Convenience Retail Asia

Convenience Retail Asia Limited

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8052

Member of the Li & Fung Group

Half Year Report 2006

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

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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.

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CORPORATE INFORMATION

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 Godfrey Ernest Scotchbrook* Jeremy Paul Egerton Hobbins* Wong Yuk Nor, Louisa
Independent non-executive Directors	Dr. Ch'ien Kuo Fung, Raymond*+ Au Man Chung, Malcolm*+ Lo Kai Yiu, Anthony*
Group Chief Compliance Officer	Siu Kai Lau, James
Company Secretary	Wong Wing Ha (FCIS)
Qualified Accountant	Hui Chi Ho, Sam (HKICPA)
Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Head office and principal place of business	12th Floor, LiFung Centre 2 On Ping Street Siu Lek Yuen Shatin New Territories Hong Kong
Company's website address	www.cr-asia.com
Legal adviser	Johnson Stokes & Master (as to Hong Kong Law) Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)

* *Audit committee members*
\+ *Remuneration committee members*

CORPORATE INFORMATION *(continued)*

Auditors	PricewaterhouseCoopers *Certified Public Accountants*
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited P.O. Box 705 Butterfield House Fort Street George Town Grand Cayman Cayman Islands
Hong Kong share registrar and transfer office	Abacus Share Registrars Limited 26/F., Tesbury Centre 28 Queen’s Road East Hong Kong
Principal bankers	The Hongkong & Shanghai Banking Corporation Limited
Stock code	8052

HALF YEAR RESULTS
FOR THE PERIOD ENDED 30 JUNE 2006

Three Months Ended 30 June		**2006**	2005
• Group Revenue	+9%	**HK$560,851,000**	HK$515,416,000
• Group Profit Attributable To Shareholders	+7%	**HK$22,368,000**	HK$20,873,000
• Earnings Per Share (Basic)	+6%	**HK3.3 cents**	HK3.1 cents
Six Months Ended 30 June		**2006**	2005
• Group Revenue	+11%	**HK$1,075,239,000**	HK$969,618,000
• Group Profit Attributable To Shareholders	+9%	**HK$32,441,000**	HK$29,787,000
• Earnings Per Share (Basic)	+9%	**HK4.8 cents**	HK4.4 cents
• Interim Dividend Per Share	–	**HK1.5 cents**	HK1.5 cents

HIGHLIGHTS

- Satisfactory growth in turnover and profitability despite startup costs incurred in Dongguan and Shenzhen.
- Number of stores in Hong Kong increased by 3 to 238 during the quarter.
- Number of stores in Guangzhou and Dongguan increased by 2 to 43 and 1 to 7 respectively during the quarter.
- First store opened in Shenzhen in May 2006 under a 100% foreign-owned subsidiary of CRA.
- Number of stores in Zhuhai and Macau increased by 2 to 20 during the quarter.
- Business licence for the Dongguan Sun-High joint venture expected to be issued in the third quarter of 2006.
- Strong cash position with HK$625.9 million and no bank borrowings as of 30 June 2006.

CHAIRMAN'S STATEMENT

Financial Overview

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 2006.

Despite startup costs incurred for the two new markets in Southern China, Dongguan and Shenzhen, the Group registered satisfactory growth in turnover and profit. The Group's turnover increased by 8.8% to HK$560.9 million during the quarter ended 30 June 2006 when compared to the same period last year. Net profit attributable to shareholders increased by 7.2% to HK$22.4 million. The Group had a net cash balance of HK$625.9 million without any bank borrowings.

In view of the Group's profitability and cash position, the Board of Directors has resolved to pay an interim dividend of 1.5 HK cents per share.

Review of Hong Kong Retail Market

The sustained economic revival during the second quarter of 2006 provided a favourable market environment for the Group's operations in Hong Kong.

Against the backdrop of higher interest rates and stock market corrections, consumer sentiment remained positive. This was underpinned by a declining unemployment rate, which hit a 57-month low of 4.9%* in March-May as a result of an increase in overall labour demand.

Hong Kong retail sales for the first five months of 2006 increased by 6.6% in value and 4.7% in volume* over the same period last year, duly reflecting the buoyancy of consumer sentiment.

The leading category in sales growth in May was food, drink and tobacco, which experienced a strong increase of 9.6% over the same period last year. The category would report another sales boost in June with the commencement of the World Cup, which created considerable demand for snack foods, packaged drinks and multi-pack beer for in-home consumption.

* *Published by the Census and Statistics Department, The Government of the Hong Kong Special Administrative Region on 19 June 2006.*

Company Initiatives for Hong Kong Operations

Two very effective thematic promotions – Good Day Garfield and McDull Stick-It – were launched in the second quarter as part of the Group's key marketing initiatives, which were instrumental in leveraging the uptrend in the retail market, generating substantial incremental sales and contributing to the Group's encouraging business growth for the quarter. This was achieved despite keen competition in the form of non-stop free premium promotions launched by our competitor.

Among other company initiatives implemented in the second quarter were management efforts dedicated to improve cost controls, increase store productivity and enhance category management and gross margin – all of which contributed to healthy profit growth.

At the frontline, continuous improvements were made toward maintaining quality customer service and individual store presentation. These included upgrading store signage and cashier counter displays.

Review of the Retail Market on the Chinese Mainland

The overall economic growth on the Chinese Mainland was well sustained in the second quarter of 2006. From January to May, the cumulative growth of retail sales for consumer products increased by 13.2%** over the same period last year.

Meanwhile, Guangdong saw a 15.5% increase*** in cumulative sales over the same period, which was 0.8% higher than the growth rate registered last year, outperforming the national growth rate for retail sales of consumer products.

Consumer confidence was also very strong, registering a score of 94 index point for the second quarter of 2006. Optimism prevailed as the index point for the future economic outlook registered a high score of 96.8 index point. In addition, 65% of Chinese consumers believed that the stable growth of the overall economy would be sustained over the next 12 months.****

The inflation rate was contained at a manageable level, with 1.4% consumer price inflation being reported in May and food prices slightly higher at 1.9%. Cumulative consumer pricing inflation from January to May was 1.2% compared to the same period last year.

Barring any natural disaster or region-wide epidemic, it is expected that the market environment for the Group's operations on the Chinese Mainland will continue to be favourable.

** *Published by the National Bureau of Statistics of China on 13 June 2006.*
*** *Published by the Bureau of Statistics of Guangdong Province on 19 June 2006.*
**** *Published by the National Bureau of Statistics of China on 7 July 2006.*

Review of Guangzhou Operations

The continued retail market boom has resulted in escalating retail rental prices in Guangzhou, which have affected the Group's new store opening programme. The negotiation process for new leases has also become more protracted as market demand goes up. However, the longer lease period of five years in Guangzhou compared to the typically three-year lease in Hong Kong means that once a store site is secured, store rental expenses will remain stable for the next five years.

It is noteworthy that competitors in the convenience store market sector have become more rational and conservative in the opening of new store compared to previous years. The store numbers for competitive chains in Guangzhou are expected to become more or less stable. This will further provide the Group a timely opportunity to enlarge our market share.

The Group's comparable store sales reported healthy increases in average daily transaction count as well as transaction value with the arrival of warmer weather. The introduction of Chinese meal boxes provided an extra stimulus to the sales growth of the Hot & In food services category.

New stores that have been opened since the beginning of the year have performed well during the quarter. Store contribution chain-wide is approaching the breakeven point. With a total of 43 stores as of 30 June 2006, our Circle K chain in Guangzhou has now firmly established the Group's identity. The size of our existing network will provide a solid base for further expansion of the Group's business in the area.

Seven Circle K stores are already open and running smoothly in Dongguan, steadily building a loyal customer base. The acquisition of a 60% equity stake in DG Sun-High is now in the final stage of licence issuance and administrative implementation.

During the second quarter of 2006, the first Circle K store in Shenzhen was opened according to plan. Sales performance has been satisfactory so far, but it is still too early to draw any conclusions on market insights with a one-store operation.

Outlook for 2006

The Group is pleased to report robust business results for the first six months of 2006. The remaining half of 2006, however, will pose certain challenges.

Retail rental, staff cost and energy cost increases, along with growing competition and the prospect of price inflation, are market realities that call for vigilant and proactive management of the Circle K operations in Hong Kong and the Pearl River Delta. Guangdong Province, for example, just announced an 17.8% increase in minimum wage, effective 1 September 2006.

In the next 12 months, as we speed up the opening of stores in the Pearl River Delta Region and the proportion of new stores within the overall store mix increases, the prospect for strong net profit growth will be somewhat affected since it will take time for these new stores to mature and achieve profitability at store contribution level.

To ensure sustained sales growth and continual improvement in profitability, innovative approach has been introduced in many aspects of the Group's operations. This includes a constant review of current store models, creative marketing promotions, and the launch of new product offerings and convenient services.

To further reinforce our commitment, we have directed extra resources in enhancing our electronic point of sale and inventory control systems for improving efficiency in our operations. The Group has also dedicated additional resources in system support and administrative disciplines to further support our anticipated business growth and expansion plan.

We expect that the upward sales trend established in the first six months of 2006 will continue over the next six months. Aggressive marketing efforts and new product offerings are planned for the rest of the year with an aim to achieving our business targets.

The Group will continue to press ahead with its multi-city expansion plan in the Pearl River Delta as a long-term business strategy, but will also keep an open mind to other new business opportunities outside the Pearl River Delta.

Fung Kwok King, Victor
Chairman

Hong Kong, 2 August 2006

Building for the next
100 Years
LI & FUNG GROUP

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the three months ended 30 June 2006, the Group's turnover increased by 8.8% to HK$560.9 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 2005 and 2006), which registered 0.5% growth in Hong Kong and 14.1% in Guangzhou.

The relatively flat comparable stores turnover growth in Hong Kong was due to a higher comparable base. This was the result of a very successful McMug promotion launched during the second quarter last year as well as price decreases of the Sun newspaper and certain magazine titles. The robust growth in comparable store turnover in Guangzhou was driven by enhanced product offerings in food services as well as the continual bullish trend in the retail market.

Gross margin excluding interest increased from 32.3% in 2005 to 33.6% in 2006 during the quarter as a result of a shifting of sales mix to higher-margin categories and increases in other income.

During the quarter, store operating expenses as a percentage of sales increased from 23.5% in 2005 to 24.2% in 2006. The increase was mainly due to higher store operating expenses in Southern China as a result of store expansion in the two new markets of Dongguan and Shenzhen.

During the quarter, distribution expenses as a percentage of sales increased from 1.6% in 2005 to 1.8% in 2006. This was due to a rise in the volume of goods flowing through the central distribution centre in Hong Kong as well as the increase in coverage for the two new markets, Dongguan and Shenzhen in Southern China. Administration expenses as a percentage of sales increased from 3.3% in 2005 to 3.7% in 2006. This was due to an increase in management staff to support the regional expansion as well as the write-off of pre-operating expenses incurred for the Shenzhen market.

For the second quarter of 2006, net profit attributable to shareholders increased by 7.2% to HK$22.4 million as a result of increases in turnover and gross margin.

The Group had limited foreign exchange exposure in RMB related to the business in the Chinese Mainland. The Group's financial position continues to be strong with a total cash balance of HK$625.9 million and no borrowings. The Board of Directors has resolved to declare an interim dividend of 1.5 HK cents per share.

For the six months ended 30 June 2006, the Group recorded a turnover of HK$1,075.2 million and a net profit of HK$32.4 million, an increase of 10.9% and 8.9% respectively when compared to the results for the six months ended 30 June 2005.

Operations Review – Hong Kong

For the first six months of 2006, sales growth of Circle K stores consistently outperformed the overall retail market, thanks to two successful premium promotions which generated substantial incremental sales during the promotion periods. These were the Garfield promotion launched in February (which continued into the second quarter) and the McMug promotion launched in May.

The wet weather in April and May affected store sales, but the World Cup event which began on June 9 created another sales peak in June, especially in the sales of related categories such as packaged drinks, beer and snack food. Category promotions also contributed to increases in turnover and gross margin, with the focus on high-margin categories.

The impact of the cigarette price reduction on total sales value was somewhat neutralised by the success of concurrent promotions in other product categories. Subsequent price adjustments by leading brands, which increased retail pricing by HK$2 per pack, also helped mitigate the negative effect on category sales.

The rate of retail rental increases in the property market has slightly decelerated, but its impact is still felt during lease renewals, which put considerable pressure on operation costs. To neutralise this, the Group has focused on increasing productivity per store in order to minimise the impact on the bottom line.

Employees

As of 30 June 2006, the Group had a total of 3,215 employees, of whom 2,169 were based in Hong Kong and 1,046 were based in Guangzhou, Dongguan and Shenzhen. Regular part-time staff accounted for 48% of the total headcount.

During the quarter, consistent efforts and dedicated resources were devoted to the recruitment, training and retention of frontline staffs as well as the functional support team with very tangible results.

A series of Leadership Training Programs was launched in the first six months of 2006, which was attended by about 300 store managers who aimed to improve their performance effectiveness through better communications. The Group also launched a “Buddy Scheme”, which aims to help newly joined store staff adapt to a new working environment and to improve staff retention. About 80 “Buddies” have been successfully recruited from the frontline thus far, each of whom has been assigned to coach new staff and serve as a point of contact.

Marketing and Promotion

Thematic free premium promotions formed the backbone of promotional activities for the quarter, with encouraging sales results.

The Garfield promotion started in February and was still going strong in April, generating double-digit increases in weekly sales during the promotion period. After a three-week hiatus, the McMug promotion was launched in May and helped sustain the momentum of weekly sales growth.

Peak sales period for the quarter actually started in June, when the hot weather together with the World Cup generated tremendous demand for packaged drinks, snack food and beer. Extending the McMug theme by introducing licensed characters wearing football uniforms helped capitalise on the popularity of the World Cup by creating an appropriate store atmosphere and injecting new excitement into the ongoing promotion.

Joint promotions with leading newspaper titles involving coupon redemption at the Circle K store chain proved to be very effective, with significant number of redemptions per day for the most popular items during the redemption periods. Such a promotion mechanic not only helped increase newspaper sales, but also generated incremental traffic at the stores.

Another major marketing initiative during the quarter was the upgrading of all point-of-purchase materials with new, improved designs and arrangements to ensure more effective communication with customers.

Category Management Excellence

Thanks to the Group's consistent efforts in enhancing category management, most categories reported healthy sales growth, with the top three performing categories being on-site bakery products, beer and cigarettes. The range of on-site baked bread has been rotated constantly with the introduction of new products and stringent quality control. A range of packaged fresh fruit juices under the Hot & In brand also contributed to the sales growth of the food services category.

In the media category, the threat of free newspaper titles turned out to be less damaging than what was originally anticipated. Even though 14% of all newspaper readers only read free titles, 26% only read paid titles and 60% read both. Based on research findings, it is quite possible that "free newspaper only" readers are mainly younger people who do not normally read newspapers.

The online game card category reported promising growth thanks to enhanced shelf display, just-in-time inventory management and affinity group building through a specially designed website. As a result of these efforts, the commission fee of the category doubled over the past two years.

Supply Chain Management and Logistics

As a company initiative to simplify the ordering and receiving process, the Group extended the Hong Kong operations' Electronic Data Interchange for order information to include more suppliers with an efficient direct system link. This helped us achieve quick response to replenishment orders and goods return, and allowed us to simplify data entry and accounting reconciliation.

Preparation is underway for the launch of Phase One of the Category Management System in the third quarter, which is designed to further upgrade product and price management.

Operations Review – Guangzhou

With rising temperatures and bullish market sentiments, the Group's Circle K store chain in Guangzhou continued to register steady increases in average daily transactions and average daily transaction value in comparable stores.

Despite inflation pressure on energy and raw food material costs, the Group was able to maintain a margin performance comparable to last year's during the reported period. This was a result of vigilant control over operational expenses and maximising gross margin in category management.

A new product introduction programme through Hot & In – our established house brand of food services – allowed us to extend our offerings and proved to be the most effective means of achieving sales growth and maintaining margin. A typical success story during the quarter was the launch of the Chinese meal box, which instantly attracted new customers during lunchtime and broadened the appeal of the Hot & In food services as a whole. The incremental lunch traffic actually benefited other related categories such as packaged drinks, snacks and confectionery.

Prospects

Optimistic consumer sentiment seems to prevail in the markets where the Group operates. Major challenges in the future are not so much in generating incremental sales volume, but in effective cost control and productivity enhancement.

Even though the long-anticipated peaking of the retail rental market in Hong Kong has yet to materialise, the Group is looking at secondary retail areas and commuting points such as the MTR and KCRC stations for potential new store sites. Renewal of store leases is also likely to exert pressure on overall operation costs.

In Guangzhou, the pace of new store openings will still be guided by prudence. Hence it seems unlikely that the Group will embark on an escalated expansion programme in the next six months.

In Dongguan, it is expected that the issuance of the business licence for the DG Sun-High joint venture will take place in the third quarter of 2006.

After the opening of the first Circle K store in Shenzhen in May, it is expected that more new stores will be opened in Shenzhen in the next six months. The infrastructure of the support team, which will take the form of a local market office, has already been set up and is ready for a higher level of operational activity.

The geographical proximity of Shenzhen to Hong Kong means that in due course the Shenzhen office may also serve as a service support centre for the Circle K chain in Hong Kong to achieve borderless operation.

As of 30 June 2006 there were 51 company-owned-and-managed Circle K stores in the Pearl River Delta, together with 20 licensed stores in Macau and Zhuhai – a total of 71 Circle K stores outside of Hong Kong. Adding these to the 238 Circle K stores in Hong Kong, the Group operates a total of 309 stores in the Pearl River Delta as of the end of the second quarter in 2006. After the official completion of the DG Sun-High acquisition in Dongguan, the total store number will be close to 500 by the end of 2006.

The Group is well on track to roll out its multi-city strategic entry plan in the Pearl River Delta in accordance with the three-year plan. The Group is also aggressively building business volume with existing stores by maximising sales and margin opportunities to achieve organic growth.

In addition to the objectives set out in the three-year strategic plan, new business opportunities outside the Pearl River Delta will also be studied and pursued cautiously when they arise.

Yeung Lap Bun, Richard
Chief Executive Officer

Hong Kong, 2 August 2006

CORPORATE GOVERNANCE

The Board of the Company is committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder 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 was established in January 2001 to review the Group's financial reporting, internal controls and corporate governance 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*

The Audit Committee is chaired by an independent non-executive Director and the majority of the Committee members are independent non-executive Directors. All Committee members possess appropriate industry and financial experience to advise on Company's strategy and other matters.

The Committee met three times to date in 2006 (with an average attendance rate of 93%) 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, to review the scope and role of internal and external auditors and to discuss internal controls, risk management and financial reporting matters (including the quarterly, half-year and annual accounts 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 was attended only by the independent non-executive Directors and external auditors.

Remuneration Committee

The Remuneration Committee was established on 1 January 2005 and is chaired by the non-executive Group Chairman. 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*

Internal Control

The Board is responsible for maintaining an adequate system of internal controls in the Company and reviewing, at least annually, its effectiveness through the Audit Committee. It has delegated to executive management the implementation of such systems 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 during the period. The Group's Corporate Governance Division ("CGD"), 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.

Based on the assessment made by senior management and the Group's CGD (Internal Audit) for the six months ended 30 June 2006, the Audit Committee is satisfied that:

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

- there is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

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 2006.

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 been in compliance with the provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules during the six-month period ended 30 June 2006.

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 corporate website (www.cr-asia.com) is maintained to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

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

As at 30 June 2006, 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 dealings by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealing 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 2)*	55.29%
Dr. Fung Kwok Lun, William	373,692,000	–	Corporate *(Note 2)*	55.29%
Mr. Yeung Lap Bun, Richard	17,896,000	1,300,000 *(Note 3)*	Personal/ beneficiary	2.84%
Mr. Li Kwok Ho, Bruno	2,676,000	250,000 *(Note 4)*	Personal/ beneficiary	0.43%
Ms. Wong Yuk Nor, Louisa	1,338,000	250,000 *(Note 5)*	Personal/ beneficiary	0.23%
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 6)*	
			602,631	–	Corporate *(Notes 2 & 7)*	84.80%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 9)*	
			2,405,509	–	Personal/ beneficiary	51.90%
Dr. Fung Kwok Lun, William	Li & Fung (Gemini) Limited	Ordinary shares	5,222,807	–	Corporate *(Note 6)*	76.02%
	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate *(Note 8)*	100%
	Integrated Distribution Services Group Limited	Ordinary shares	157,960,917	–	Corporate *(Note 9)*	51.12%
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	1,202,754	–	Personal/ beneficiary	0.39%
Mr. Li Kwok Ho, Bruno	Integrated Distribution Services Group Limited	Ordinary shares	4,000	–	Other *(Note 11)*	0.00%

Notes:

1. 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 18 July 2006. Accordingly, the companies under the section headed "Interests and Short Positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.

2. King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)") held 373,692,000 Shares in the Company. 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.

3. 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.

4. 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.

5. 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.

6. 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 (2) above.

7. 602,631 shares in LFG are owned by a company which is held by J.P. Morgan Trust Company (Jersey) Limited.

8. Out of the total 13,800,000 shares, LFG holds 6,800,000 shares and LF (1937) holds 7,000,000 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 (2) and (6) above.

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 (2), (6) 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 2006, 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.

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 2006 were as follows:

	Options held at 1 January 2006	Options exercised during the period *(Note 1)*	Options lapsed during the period	Options held at 30 June 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
Continuous contract employees	100,000	(70,000)	(30,000)	–	0.92	30 December 2000	10 January 2002	9 January 2006
	1,500,000	(1,500,000)	–	–	0.92	30 December 2000	10 January 2003	9 January 2006

Note:

1. 1,570,000 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$2.649.

(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 9.7% 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 2006 were as follows:

Options held at 1 January 2006	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 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees								
194,000	–	(76,000)	–	118,000	2.42	21 September 2001	21 September 2002	20 September 2006
348,000	–	(8,000)	(62,000)	278,000	2.42	21 September 2001	21 September 2003	20 September 2006
2,318,000	–	(46,000)	(52,000)	2,220,000	2.785	24 May 2002	24 May 2003	23 May 2007
530,000	–	–	(40,000)	490,000	2.785	24 May 2002	24 May 2004	23 May 2007
94,000	–	(24,000)	–	70,000	2.15	23 September 2002	23 September 2003	22 September 2007
38,000	–	(10,000)	–	28,000	2.15	23 September 2002	23 September 2004	22 September 2007
976,000	–	(116,000)	(10,000)	850,000	1.69	20 May 2003	20 May 2004	19 May 2008
522,000	–	(106,000)	–	416,000	1.69	20 May 2003	20 May 2005	19 May 2008
80,000	–	(50,000)	–	30,000	2.225	30 September 2003	30 September 2004	29 September 2008

Options held at 1 January 2006	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 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
(A) Continuous contract employees (continued)								
144,000	–	(36,000)	–	108,000	2.225	30 September 2003	30 September 2005	29 September 2008
716,000	–	(78,000)	(10,000)	628,000	2.535	29 March 2004	29 March 2005	28 March 2009
118,000	–	(10,000)	–	108,000	2.535	29 March 2004	29 March 2006	28 March 2009
100,000	–	–	(8,000)	92,000	2.40	6 August 2004	6 August 2005	5 August 2009
316,000	–	–	(18,000)	298,000	2.40	6 August 2004	6 August 2006	5 August 2009
858,000	–	(10,000)	(18,000)	830,000	2.86	4 May 2005	4 May 2006	3 May 2010
468,000	–	–	(28,000)	440,000	2.86	4 May 2005	4 May 2007	3 May 2010
2,128,000	–	–	–	2,128,000	2.53	14 September 2005	14 September 2006	13 September 2010
272,000	–	–	(34,000)	238,000	2.53	14 September 2005	14 September 2007	13 September 2010
–	944,000	–	(10,000)	934,000	2.905	10 March 2006	10 March 2007	9 March 2011
–	644,000	–	–	644,000	2.905	10 March 2006	10 March 2008	9 March 2011

	Options held at 1 January 2006	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 2006	Exercise price HK$	Grant date	Exercisable from	Exercisable until
(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 10 March 2006. The closing price of the Shares immediately before the date on which the options were granted was HK$2.9 on 9 March 2006.

(3) 222,000 share options were exercised at an exercise price of HK$1.69 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.943.

34,000 share options were exercised at an exercise price of HK$2.15 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.165.

86,000 share options were exercised at an exercise price of HK$2.225 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.043.

84,000 share options were exercised at an exercise price of HK$2.42 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.976.

88,000 share options were exercised at an exercise price of HK$2.535 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$2.882.

46,000 share options were exercised at an exercise price of HK$2.785 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.097.

10,000 share options were exercised at an exercise price of HK$2.86 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK$3.125.

(4) 290,000 options were lapsed following the cessation of employment of certain grantees.

Save as disclosed above, as at 30 June 2006, 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.

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

As at 30 June 2006, 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)*	55.29%
Commonwealth Bank of Australia	60,000,000	Corporate *(Note 2)*	8.88%
Aberdeen Asset Management Plc and its Associates	68,050,000	Other *(Note 3)*	10.07%
Arisaig Greater China Fund Limited ("Arisaig China")	68,176,000	Corporate	10.09%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	68,176,000	Other *(Note 4)*	10.09%
Cooper Lindsay William Ernest ("Mr. Cooper")	68,176,000	Corporate *(Note 5)*	10.09%

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 (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 are indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Holding Company Ltd, Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investments (UK Holdings) Ltd, SI Holdings Ltd, First State Investment Management (UK) Limited, First State Investments International Ltd and First State Investment Management (UK) Limited.

3. Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group.

4. These shares are held by Arisaig China of which Arisaig Partners is the fund manager.

5. These shares are held by Arisaig China. Arisaig Partners, which is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely Madelene Ltd. (100%), Arisaig Partners (Holdings) Ltd. (33.33%) and Arisaig Partners (BVI) Limited (100%), is the fund manager of Arisaig China.

Save as disclosed above, as at 30 June 2006, 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.

OTHER INFORMATION

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.

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 2 August 2006, the Board of Directors has resolved to declare an interim dividend of 1.5 HK cents (2005: 1.5 HK cents) per Share for the six months ended 30 June 2006 absorbing a total of HK$10,137,930 (2005: HK$10,091,070) on 675,862,000 Shares issued as at 2 August 2006.

Closure of Register of Members

The Register of Members will be closed from 18 August 2006 to 23 August 2006, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 17 August 2006. Dividend warrants will be despatched on 25 August 2006.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2006

		(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2006	2005	**2006**	2005
	Note	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	*2*	560,851	515,416	1,075,239	969,618
Cost of sales		(418,162)	(390,525)	(811,231)	(740,981)
Gross profit		142,689	124,891	264,008	228,637
Other income	*2*	50,084	45,071	94,623	81,273
Store expenses	*3*	(135,710)	(121,339)	(263,867)	(229,542)
Distribution costs	*3*	(9,854)	(8,274)	(18,590)	(15,977)
Administrative expenses	*3*	(20,766)	(17,037)	(39,490)	(31,680)
Profit before income tax		26,443	23,312	36,684	32,711
Income tax expenses	*4*	(5,272)	(3,905)	(7,275)	(5,682)
Profit for the period		21,171	19,407	29,409	27,029
Profit attributable to:					
Shareholders of the Company		22,368	20,873	32,441	29,787
Minority interests		(1,197)	(1,466)	(3,032)	(2,758)
		21,171	19,407	29,409	27,029
Dividend	*5*	10,138	10,091	10,138	10,091
Earnings per share for profit attributable to the shareholders of the Company					
– Basic earnings per share	*6*	HK3.3 cents	HK3.1 cents	HK4.8 cents	HK4.4 cents
– Diluted earnings per share	*6*	HK3.3 cents	HK3.1 cents	HK4.8 cents	HK4.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2006

	Note	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
Non-current assets			
Fixed assets	8	95,620	89,827
Lease premium for land		14,973	15,142
Available-for-sale financial assets		1,895	–
Rental deposits		26,248	25,523
Deferred tax assets		851	1,361
		139,587	131,853
Current assets			
Inventories		82,030	79,065
Rental deposits		13,947	11,680
Trade receivables	9	19,311	26,647
Other receivables, deposits and prepayments		30,256	32,469
Lease premium for land		426	425
Bank balances and cash		625,899	597,310
		771,869	747,596
Current liabilities			
Amount due to immediate holding company		879	177
Trade payables	10	351,059	321,936
Other payables and accruals		57,698	66,224
Taxation payable		6,797	1,665
		416,433	390,002
Net current assets		355,436	357,594
Total assets less current liabilities		495,023	489,447

	Note	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
Financed by:			
Share capital	*11*	67,584	67,367
Reserves		413,497	386,738
Proposed dividend		10,138	30,392
Shareholders' funds		491,219	484,497
Minority interests		(5,795)	(2,912)
		485,424	481,585
Non-current liabilities			
Long service payment liabilities		7,967	7,862
Deferred tax liabilities		1,632	–
		495,023	489,447

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	(Unaudited) Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
Net cash generated from operating activities	74,166	73,341
Net cash used in investing activities	(17,931)	(13,532)
Net cash used in financing activities	(27,704)	(24,233)
Net increase in cash and cash equivalents	28,531	35,576
Cash and cash equivalents at 1 January	597,310	531,360
Effect of foreign exchange rate changes	58	(2)
Cash and cash equivalents at 30 June	625,899	566,934
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	625,899	566,934

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2006

(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 2005	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
At 1 July 2005	67,271	118,554	177,087	13,433	1,411	24	70,838	(9,358)	439,260
Issue of shares	96	890	–	–	–	–	–	–	986
Employee share option benefits	–	13	–	–	1,055	–	29	–	1,097
Exchange differences	–	–	–	–	–	99	–	54	153
Profit/(loss) for the period	–	–	–	–	–	–	43,791	(3,206)	40,585
Dividend	–	–	–	–	–	–	(10,094)	–	(10,094)
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	9,598	9,598
At 31 December 2005	67,367	119,457	177,087	13,433	2,466	123	104,564	(2,912)	481,585
At 1 January 2006	67,367	119,457	177,087	13,433	2,466	123	104,564	(2,912)	481,585
Issue of shares	217	2,478	–	–	–	–	–	–	2,695
Employee share option benefits	–	170	–	–	1,447	–	24	–	1,641
Exchange differences	–	–	–	–	–	344	–	149	493
Profit/(loss) for the period	–	–	–	–	–	–	32,441	(3,032)	29,409
Dividend	–	–	–	–	–	–	(30,399)	–	(30,399)
At 30 June 2006	67,584	122,105	177,087	13,433	3,913	467	106,630	(5,795)	485,424

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 2005 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 2005 except that the Group has changed certain of its accounting policies following its adoption of revised Hong Kong Financial Reporting Standards ("HKFRS") which are effective for accounting periods commencing on or after 1 January 2006.

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.

In 2006, the Group adopted HKAS 21 Amendment "The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation", which is relevant to its operations.

The adoption of HKAS 21 Amendment has resulted in a change in the accounting policy for the treatment of exchange differences arising on a monetary item that forms part of the net investment in a foreign operation of the Company. Effective on 1 January 2006, the revised standard allows the Company to include inter-company loans as part of the Company's net investment in foreign operation. Exchange differences arising from these inter-company loans are taken to equity in the consolidated accounts. In prior years, such exchange differences were recognised in the consolidated profit and loss account. HKAS 21 Amendment has been applied retrospectively and its effect is insignificant to the Group's results.

2. Revenue, other income 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 2006 are as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue				
Merchandise sales revenue	560,851	515,416	1,075,239	969,618
Other income				
Supplier rebate and promotion fees	35,964	34,521	67,585	61,263
Service items and miscellaneous income	9,563	7,080	18,050	13,693
Interest income	4,557	3,470	8,988	6,317
	50,084	45,071	94,623	81,273

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		
	2006	**2006**	**2006**
	HK$'000	HK$'000	HK$'000
Revenue	537,681	23,170	560,851
Other income	43,418	2,109	45,527
	581,099	25,279	606,378
Segment results	28,505	(6,619)	21,886
Interest income			4,557
Profit before income tax			26,443
Income tax expenses			(5,272)
Profit for the period			21,171

	Hong Kong	(Unaudited) Chinese Mainland	Group
	Six months ended 30 June		
	2006	**2006**	**2006**
	HK$'000	HK$'000	HK$'000
Revenue	1,033,098	42,141	1,075,239
Other income	81,743	3,892	85,635
	1,114,841	46,033	1,160,874
Segment results	40,289	(12,593)	27,696
Interest income			8,988
Profit before income tax			36,684
Income tax expenses			(7,275)
Profit for the period			29,409

	Hong Kong	(Unaudited) Chinese Mainland	Group
		Three months ended 30 June	
	2005	2005	2005
	HK$'000	HK$'000	HK$'000
Revenue	502,305	13,111	515,416
Other income	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 income tax			23,312
Income tax expenses			(3,905)
Profit for the period			19,407

	Hong Kong	(Unaudited) Chinese Mainland	Group
		Six months ended 30 June	
	2005	2005	2005
	HK$'000	HK$'000	HK$'000
Revenue	946,149	23,469	969,618
Other income	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 income tax			32,711
Income tax expenses			(5,682)
Profit for the period			27,029

There were no sales between the geographical segments.

3. **Expenses by nature**

Expenses included in store expenses, distribution costs and administrative expenses are analysed as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Amortisation of lease premium for land	107	105	213	211
Depreciation of owned fixed assets	9,638	9,478	18,827	18,476
Loss on disposal of fixed assets	430	69	720	122

4. **Income tax expenses**

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 2006 and 2005. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the three months and six months ended 30 June 2006 and 2005.

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

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Current income tax – Hong Kong profits tax	4,939	4,221	5,132	4,836
Deferred income tax	333	(316)	2,143	846
	5,272	3,905	7,275	5,682

5. **Dividend**

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Interim dividend – proposed after balance sheet date of 1.5 HK cents (2005: 1.5 HK cents) per share	10,138	10,091	10,138	10,091

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

6. **Earnings per share**

The calculation of the Group's basic earnings per share for the three months and six months ended 30 June 2006 and 2005 is based on the respective unaudited consolidated profit attributable to shareholders of HK$22,368,000 (2005: HK$20,873,000) and HK$32,441,000 (2005: HK$29,787,000).

The basic earnings per share is based on the weighted average of 675,671,957 (2005: 672,579,143) and 675,477,744 (2005: 672,361,635) shares of HK$0.10 each (the "Shares") in issue during the three months and six months ended 30 June 2006 and 2005 respectively.

There is no dilutive effect arising from the share options granted by the Company.

7. **Loss attributable to shareholders from Chinese Mainland operations**

Included in profit attributable to shareholders of the Company, there is a loss of HK$9,514,000 (2005: HK$4,838,000) from the Group's Chinese Mainland operations.

8. **Fixed assets**

	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
Opening net book amount	89,827	81,339
Exchange differences	317	331
Additions	25,201	52,780
Disposals	(898)	(1,855)
Depreciation	(18,827)	(42,768)
Closing net book amount	95,620	89,827

9. **Trade receivables**

Majority of the Group's revenue are cash sales. The Group's credit terms on trade receivables from other income mainly range from 30 days to 60 days. At 30 June 2006, the ageing analysis of trade receivables was as follows:

	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
0-30 days	15,437	23,168
31-60 days	1,337	2,491
61-90 days	736	923
Over 90 days	1,801	65
	19,311	26,647

10. Trade payables

At 30 June 2006, the ageing analysis of the trade payables was as follows:

	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
0-30 days	172,725	152,425
31-60 days	90,150	93,438
61-90 days	51,423	42,256
Over 90 days	36,761	33,817
	351,059	321,936

11. Share capital

	(Unaudited) 30 June 2006 Shares of HK$0.10 each		(Audited) 31 December 2005 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	673,668,000	67,367	672,018,000	67,202
Issuance of shares *(note a)*	2,170,000	217	1,650,000	165
At end of the period	675,838,000	67,584	673,668,000	67,367

Note:

(a) During the period, 1,600,000 (year ended 31 December 2005: 1,200,000) and 570,000 (year ended 31 December 2005: 450,000) 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.

12. Commitments

(a) Capital commitments

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

	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
Contracted but not provided for	5,823	6,173
Authorised but not contracted for	5,093	7,962
	10,916	14,135

(b) In 2005, a wholly-owned subsidiary of the Company entered into an agreement ("the Agreement") for making a capital contribution of HK$3,850,000 (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.

13. Contingent liabilities

	Company	
	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
Guarantees for bank loans and overdrafts of a subsidiary	50,888	50,888

14. Related party transactions

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 55.3% of the Company's shares. The remaining 44.7% 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	
	Note	**2006** HK$'000	2005 HK$'000
Management fee and reimbursement of office and administrative expenses	*(i)*	8,408	7,373
Rental payable	*(ii)*	442	442

(b) Fellow subsidiaries

		(Unaudited) Six months ended 30 June	
		2006 HK$'000	2005 HK$'000
Rental payable	*(ii)*	2,054	2,203
Net purchases	*(iii)*	2,744	2,504

(c) Key management personnel compensation

	(Unaudited) Six months ended 30 June	
	2006 HK$'000	2005 HK$'000
Fees	238	195
Discretionary bonuses	2,564	1,940
Salaries, share options and other allowances	3,910	3,854
Pension costs – defined contribution scheme	27	30
	6,739	6,019

(d) Amounts due to related parties

	(Unaudited) 30 June 2006 HK$'000	(Audited) 31 December 2005 HK$'000
Amounts due to:		
– Immediate holding company	879	177
– Fellow subsidiaries	1,838	2,554

The amounts are unsecured, interest free and repayable on demand.

Notes:

(i) Management fee and reimbursements payable to the immediate holding company in respect of office and administrative expenses incurred, including certain Directors' emolument paid by the immediate holding company, 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 related companies.