
Issuance of shares *(Note* a)	692,000	69	2,808,000	281
At end of the period	672,710,000	67,271	672,018,000	67,202

Note:

(a) During the period, 340,000 (year ended 31 December 2004: 2,580,000) and 352,000 (year ended 31 December 2004: 228,000) Shares were allotted and issued pursuant to the exercise of share options by the employees of the Company in accordance with terms of the Pre-IPO Share Option Plan and Share Option Scheme respectively.

13. Employee share-based compensation reserve

Share options are granted to directors and employees in accordance with terms of Share Option Scheme which are accounted for under HKFRS 2. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	(Unaudited) 30 June 2005		(Audited) 31 December 2004	
	Options	**Weighted average exercise price** *HK$*	Options	Weighted average exercise price *HK$*
Outstanding at beginning of the period	2,250,000	2.24	916,000	1.80
Granted during the period	1,404,000	2.86	1,528,000	2.49
Lapsed during the period	(112,000)	2.48	(194,000)	2.09
Exercised during the period	(134,000)	1.93	–	–
Outstanding at end of the period	3,408,000	2.50	2,250,000	2.24
Exercisable at end of the period	1,310,000	2.18	–	–

The weighted average share price at the date of exercise for share options exercised during the period was HK$2.63 (2004: Nil). The options outstanding at 30 June 2005 and 31 December 2004 had a weighted average remaining contractual life of 4.08 and 4.04 years respectively.

The fair value of options granted are determined by using the Black-Scholes Valuation model. The significant inputs into the models were as follows:

	(Unaudited) 30 June 2005	(Audited) 31 December 2004
Expected volatility	40%	40%
Expected life	4.5 years	4.5 years
Risk free rate	3.4%	3.1%
Expected dividends	2%	2%

Expected volatility was determined by calculating the historical volatility of the Group's daily share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

14. Commitments

(a) *Capital commitments*

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

	(Unaudited) 30 June 2005 *HK$'000*	(Audited) 31 December 2004 *HK$'000*
Contracted but not provided for	6,307	3,059
Authorised but not contracted for	5,244	3,288
	11,551	6,347

(b) During the period, a wholly-owned subsidiary of the Company entered into an agreement ("the Agreement") for making a capital contribution of HK$3,761,000 (RMB4,000,000) to Dongguan Sunhigh Trading Co. Ltd. ("DG Sun-High"). DG Sun-High is a limited liability company established in the People's Republic of China ("PRC"), engaging in the provision of franchising business to a chain of convenience stores in Dongguan. Completion of the Agreement is subject to certain conditions including, inter alia, the conversion of DG Sun-High into a sino-foreign joint venture and other necessary approvals by the relevant PRC government authorities. The capital contribution of RMB4,000,000 will represent 60% interest in the enlarged share capital of DG Sun-High upon conversion of its status into a sino-foreign joint venture.

15. Contingent liabilities

	Company	
	(Unaudited)	(Audited)
	30 June	31 December
	2005	2004
	HK$'000	*HK$'000*
Guarantees for credit facilities given to a subsidiary	**50,888**	50,888

16. Related party transactions

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 55.6% of the Company's shares. The remaining 44.4% of the shares are widely held. The ultimate parent of the Group is King Lun Holdings Limited (incorporated in British Virgin Islands).

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

(a) Immediate holding company

		(Unaudited) Six months ended 30 June	
		2005	2004
	Note	*HK$'000*	*HK$'000*
Management fee and reimbursement of office and administrative expenses	(i)	**7,373**	7,223
Rental payable	(ii)	**442**	191

(b) Fellow subsidiaries

		(Unaudited) Six months ended 30 June	
		2005	2004
	Note	*HK$'000*	*HK$'000*
Rental payable	(ii)	**2,097**	1,931
Net purchases	(iii)	**2,504**	5,026

(c) *Key management personnel compensation*

	(Unaudited) Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Fees	195	195
Discretionary Bonuses	1,940	2,222
Salaries and other allowances	3,854	3,794
Pension costs – defined contribution scheme	30	30
	6,019	6,241

(d) *Amounts due to related parties*

	(Unaudited) 30 June 2005	(Audited) 31 December 2004
	HK$'000	*HK$'000*
Amounts due to:		
– Immediate holding company	1,256	676
– Fellow subsidiaries	1,536	2,941

Note:

(i) Management fee and reimbursements payable to the immediate holding company in respect of office and administrative expenses incurred are charged on an actual cost recovery basis.

(ii) Rentals are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.

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

17. Comparative figures

Certain comparative figures have been re-classified to conform with current period's presentation.

COMPETING INTERESTS

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.

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 2005, 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* (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 dealings 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 (i) Shares	Number of (ii) underlying Shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Fung Kwok King, Victor	373,692,000	–	Corporate *(Note 1)*	55.55%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 1)*	55.55%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 *(Note 2)*	Personal/ beneficiary	2.85%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 *(Note 3)*	Personal/ beneficiary	0.43%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 *(Note 4)*	Personal/ beneficiary	0.24%
Dr. Ch'ien Kuo Fung, Raymond	1,000,000	–	Personal/ beneficiary	0.15%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	Personal/ beneficiary	0.03%

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 (i) shares	Number of (ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Fung Kwok King, Victor	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 5)*	
			602,631	–	Corporate *(Notes 1 & 6)*	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	9,600,000	–	Corporate *(Note 7)*	
			–	4,200,000	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,800	–	Corporate *(Note 9)*	
			1,683,837	–	Personal/ beneficiary	51.66%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 5)*	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	9,600,000	–	Corporate *(Note 7)*	
			–	4,200,000	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,800	–	Corporate *(Note 9)*	51.12%

Name of Directors	Name of associated corporations	Class of shares	Number of (i) shares	Number of (ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Mr. Jeremy Paul Egerton Hobbins	Li & Fung (Gemini) Limited	Ordinary shares	462,018	–	Corporate *(Note 10)*	6.73%
	Integrated Distribution Services Group Limited	Ordinary shares	841,918	–	Personal/ beneficiary	0.27%
Mr. Li Kwok Ho, Bruno	Integrated Distribution Services Group Limited	Ordinary shares	4,000	–	Other *(Note 11)*	0.00%

* *Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.56 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 9 August 2005. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

Notes:

1. 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. 1,332,840 shares in King Lun, representing 50% of its issued share capital, are owned by J.P. Morgan Trust Company (Jersey) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor. The remaining 50% of King Lun is owned by Dr. Fung Kwok Lun, William.

2. On 24 May 2002, Mr. Yeung Lap Bun, Richard was granted share options to subscribe for 1,300,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

3. On 24 May 2002, Mr. Li Kwok Ho, Bruno was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

4. On 24 May 2002, Ms. Wong Yuk Nor, Louisa was granted share options to subscribe for 250,000 Shares pursuant to the Share Option Scheme of the Company. The options are exercisable at a subscription price of HK$2.785 per Share during the period from 24 May 2003 to 23 May 2007. No relevant share options have been exercised.

5. King Lun through its wholly owned subsidiary, LF (1937) held 5,222,807 shares in Li & Fung (Gemini) Limited ("LFG"). Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in note (1) above.

6. 602,631 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.

7. Out of the total 9,600,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 2,800,000 shares. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) and indirect interests in LFG as set out in notes (1) and (5) above.

8. Under SFO, LF (1937) is deemed to have interest in 4,200,000 underlying shares under several put and call option agreements, pursuant to which LF (1937) has the call options to require the counterparties to the agreements to sell to it, and the said counterparties have the put options to require LF (1937) to buy from them, an aggregate of 4,200,000 shares at cash consideration.

9. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun, LF (1937), LFG and Li & Fung (Distribution) Limited as set out in notes (1), (5), (7) and (8) above.

10. 462,018 shares in LFG are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

11. 4,000 shares in Integrated Distribution Services Group Limited are jointly held by Mr. Li Kwok Ho, Bruno and his wife, Sandra Maria Li Ng.

Save as disclosed above, as at 30 June 2005, 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 SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2005, the interests and short positions of the substantial 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	Number of Shares	Nature of interests/ Holding capacity	Approximate percentage of interests
King Lun Holdings Limited	373,692,000	Corporate *(Note 1)*	55.55%
Commonwealth Bank of Australia	60,228,000	Corporate *(Note 2)*	8.95%

Notes:

1. These shares are held by Li & Fung (Retailing) Limited ("LFR"). King Lun Holdings Limited ("King Lun") indirectly owns 100% interests in LFR through its wholly owned subsidiary, Li & Fung (1937) Limited ("LF (1937)"). All of King Lun, LFR and LF (1937) are taken to be interested in the shares. Please refer to Note (1) 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 are indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Ltd, Colonial Holding Company Ltd (formerly known as Colonial Holding Company Pty Ltd), Colonial Holding Company (No. 2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment (UK Holdings) Limited, SI Holdings Limited, First State Investment Management (UK) Limited, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd, First State (Hong Kong) LLC and First State Investments (Hong Kong) Limited.

Save as disclosed above, as at 30 June 2005, the Company had not been notified of any substantial shareholders' interests or short positions which are required to be kept under section 336 of SFO.

SHARE OPTIONS

(a) Pre-IPO Share Option Plan

On 27 December 2000, a Pre-IPO Share Option Plan (the "Pre-IPO Share Option Plan") was approved by a written resolution of the shareholders of the Company under which the board of Directors may, at its discretion, grant options to full time or part time employees of the Group entitling them to subscribe for shares of HK$0.10 each (the "Shares") representing up to a maximum of 19,930,000 Shares. On 30 December 2000, options to subscribe 19,930,000 Shares were granted to 228 employees.

Details of the share options granted under the Pre-IPO Share Option Plan and remain outstanding as at 30 June 2005 were as follows:

	Options held at 1 January 2005	Options exercised during the period *(Note 1)*	Options lapsed during the period	Options held at 30 June 2005	Exercise price *HK$*	Grant date	Exercisable from	Exercisable until
Continuous Contract employees	1,060,000	(220,000)	–	840,000	0.92	30 December 2000	10 January 2002	9 January 2006
	1,710,000	(60,000)	–	1,650,000	0.92	30 December 2000	10 January 2003	9 January 2006

Note:

1. 280,000 share options were exercised at an exercise price of HK$0.92 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.771.

(b) **Share Option Scheme**

On 6 January 2001, a Share Option Scheme (the "Scheme") was approved by a written resolution of the shareholders of the Company. On 24 April 2002, the Scheme was amended to comply with the changes to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001 in relation to the share option schemes of listed issuers on the Stock Exchange. Details of the Scheme are as follows:

(i) Purpose of the Scheme

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

(ii) Qualifying participants

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

(iii) Maximum number of shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the Pre-IPO Share Option Plan in (a) above) must not in aggregate exceed 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares, which represent approximately 9.75% of the issued share capital of the Company as at the date of this Report.

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

(iv) Option period

In respect of any particular option, such period as the Board may in its absolute discretion determine, save that such period shall not expire less than three years nor more than 10 years from the commencement date ("the Commencement Date"). The Commencement Date is deemed to have taken effect from the date on which that option was offered to the qualifying participants.

(v) *Amount payable on application or acceptance*

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

(vi) *Subscription price*

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

(vii) *The remaining life of the Scheme*

The Board shall be entitled at any time within 10 years commencing on 6 January 2001 to offer the grant of an option to any qualifying participants.

Details of the share options granted and remain outstanding as at 30 June 2005 were as follows:

Options held at 1 January 2005	Options granted during the period *(Note 2)*	Options exercised during the period *(Note 3)*	Options lapsed during the period *(Note 4)*	Options held at 30 June 2005	Exercise price *HK$*	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees								
226,000	–	(24,000)	–	202,000	2.42	21 September 2001	21 September 2002	20 September 2006
348,000	–	–	–	348,000	2.42	21 September 2001	21 September 2003	20 September 2006
2,376,000	–	–	(18,000)	2,358,000	2.785	24 May 2002	24 May 2003	23 May 2007

Options held at 1 January 2005	Options granted during the period *(Note 2)*	Options exercised during the period *(Note 3)*	Options lapsed during the period *(Note 4)*	Options held at 30 June 2005	Exercise price HK$	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees (continued)								
530,000	–	–	–	530,000	2.785	24 May 2002	24 May 2004	23 May 2007
94,000	–	–	–	94,000	2.15	23 September 2002	23 September 2003	22 September 2007
48,000	–	(10,000)	–	38,000	2.15	23 September 2002	23 September 2004	22 September 2007
1,162,000	–	(144,000)	–	1,018,000	1.69	20 May 2003	20 May 2004	19 May 2008
640,000	–	(96,000)	–	544,000	1.69	20 May 2003	20 May 2005	19 May 2008
130,000	–	(40,000)	–	90,000	2.225	30 September 2003	30 September 2004	29 September 2008
162,000	–	–	–	162,000	2.225	30 September 2003	30 September 2005	29 September 2008
804,000	–	(38,000)	–	766,000	2.535	29 March 2004	29 March 2005	28 March 2009
150,000	–	–	(32,000)	118,000	2.535	29 March 2004	29 March 2006	28 March 2009

	Options held at 1 January 2005	Options granted during the period *(Note 2)*	Options exercised during the period *(Note 3)*	Options lapsed during the period *(Note 4)*	Options held at 30 June 2005	Exercise price *HK$*	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees (continued)									
	108,000	–	–	–	108,000	2.40	6 August 2004	6 August 2005	5 August 2009
	386,000	–	–	(70,000)	316,000	2.40	6 August 2004	6 August 2006	5 August 2009
	–	868,000	–	–	868,000	2.86	4 May 2005	4 May 2006	3 May 2010
	–	536,000	–	(10,000)	526,000	2.86	4 May 2005	4 May 2007	3 May 2010
(B) Directors									
	1,800,000 *(Note 1)*	–	–	–	1,800,000	2.785	24 May 2002	24 May 2003	23 May 2007

Notes:

(1) 1,300,000, 250,000 and 250,000 options were respectively granted to the Directors, Messrs. Yeung Lap Bun, Richard and Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa. Please refer to the section headed "Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures of the Company and certain major associated corporations" for details.

(2) During the period, options were granted on 4 May 2005. The closing price of the Shares immediately before the date on which the options were granted was HK$2.85 on 3 May 2005.

(3) During the period, 352,000 share options were exercised and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.749.

(4) 130,000 options were lapsed following the cessation of employment of certain grantees.

Save as disclosed above, as at 30 June 2005, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted options under the Pre-IPO Share Option Plan and the Scheme.

CORPORATE GOVERNANCE

The Board of the Company is committed to principles of good corporate governance in enhancing shareholders' value. These principles include independence, accountability and transparency.

In order to reinforce independence, accountability and responsibility, the role of the Group Chairman is separate from that of the Chief Executive Officer with their respective responsibilities endorsed by the Board in writing. The Board has established the Audit Committee and Remuneration Committee 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 of the GEM Listing Rules.

Audit Committee

The Audit Committee has been established since January 2001 to review the Group's financial reporting, internal controls and risk management matters and to make relevant recommendations to the Board. Its current members include:

Dr. Ch'ien Kuo Fung, Raymond * – *Committee Chairman*
Mr. Au Man Chung, Malcolm *
Mr. Lo Kai Yiu, Anthony *
Mr. Godfrey Ernest Scotchbrook +
Mr. Jeremy Paul Egerton Hobbins +

* *independent non-executive director*
\+ *non-executive director*

All Committee members possess appropriate industry and financial experience to advise on the Company's strategy and other matters.

The Committee met three times to date in 2005 (with an average attendance rate of 75%) to review with senior management and the Company's auditors the significant internal and external audit findings, the accounting principles and practices adopted by the Group, GEM Listing Rules and statutory compliance, and to review the scope and role of internal and external auditors and to discuss internal control, risk management and financial reporting matters (including the interim accounts for the six months ended 30 June 2005 before recommending to the Board for approval).

The Committee also reviews the nature, fees and independence of the external auditors. In order to enhance the independence of the external auditors, policies of the provision of non-audit services performed by the external auditors and the hiring of employees or former employees of external auditors as directors or senior executives of the Group were established. Furthermore, part of the audit committee meetings will be attended only by the independent non-executive directors and external auditors.

Remuneration Committee

The Remuneration Committee was established on 1 January 2005. The Committee is responsible for approving the remuneration policy for all executive directors and senior management, including granting of share options to employees under the Company's Share Option Scheme. Its current members include:

Dr. Fung Kwok King, Victor + – *Committee Chairman*
Dr. Ch'ien Kuo Fung, Raymond *
Mr. Au Man Chung, Malcolm *

* *independent non-executive director*
\+ *non-executive director*

Internal Control

The Board is responsible for maintaining an adequate system of internal controls in the Company and reviewing its effectiveness through the Audit Committee. It has delegated to executive management the implementation of such system of internal controls and reviewing of relevant financial, operational and compliance controls and risk management procedures.

Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis. The Group's Corporate Governance Division, under the supervision of the Group Chief Compliance Officer, independently reviews these controls, and evaluates their adequacy, effectiveness and compliance, and reports directly to the Audit Committee.

Directors' Securities Transactions

The Group has adopted stringent procedures governing directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation has been obtained from all directors to confirm compliance with the Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than those set out in the Rules. No incidence of non-compliance was noted for the six-month period ended 30 June 2005.

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

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices (the "Code") which came into effect in January 2005, and replaced the "Broad Practices and Procedures" as set out in Rules 5.34 to 5.45 of the GEM Listing Rules. The Company has put in place corporate governance practices to meet all the provisions and most of the recommended best practices as set out in the Code.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has fully complied with the Code as set out in Appendix 15 of the GEM Listing Rules for the six-month period ended 30 June 2005.

Investor Relations and Communication

The Company continues to pursue a proactive policy of promoting investor relations and communication by conducting analysts briefings after the interim and final results announcement, road show after each quarterly results announcement, regular participation in investors conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. In order to further promote effective communication, the Company maintains a website (www.cr-asia.com) to disseminate shareholder information electronically on a timely basis.

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

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

INTERIM DIVIDEND

At a meeting held on 3 August 2005, the Board of Directors has resolved to declare an interim dividend of 1.5 HK cents (2004: 1.25 HK cents) per Share for the six months ended 30 June 2005 absorbing a total of HK$10,091,070 (2004: HK$8,385,275) on 672,738,000 Shares issued as at 3 August 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 19 August 2005 to 24 August 2005, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 18 August 2005. Dividend warrants will be despatched on 26 August 2005.