

**Convenience Retail Asia Limited**

利亞零售有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8052

**Half Year Report 2007**



*Speed*

*Friendliness*

*Tidiness*



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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*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

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111, Cayman Islands

### Head Office and Principal Place of Business

12th Floor, LiFung Centre  
2 On Ping Street  
Siu Lek Yuen  
Shatin  
New Territories  
Hong Kong

### Company's Website Address

[www.cr-asia.com](http://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)*

|  |   |
|--|---|
| <b>Auditors</b>  | PricewaterhouseCoopers<br><i>Certified Public Accountants</i>   |
| <b>Principal Share Registrar<br/>and Transfer Office</b> | Butterfield Fund Services (Cayman) Limited<br>P.O. Box 705<br>Butterfield House<br>Fort Street<br>George Town<br>Grand Cayman<br>Cayman Islands |
| <b>Hong Kong Share Registrar<br/>and Transfer Office</b> | Tricor Abacus Limited (formerly known as<br>“Abacus Share Registrars Limited”)<br>26/F., Tesbury Centre<br>28 Queen’s Road East<br>Hong Kong    |
| <b>Principal Bankers</b>                                 | The Hongkong & Shanghai<br>Banking Corporation Limited  |
| <b>Stock Code</b>  | 8052  |



## HALF YEAR RESULTS FOR THE PERIOD ENDED 30 JUNE 2007

| Three Months Ended 30 June                           |        | 2007                     | 2006              |
|--|--------|--------------------------|-------------------|
| • Revenue  | +29.6% | <b>HK\$726,839,000</b>   | HK\$560,851,000   |
| • Profit attributable to shareholders of the Company | +14.1% | <b>HK\$25,523,000</b>    | HK\$22,368,000    |
| • Earnings per share                                 | +6.0%  | <b>HK3.51 cents</b>      | HK3.31 cents      |
| Six Months Ended 30 June                             |        | 2007                     | 2006              |
| • Revenue  | +23.1% | <b>HK\$1,323,594,000</b> | HK\$1,075,239,000 |
| • Profit attributable to shareholders of the Company | +15.6% | <b>HK\$37,503,000</b>    | HK\$32,441,000    |
| • Earnings per share                                 | +10.2% | <b>HK5.29 cents</b>      | HK4.80 cents      |
| • Interim dividend per share                         | +13.3% | <b>HK1.7 cents</b>       | HK1.5 cents       |

### HIGHLIGHTS

- ☑ Strong growth in turnover and profit after consolidation with Saint Honore
- ☑ Continual trend of gross margin expansion
- ☑ Integration of Saint Honore will be completed in the third quarter of 2007
- ☑ Net cash position of HK\$323.4 million as of 30 June 2007



## NUMBER OF OUTLETS AS OF 30 JUNE 2007

### **Circle K Convenience Stores**

|           |     |
|-----------|-----|
| Hong Kong | 262 |
| Guangzhou | 56  |
| Dongguan  | 8   |
| Shenzhen  | 3   |

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|                 |            |
|-----------------|------------|
| <b>Subtotal</b> | <b>329</b> |
|-----------------|------------|

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### **Franchised Circle K Stores**

|        |    |
|--------|----|
| Macau  | 16 |
| Zhuhai | 7  |

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|                 |           |
|-----------------|-----------|
| <b>Subtotal</b> | <b>23</b> |
|-----------------|-----------|

---

|   |            |
|---|------------|
| <b>Total Number of Circle K Outlets</b> | <b>352</b> |
|---|------------|

### **Saint Honore Group**

|           |                  |    |
|-----------|------------------|----|
| Hong Kong | – Cake Shop      | 60 |
|           | – Bread Boutique | 14 |

---

|  |           |
|--|-----------|
|  | <b>74</b> |
|--|-----------|

|           |             |   |
|-----------|-------------|---|
| Macau     | – Cake Shop | 7 |
| Guangzhou | – Cake Shop | 7 |

---

|  |           |
|--|-----------|
|  | <b>14</b> |
|--|-----------|

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|   |           |
|---|-----------|
| <b>Total Number of Saint Honore Outlets</b> | <b>88</b> |
|---|-----------|



## CHAIRMAN'S STATEMENT

### Financial Review

I am pleased to report the unaudited half-year results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 June 2007.

The Group continued to register satisfactory growth in turnover and profit with the first full quarter consolidation of the Saint Honore operations. The Group's turnover increased by 29.6% to HK\$726.8 million during the quarter ended 30 June 2007 when compared to the same period last year. Net profit attributable to shareholders increased by 14.1% to HK\$25.5 million. The Group had a net cash balance of HK\$323.4 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 1.7 HK cents per share.

### Review of the Hong Kong Market

During the second quarter of 2007, strong domestic consumption was spurred by stable employment and fuelled by the positive effect of the buoyant stock market. Total retail sales were further boosted by a 12.6%<sup>1</sup> increase in tourist arrivals in May compared with last year, even though the overall growth in tourism was generally slow in the first six months of 2007.

As a result, total retail sales volume increased by 10.2%<sup>2</sup> in value and 9.4%<sup>2</sup> in volume in May over a year earlier. For the first five months of 2007, total retail sales increased by 8.3%<sup>2</sup> in value and 6.2%<sup>2</sup> in volume over the same period a year earlier.

According to the global consumer confidence study conducted by the Nielsen Company, consumer confidence in Hong Kong is at all time high with an index score of 118, ranking number five globally, a big jump from the 10<sup>th</sup> spot in the last survey<sup>3</sup>.

Underpinned by a combination of favourable market factors and the acquisition of Saint Honore, the Group is able to report robust sales performances for the chain with a satisfactory margin improvement.





## **Integration of the Saint Honore Operations**

With the official completion of the acquisition of the Saint Honore chain at the end of the first quarter, the Group proceeded with the total integration of the Saint Honore operations within the Circle K infrastructure during the second quarter.

The Group aims to maximise business synergy, reduce operational costs and improve overall operational efficiency. These were achieved by a number of administrative initiatives such as consolidating the supply chain management functions and upgrading the electronic retail management system supporting the Saint Honore cake shops. Other operational initiatives including new product developments, overall product quality upgrade and streamlining of manufacturing processes are well underway. It is anticipated that the integration process will be completed by the end of the third quarter.

During the June Dragon Boat Festival, the innovative range of Saint Honore dumplings achieved record sales with favourable customer feedback on quality and taste.

## **Review of the Retail Market on the Chinese Mainland**

The economy of the Chinese Mainland continued to grow strongly as investment and exports sustained an upward momentum despite government measures to rein in investment and moderate the pace of economic growth.

All economic indicators led to the observation that the overall economy has rebounded from the slowdown in the second half of 2006 and is set for another year of double digit GDP growth in 2007.

With rising income levels, inflation increased to around 3%<sup>4</sup> while urban unemployment stood at below 4.6%<sup>5</sup>. It is anticipated that the retail market will continue to register significant year-on-year growth.

Robust retail sales growth suggests that domestic consumption is gradually becoming a more important growth engine of the Chinese economy, which is in line with the government thinking that consumption, rather than investment, should become the major engine of economic growth.



## **Review of Guangzhou Operations**

The Group is pleased to report that the application for the requisite license to start franchising was successfully concluded. The next step is to proceed with the experimentation of a franchising model.

The new store opening programme has been deliberately slowed down in view of the overheated rental market and the difficulty in obtaining cigarette licenses for new stores.

The Group is pleased to report that for the third consecutive year, the Circle K brand was again elected one of the “Most Favourable Hong Kong Brands”. This was the result of an independent opinion poll organized by China Enterprise Reputation and Credibility Associations.

## **Outlook for 2007**

Barring any unexpected downturn in the economy of Hong Kong and the Chinese Mainland, it is anticipated that the positive growth trend will be sustained in the next six months.

Business synergies with the Saint Honore operations will continue to kick in during the coming months. The Group expects that its sales and profit contribution will be a major boost to the Group’s total sales turnover and profitability at the end of the year when the Saint Honore chains in Hong Kong, Macau and Guangzhou are expected to achieve a target number of 100 stores. The incremental sales generated by the seasonal products such as the Dragon Boat Festival dumplings and the upcoming moon cake sales during the Mid Autumn Festival are also expected to contribute to the overall margin performance.

In the first six months of 2007, the Group implemented major management initiatives to pave the way for a robust business performance in the ensuing six months. Efforts to reduce costs of operation, adjust pricing levels and further enhance category management and product sourcing were also implemented in order to counteract the continual challenges posed by the escalating retail rental, increases in raw material costs and labour costs.

The Group will remain vigilant in seeking acquisition and merger opportunities which would provide strategic synergy with the current business models.

**Fung Kwok King, Victor**

*Chairman*

Hong Kong, 2 August 2007



*Notes:*

1. Visitor Arrival Statistics, published by Hong Kong Tourism Board on 25 June 2007
2. Provisional Statistics of Retail Sales for May 2007, published by Census and Statistics Department, The Government of the Hong Kong Special Administrative Region on 3 July 2007
3. The Nielsen Online Consumer Confidence and Opinion Survey, published by AC Nielsen Hong Kong on 6 June 2007
4. Consumer Price Index in April, published by National Bureau of Statistics of China on 14 May 2007
5. 2007 Plan for National Economic and Social development, published by National Development and Reform Commission on 16 March 2007



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the three months ended 30 June 2007, the Group's turnover increased by 29.6% to HK\$726.8 million when compared to the same period last year. The increase in turnover was achieved through the opening of new stores and the consolidation of the Saint Honore operations.

Turnover of comparable stores (stores in existence throughout the first and second quarters of 2006 and 2007) remained stagnant in Hong Kong for the three months ended 30 June 2007. This was due to the drop in cigarette sales as a result of new legislation to ban cigarette smoking in public places and the favourable impact on turnover last year caused by the World Cup football match. However, comparable store turnover in Southern China continued its fast growth momentum and recorded an increase of 12.7% for the three months ended 30 June 2007.

Gross margin excluding interest increased from 33.6% in 2006 to 37.3% in 2007 during the quarter. The increase was due to a shift in the sales mix, as a result of the decrease in lower margin cigarette sales, an increase in higher margin packaged beverage sales and in store bakery sales. The consolidation of the higher margin Saint Honore bakery business also lifted the gross margin of the Group.

During the quarter, store operating expenses as a percentage of sales increased from 24.2% in 2006 to 26.7% in 2007. The increase was mainly due to the consolidation of Saint Honore operations, which had a higher store operating cost structure and the higher rental expenses for Circle K stores. As a result, store-operating expenses as a percentage of sales increased after the consolidation. The higher distribution and administrative costs was also due to the same consolidation.

For the second quarter of 2007, net profit attributable to shareholders increased by 14.1% to HK\$25.5 million as a result of increases in turnover and gross margin, despite higher store operating, distribution and administrative expenses.

The Group had limited foreign exchange exposure in RMB related to the business on the Chinese Mainland. The Group's financial position continues to be strong with a total cash balance of HK\$323.4 million without any bank borrowings. The Board of Directors has resolved to declare an interim dividend of 1.7 HK cents per share.

For the six months ended 30 June 2007, the Group recorded a turnover of HK\$1,323.6 million and a net profit attributable to shareholders of HK\$37.5 million, an increase of 23.1% and 15.6% respectively when compared to the results for the six months ended 30 June 2006.



## **Operation Review – Hong Kong**

Despite signs of the retail rental market peaking at the beginning of the year, retail rental in Hong Kong continued to be sustained at a high level, exerting pressure on operational costs as well as the pace of new store openings. However, the Group still managed to open six new stores during the quarter as planned but lease renewals with steep upward adjustments continued to pose some real challenges to the operation team.

During the second quarter, integration of the Saint Honore operations was a key management initiative. After three months of dedicated effort, the integration processes are well underway and business performance will soon demonstrate that synergies are being achieved.

Since the acquisition, three new Saint Honore cake shops have been opened in Hong Kong and one in Macau, offering opportunities for experimentation in store design upgrade. The design of the next generation of Saint Honore cake shops is close to completion and currently pilot testing. Market acceptance of these new Saint Honore cake shops with a new look were quite positive, an observation supported by satisfactory sales.

### *Employees*

As of 30 June 2007, the Group had a total of 5,370 employees, of whom 3,400 were based in Hong Kong and 1,970 were based in Macau, Guangzhou, Dongguan and Shenzhen. Regular part-time staff accounted for 32% of the total headcount. The increase of headcount was due to the acquisition of the Saint Honore operations.

A three-year training programme for more than 300 store managers was successfully concluded with the last module designed to promote team cohesion with effective communication and mutual support being rolled out in the last quarter.

The “Buddy” system, successfully launched in 2006, continued to work very well for staff retention and a total of 185 buddies were recruited from the frontline staff.

### *Marketing and Promotion*

The sales performance during the second quarter of 2007 was boosted by two successful thematic promotions: the free giveaway of Sesame Street figures as chess pieces for a Flying Chess set for purchases over HK\$20, and a scratch card promotion to draw on the release of the Hollywood blockbuster – “Pirates of the Caribbean: At World’s End”.

These promotions not only generated incremental transactions and increased transaction values but also created fun and excitement at the stores and enriched the overall shopping experience.



### *Category Management*

The Circle K chain in Hong Kong was the first convenience store chain to introduce the Easy Cash concept with the EPS (Electronic Payment System), which enables customers to withdraw cash during purchase transactions with their EPS card. This innovative service was yet another initiative to provide greater convenience for Circle K customers and add value to the package of services already provided by Circle K stores, such as sales of stamps, phone cards, SIM cards, online game cards, bill payment and special event ticketing.

The Group also introduced an innovative product line offering fun, novelty and good value in the form of a range of popular licensed characters directly imported from Japan, selling at the retail price of HK\$10 each.

### *Supply Chain Management and Logistics*

The Group launched an important initiative in supply chain management after the acquisition of Saint Honore, which was to explore the potential synergy of the logistic support between the two operations. The objective was to operate a synchronized fleet management system optimizing the utilization of resources.

A feasibility study to improve the warehouse management system with radio frequency equipment was conducted to see whether it could provide the Circle K Distribution Centre with tangible benefits such as improved efficiency and minimized labour, in preparation for a new system launch in 2008.

### **Operations Review – Guangzhou**

During the second quarter, the Group conducted a management review of the administrative infrastructure of the Pearl River Delta operations with the objective of reducing head office overheads and increasing operational efficiency. The consequent consolidation of resources has resulted in considerable saving in operational costs.

The store opening capital expenditure budget was also reviewed and effectively rationalized to pave the way for a more aggressive pace of store opening in due course.

The Group is proud to announce that the Food Commissary of the Convenience Retail Southern China Limited in Guangzhou has recently been awarded the Certificate of Food Safety Management System, meaning that it was assessed and registered to be in compliance with the Hazard Analysis and Critical Control Point: HACCP-EC-01 (equivalent to the ISO/DIS22000).



The scope of certification broadly covers the range of food and drink products under the Hot & In house brand: namely the on-site baked breads and the baked rice lunch boxes. This is an official endorsement of the high degree of food safety standard attained by the Group's food manufacturing operations in Guangzhou.

The highlight of category sales performance is the Hot & In product range, which continued to register healthy sales growth with an enhanced product mix and aggressive promotional tactics. Packaged drinks are another major growth category. The importance of all food and drink categories is reflected in the fact that they accounted for almost 80% of total revenue. This is also a good indication that consumers' demand for convenience store services is mostly driven by the need to satisfy thirst and hunger instantly.

It is noteworthy that Family Mart has made a new entry into the convenience store market in Guangzhou, with about five stores in operation currently. With the acquisition of the Quik convenience store chain, 7-Eleven has added about 80 stores to the brand. C-store has not opened any new stores in the past quarter. Even with these new developments, which have little impact on the Group's operation, the total number of convenience stores in the market has remained quite stable, allowing plenty of room for growth.

## **Prospects**

The upbeat consumer sentiment prevailing in Hong Kong and the Chinese Mainland bodes well for the Group's sales performance in the coming six months.

Key challenges to the Group's operations will be found in the areas of operational cost control, margin improvement, difficulty in obtaining cigarette licenses for new stores on the Chinese Mainland and new store openings.

The foreseeable trend of the RMB appreciation will inevitably lead to cost increases in food, raw materials and product sourcing, setting the scene for an inflationary environment. The Group's proactive response to these imminent market changes is a management review of the overall product cost structure and pricing strategy.

The new store opening programme will be directly influenced by supply and demand market dynamics. Since it is highly unlikely that the demand for prime retail store sites will decrease, the Group's solution is to increase flexibility in its store size requirements and to search for affordable premises in the secondary retail areas, which have reasonable traffic density of the target customer groups.



As of 30 June 2007, there were 67 company-owned-and-managed Circle K stores in the Pearl River Delta, together with 23 licensed stores in Macau and Zhuhai – a total of 90 Circle K stores outside Hong Kong. Adding these to the 262 Circle K stores in Hong Kong, the Group operates a total of 352 Circle K stores in the Pearl River Delta. With the acquisition of the Saint Honore chain, which currently has a total of 88 outlets in Hong Kong, Macau and Guangzhou, the Group operates a total store network of 440 outlets as at the end of the second quarter in 2007.

**Yeung Lap Bun, Richard**  
*Chief Executive Officer*

Hong Kong, 2 August 2007





## CORPORATE GOVERNANCE

The Board of the Company and Management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasise transparency, accountability and independence.

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 clearly established and defined by the Board in writing.

The Board has established the Audit Committee and Remuneration Committee (all chaired by non-executive Directors) with defined written 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. The Group Chief Compliance Officer as appointed by the Board attends all Board and Committee meetings to advise on corporate governance, risk management, statutory compliance and accounting and financial matters.

### 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<sup>+</sup>

Mr. Jeremy Paul Egerton Hobbins<sup>+</sup>

\* *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 professional qualifications, accounting and related financial management expertise as required under the GEM Listing Rules.



The Committee met three times to date in 2007 (with an average attendance rate of 93%) to review with senior management and the Company's internal and external auditors the Group's significant internal controls and financial matters as set out in the Audit Committee's terms of reference. The Committee's review covers the audit plans, audit findings of internal and external auditors, external auditors' independence, the Group's accounting principles and practices, GEM Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the annual, interim and quarterly accounts before recommending to the Board for approval).

### **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 the review of the Group's remuneration and human resources policy and the approving of the remuneration policy for all executive Directors, including the allocation of share options to employees under the Company's Share Option Scheme. The Committee met once to date with attendance rate of 100% to review the grant of share options to employees. Its current members include:

Dr. Fung Kwok King, Victor <sup>+</sup> – *Committee Chairman*

Dr. Ch'ien Kuo Fung, Raymond \*

Mr. Au Man Chung, Malcolm \*

### **Internal Control and Risk Management**

The Board is responsible for maintaining an adequate system of internal controls in the Group and reviewing its effectiveness through the Audit Committee. Such system is aim to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the implementation of such systems of internal controls and the review 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 Internal Audit team within the Corporate Governance Division ("CGD"), under the supervision of the Group Chief Compliance Officer, independently reviews these controls, and evaluates their adequacy, effectiveness and compliance. Summary of major findings and recommendations is reported to the Audit Committee on a quarterly basis. Follow up on all recommendations is also performed on a periodic basis to ensure all agreed recommendations have been satisfactorily and timely implemented.



Based on the assessments made by senior management and the CGD (Internal Audit team) for the six-month period ended 30 June 2007, the Audit Committee is satisfied that:

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

### **Code of Conduct and Business Ethics**

Guidelines of the Group's business ethical practices as endorsed by the Board are set out in the Company's Code of Conduct and Business Ethics for all Directors and staff. For ease of reference and as a constant reminder to all staff, a copy of the guidelines is posted in the Company's internal electronic Bulletin Board.

### **Directors' Securities Transactions**

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation of compliance has been obtained from all Directors for the six-month period ended 30 June 2007. 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 GEM Listing Rules. No incident of non-compliance was noted by the Company for the six-month period ended 30 June 2007.

### **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 code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules during the six-month period ended 30 June 2007.



## **Investor Relations and Communication**

The Company continues to pursue a policy of promoting investor relations and communication by conducting analysts' briefings after the interim and final results announcement, road shows 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](http://www.cr-asia.com)) to disseminate Company announcements and presentations and 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 2007, 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     |                                | Nature of interests/<br>Holding capacity | Approximate percentage of interests |
|---------------------------------|---------------|--------------------------------|--|-------------------------------------|
|                                 | (i)<br>Shares | (ii)<br>underlying Shares      |  |                                     |
| Dr. Fung Kwok King, Victor      | 373,692,000   | –                              | Corporate<br>( <i>Note 2</i> )           | 51.31%                              |
| Dr. Fung Kwok Lun, William      | 373,692,000   | –                              | Corporate<br>( <i>Note 2</i> )           | 51.31%                              |
| Mr. Yeung Lap Bun, Richard      | 19,196,000    | 1,200,000<br>( <i>Note 3</i> ) | Personal/<br>beneficiary                 | 2.80%                               |
| Mr. Li Kwok Ho, Bruno           | 2,676,000     | 600,000<br>( <i>Note 4</i> )   | Personal/<br>beneficiary                 | 0.45%                               |
| Ms. Wong Yuk Nor, Louisa        | 1,588,000     | 600,000<br>( <i>Note 5</i> )   | Personal/<br>beneficiary                 | 0.30%                               |
| Dr. Ch'ien Kuo Fung, Raymond    | 1,000,000     | –                              | Personal/<br>beneficiary                 | 0.14%                               |
| Mr. Jeremy Paul Egerton Hobbins | 180,000       | –                              | Personal/<br>beneficiary                 | 0.02%                               |



## Major associated corporations

### Long positions in shares and the underlying shares of equity derivatives

| Name of Directors                  | Name of associated corporations     | Class of shares                | Number of     |                           | Nature of interests/<br>Holding capacity | Approximate percentage of interests |
|------------------------------------|-------------------------------------|--------------------------------|---------------|---------------------------|--|-------------------------------------|
|                                    |                                     |                                | (i)<br>shares | (ii)<br>underlying shares |  |                                     |
| Dr. Fung Kwok King,<br>Victor      | Li & Fung (Gemini)<br>Limited       | Ordinary shares                | 5,684,825     | –                         | Corporate<br>(Note 6)                    |                                     |
|                                    |                                     |                                | 602,631       | –                         | Corporate<br>(Notes 2 & 7)               | 91.52%                              |
|                                    | Li & Fung (Distribution)<br>Limited | Full voting<br>ordinary shares | 13,800,000    | –                         | Corporate<br>(Note 8)                    | 100%                                |
| Dr. Fung Kwok Lun,<br>William      | Li & Fung (Gemini)<br>Limited       | Ordinary shares                | 5,684,825     | –                         | Corporate<br>(Note 6)                    | 82.75%                              |
|                                    | Li & Fung (Distribution)<br>Limited | Full voting<br>ordinary shares | 13,800,000    | –                         | Corporate<br>(Note 8)                    | 100%                                |
| Mr. Jeremy Paul Egerton<br>Hobbins | Li & Fung (Gemini)<br>Limited       | Ordinary shares                | 462,018       | –                         | Corporate<br>(Note 9)                    | 6.73%                               |

#### Notes:

- Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited (“King Lun”) and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.56 of the GEM Listing Rules for the disclosure of Directors’ interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 3 August 2007. 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.
- 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 3 May 2007, Mr. Yeung Lap Bun, Richard was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 1,200,000 Shares at an exercise price of HK\$3.39 per Share. The options are to be vested in Mr. Yeung Lap Bun, Richard in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
4. On 3 May 2007, Mr. Li Kwok Ho, Bruno was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 Shares at an exercise price of HK\$3.39 per Share. The options are to be vested in Mr. Li Kwok Ho, Bruno in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
5. On 3 May 2007, Ms. Wong Yuk Nor, Louisa was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 Shares at an exercise price of HK\$3.39 per Share. The options are to be vested in Ms. Wong Yuk Nor, Louisa in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.
6. King Lun through its wholly owned subsidiary, LF (1937) held 5,684,825 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. 462,018 shares in LFG are held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.

Save as disclosed above, as at 30 June 2007, 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 2007, 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/<br>Holding capacity | Approximate<br>percentage of<br>interests |
|--|------------------|--|---|
| King Lun Holdings Limited                                    | 373,692,000      | Corporate<br>(Note 1)                    | 51.31%                                    |
| Commonwealth Bank of Australia                               | 54,712,000       | Corporate<br>(Note 2)                    | 7.51%                                     |
| Aberdeen Asset Management Plc and<br>its Associates          | 55,916,000       | Other<br>(Note 3)                        | 7.68%                                     |
| Arisaig Greater China Fund Limited<br>("Arisaig China")      | 68,176,000       | Corporate                                | 9.36%                                     |
| Arisaig Partners (Mauritius) Limited<br>("Arisaig Partners") | 68,176,000       | Other<br>(Note 4)                        | 9.36%                                     |
| Cooper Lindsay William Ernest<br>("Mr. Cooper")              | 68,176,000       | Corporate<br>(Note 5)                    | 9.36%                                     |





*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) Ltd and First State Investments International Ltd.
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 2007, 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

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 or supplier of goods or services to the Group or any Affiliate or any employee of the business alliance, joint venture partner or supplier of goods or services to the Group or any Affiliate.

(iii) *Maximum number of shares*

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the Pre-IPO Share Option Plan) must not in aggregate exceed 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares, which represent approximately 9% 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 2007 were as follows:

(A) Continuous contract employees

| Options held at 1 January 2007 | Options granted during the period (Note 2) | Options exercised during the period (Note 3) | Options lapsed during the period (Note 4) | Options expired during the period (Note 5) | Options held at 30 June 2007 | Exercise price HK\$ | Grant date        | Exercisable from  | Exercisable until |
|--------------------------------|--|--|---|--|------------------------------|---------------------|-------------------|-------------------|-------------------|
| 1,614,000                      | -  | (1,484,000)                                  | -   | (130,000)                                  | -                            | 2.785               | 24 May 2002       | 24 May 2003       | 23 May 2007       |
| 464,000                        | -  | (454,000)                                    | -   | (10,000)                                   | -                            | 2.785               | 24 May 2002       | 24 May 2004       | 23 May 2007       |
| 50,000                         | -  | (30,000)                                     | -   | -  | 20,000                       | 2.15                | 23 September 2002 | 23 September 2003 | 22 September 2007 |
| 28,000                         | -  | (28,000)                                     | -   | -  | -                            | 2.15                | 23 September 2002 | 23 September 2004 | 22 September 2007 |
| 826,000                        | -  | (88,000)                                     | (10,000)                                  | -  | 728,000                      | 1.69                | 20 May 2003       | 20 May 2004       | 19 May 2008       |
| 348,000                        | -  | (40,000)                                     | -   | -  | 308,000                      | 1.69                | 20 May 2003       | 20 May 2005       | 19 May 2008       |
| 20,000                         | -  | (10,000)                                     | -   | -  | 10,000                       | 2.225               | 30 September 2003 | 30 September 2004 | 29 September 2008 |
| 108,000                        | -  | (54,000)                                     | -   | -  | 54,000                       | 2.225               | 30 September 2003 | 30 September 2005 | 29 September 2008 |
| 512,000                        | -  | (150,000)                                    | -   | -  | 362,000                      | 2.535               | 29 March 2004     | 29 March 2005     | 28 March 2009     |
| 58,000                         | -  | (10,000)                                     | -   | -  | 48,000                       | 2.535               | 29 March 2004     | 29 March 2006     | 28 March 2009     |



(A) Continuous contract employees (*continued*)

| Options held at 1 January 2007 | Options granted during the period (Note 2) | Options exercised during the period (Note 3) | Options lapsed during the period (Note 4) | Options expired during the period (Note 5) | Options held at 30 June 2007 | Exercise price HK\$ | Grant date        | Exercisable from  | Exercisable until |
|--------------------------------|--|--|---|--|------------------------------|---------------------|-------------------|-------------------|-------------------|
| 84,000                         | -  | (8,000)                                      | -   | -  | 76,000                       | 2.40                | 6 August 2004     | 6 August 2005     | 5 August 2009     |
| 290,000                        | -  | -  | -   | -  | 290,000                      | 2.40                | 6 August 2004     | 6 August 2006     | 5 August 2009     |
| 758,000                        | -  | (212,000)                                    | -   | -  | 546,000                      | 2.86                | 4 May 2005        | 4 May 2006        | 3 May 2010        |
| 416,000                        | -  | (30,000)                                     | -   | -  | 386,000                      | 2.86                | 4 May 2005        | 4 May 2007        | 3 May 2010        |
| 2,054,000                      | -  | (50,000)                                     | -   | -  | 2,004,000                    | 2.53                | 14 September 2005 | 14 September 2006 | 13 September 2010 |
| 172,000                        | -  | -  | (8,000)                                   | -  | 164,000                      | 2.53                | 14 September 2005 | 14 September 2007 | 13 September 2010 |
| 908,000                        | -  | (58,000)                                     | -   | -  | 850,000                      | 2.905               | 10 March 2006     | 10 March 2007     | 9 March 2011      |
| 614,000                        | -  | -  | -   | -  | 614,000                      | 2.905               | 10 March 2006     | 10 March 2008     | 9 March 2011      |
| 440,000                        | -  | -  | -   | -  | 440,000                      | 2.93                | 29 August 2006    | 29 August 2007    | 28 August 2011    |
| 192,000                        | -  | -  | (12,000)                                  | -  | 180,000                      | 2.93                | 29 August 2006    | 29 August 2008    | 28 August 2011    |
| -                              | 1,212,000                                  | -  | (10,000)                                  | -  | 1,202,000                    | 3.00                | 30 March 2007     | 30 March 2008     | 29 March 2012     |



(A) Continuous contract employees (*continued*)

| Options held at 1 January 2007 | Options granted during the period<br>(Note 2) | Options exercised during the period<br>(Note 3) | Options lapsed during the period<br>(Note 4) | Options expired during the period<br>(Note 5) | Options held at 30 June 2007 | Exercise price<br>HK\$ | Grant date    | Exercisable from | Exercisable until |
|--------------------------------|---|---|--|---|------------------------------|------------------------|---------------|------------------|-------------------|
| -                              | 484,000                                       | -   | (18,000)                                     | -   | 466,000                      | 3.00                   | 30 March 2007 | 30 March 2009    | 29 March 2012     |
| -                              | 2,800,000                                     | -   | (20,000)                                     | -   | 2,780,000                    | 3.39                   | 3 May 2007    | 3 May 2009       | 2 May 2012        |
| -                              | 2,800,000                                     | -   | (20,000)                                     | -   | 2,780,000                    | 3.39                   | 3 May 2007    | 3 May 2010       | 2 May 2013        |
| -                              | 2,800,000                                     | -   | (20,000)                                     | -   | 2,780,000                    | 3.39                   | 3 May 2007    | 3 May 2011       | 2 May 2014        |

(B) Directors

| Options held at 1 January 2007 | Options granted during the period<br>(Note 2) | Options exercised during the period<br>(Note 3) | Options lapsed during the period | Options expired during the period | Options held at 30 June 2007 | Exercise price<br>HK\$ | Grant date  | Exercisable from | Exercisable until |
|--------------------------------|---|---|----------------------------------|-----------------------------------|------------------------------|------------------------|-------------|------------------|-------------------|
| 1,800,000                      | -   | (1,800,000)                                     | -                                | -                                 | -                            | 2.785                  | 24 May 2002 | 24 May 2003      | 23 May 2007       |
| -                              | 800,000<br>(Note 1)                           | -   | -                                | -                                 | 800,000                      | 3.39                   | 3 May 2007  | 3 May 2009       | 2 May 2012        |
| -                              | 800,000<br>(Note 1)                           | -   | -                                | -                                 | 800,000                      | 3.39                   | 3 May 2007  | 3 May 2010       | 2 May 2013        |
| -                              | 800,000<br>(Note 1)                           | -   | -                                | -                                 | 800,000                      | 3.39                   | 3 May 2007  | 3 May 2011       | 2 May 2014        |



*Notes:*

1. 1,200,000, 600,000 and 600,000 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 30 March 2007 and 3 May 2007. The closing price of the Shares immediately before the date on which the options were granted was HK\$2.87 on 29 March 2007 and HK\$3.35 on 2 May 2007 respectively.
3. 128,000 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\$3.55.  
  
58,000 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\$3.26.  
  
64,000 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\$3.26.  
  
8,000 share options were exercised at an exercise price of HK\$2.40 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK\$3.12.  
  
50,000 share options were exercised at an exercise price of HK\$2.53 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK\$3.53.  
  
160,000 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\$3.32.  
  
3,738,000 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\$3.57.  
  
242,000 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\$3.57.  
  
58,000 share options were exercised at an exercise price of HK\$2.905 per Share and the weighted average closing price of the Shares immediately before the date on which the options were exercised is HK\$3.70.
4. 118,000 options were lapsed following the cessation of employment of certain grantees.
5. 140,000 options expired during the six months period ended 30 June 2007.

Save as disclosed above, as at 30 June 2007, 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.



## **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 2007, the Board of Directors has resolved to declare an interim dividend of 1.7 HK cents (2006: 1.5 HK cents) per Share for the six months ended 30 June 2007 absorbing a total of HK\$12,383,582 (2006: HK\$10,137,930) on 728,445,974 Shares issued as at 2 August 2007.

### **Closure of Register of Members**

The Register of Members will be closed from 17 August 2007 to 23 August 2007, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Tricor Abacus Limited (formerly known as "Abacus Share Registrars Limited") at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 16 August 2007. Dividend warrants will be despatched on 24 August 2007.





## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2007

|   | Note | (Unaudited)<br>Three months ended<br>30 June |                  | (Unaudited)<br>Six months ended<br>30 June |                  |
|---|------|--|------------------|--|------------------|
|   |      | 2007<br>HK\$'000                             | 2006<br>HK\$'000 | 2007<br>HK\$'000                           | 2006<br>HK\$'000 |
| Revenue   | 2    | 726,839                                      | 560,851          | 1,323,594                                  | 1,075,239        |
| Cost of sales   | 3    | (505,693)                                    | (418,162)        | (946,494)                                  | (811,231)        |
| Gross profit  |      | 221,146                                      | 142,689          | 377,100                                    | 264,008          |
| Other income  | 2    | 51,143                                       | 50,084           | 103,199                                    | 94,623           |
| Store expenses  | 3    | (193,968)                                    | (135,710)        | (349,725)                                  | (263,867)        |
| Distribution costs  | 3    | (16,407)                                     | (9,854)          | (27,976)                                   | (18,590)         |
| Administrative expenses   | 3    | (30,599)                                     | (20,766)         | (56,519)                                   | (39,490)         |
| Operating profit  |      | 31,315                                       | 26,443           | 46,079                                     | 36,684           |
| Finance costs   | 4    | (445)  | –                | (745)                                      | –                |
| Profit before income tax  |      | 30,870                                       | 26,443           | 45,334                                     | 36,684           |
| Income tax expenses   | 5    | (6,618)                                      | (5,272)          | (10,400)                                   | (7,275)          |
| Profit for the period   |      | 24,252                                       | 21,171           | 34,934                                     | 29,409           |
| Profit attributable to:   |      |  |                  |  |                  |
| Shareholders of the Company   |      | 25,523                                       | 22,368           | 37,503                                     | 32,441           |
| Minority interests  |      | (1,271)                                      | (1,197)          | (2,569)                                    | (3,032)          |
|   |      | 24,252                                       | 21,171           | 34,934                                     | 29,409           |
| Dividend  | 6    | 12,384                                       | 10,138           | 12,384                                     | 10,138           |
| Earnings per share for profit attributable to the shareholders of the Company |      |  |                  |  |                  |
| – Basic earnings per share  | 7    | HK3.51 cents                                 | HK3.31 cents     | HK5.29 cents                               | HK4.80 cents     |
| – Diluted earnings per share  | 7    | HK3.50 cents                                 | HK3.30 cents     | HK5.27 cents                               | HK4.79 cents     |



## CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2007

|   | <i>Note</i>  | <b>(Unaudited)<br/>30 June<br/>2007<br/>HK\$'000</b> | <b>(Audited)<br/>31 December<br/>2006<br/>HK\$'000</b> |
|---|--------------|--|--|
| <b>Non-current assets</b>                   |              |  |  |
| Intangible assets                           | <i>15(a)</i> | 357,465  | –  |
| Fixed assets                                | <i>9</i>     | 233,873  | 99,093   |
| Lease premium for land                      |              | 182,656  | 15,284   |
| Available-for-sale financial assets         |              | 23,560   | 22,570   |
| Rental deposits                             |              | 37,679   | 28,639   |
| Bank deposits                               |              | 70,000   | 120,000  |
| Deferred tax assets                         |              | 1,273  | 404  |
|   |              | <u>906,506</u>                                       | <u>285,990</u>   |
| <b>Current assets</b>                       |              |  |  |
| Inventories                                 |              | 94,691   | 82,308   |
| Amount due from immediate holding company   |              | –  | 48   |
| Rental deposits                             |              | 22,767   | 14,786   |
| Trade receivables                           | <i>10</i>    | 29,762   | 24,108   |
| Other receivables, deposits and prepayments |              | 49,484   | 49,112   |
| Other financial assets                      |              | 7,142  | 7,142  |
| Cash and cash equivalents                   |              | 253,394  | 514,785  |
|   |              | <u>457,240</u>                                       | <u>692,289</u>   |
| <b>Current liabilities</b>                  |              |  |  |
| Amount due to immediate holding company     |              | 1,903  | –  |
| Trade payables                              | <i>11</i>    | 395,286  | 357,199  |
| Other payables and accruals                 |              | 122,154  | 90,586   |
| Taxation payable                            |              | 9,747  | 1,135  |
| Cake coupon liabilities                     |              | 122,475  | –  |
|   |              | <u>651,565</u>                                       | <u>448,920</u>   |
| Net current (liabilities)/assets            |              | <u>(194,325)</u>                                     | <u>243,369</u>   |
| Total assets less current liabilities       |              | <u>712,181</u>                                       | <u>529,359</u>   |



|                                  |             | <b>(Unaudited)</b> | (Audited)   |
|----------------------------------|-------------|--------------------|-------------|
|                                  |             | <b>30 June</b>     | 31 December |
|                                  |             | <b>2007</b>        | 2006        |
|                                  | <i>Note</i> | HK\$'000           | HK\$'000    |
| <b>Financed by:</b>              |             |                    |             |
| Share capital                    | 12          | 72,829             | 67,714      |
| Reserves                         |             | 599,132            | 425,116     |
| Proposed dividend                |             | 12,384             | 36,200      |
|                                  |             | <hr/>              | <hr/>       |
| Shareholders' funds              |             | 684,345            | 529,030     |
| Minority interests               |             | (5,404)            | (8,173)     |
|                                  |             | <hr/>              | <hr/>       |
|                                  |             | 678,941            | 520,857     |
| <b>Non-current liabilities</b>   |             |                    |             |
| Long service payment liabilities |             | 14,583             | 8,091       |
| Deferred tax liabilities         |             | 18,657             | 411         |
|                                  |             | <hr/>              | <hr/>       |
|                                  |             | 712,181            | 529,359     |
|                                  |             | <hr/> <hr/>        | <hr/> <hr/> |



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Unaudited)  
Six months ended  
30 June

|   | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|---|------------------|------------------|
| Net cash generated from operating activities          | 66,159           | 74,166           |
| Net cash used in investing activities ( <i>note</i> ) | (302,968)        | (17,931)         |
| Net cash used in financing activities                 | (24,657)         | (27,704)         |
| Net (decrease)/increase in cash and cash equivalents  | (261,466)        | 28,531           |
| Cash and cash equivalents at 1 January                | 514,785          | 597,310          |
| Effect of foreign exchange rate changes               | 75               | 58               |
| Cash and cash equivalents at 30 June                  | <u>253,394</u>   | <u>625,899</u>   |

*Note:*

On 22 February 2007, the Group acquired 100% interest of Saint Honore Holdings Limited (“Saint Honore”) and the amount of net cash used in the acquisition is HK\$342,863,000 (*note 15(a)*).



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Unaudited)

|  | Attributable to shareholders of the Company |                  |                   |                    |  |                     |                      | Minority<br>interests | Total<br>equity |
|--|---|------------------|-------------------|--------------------|--|---------------------|----------------------|-----------------------|-----------------|
|  | Share<br>capital                            | Share<br>premium | Merger<br>reserve | Capital<br>reserve | Employee<br>share-based<br>compensation<br>reserve | Exchange<br>reserve | Retained<br>earnings | HK\$'000              | HK\$'000        |
|  | HK\$'000                                    | HK\$'000         | HK\$'000          | HK\$'000           | HK\$'000   | HK\$'000            | HK\$'000             |                       |                 |
| 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 benefit                                    | -   | 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)        |
|  | <u>67,584</u>                               | <u>122,105</u>   | <u>177,087</u>    | <u>13,433</u>      | <u>3,913</u>                                       | <u>467</u>          | <u>106,630</u>       | <u>(5,795)</u>        | <u>485,424</u>  |
| At 30 June 2006  |   |                  |                   |                    |  |                     |                      |                       |                 |
| At 1 July 2006   | 67,584                                      | 122,105          | 177,087           | 13,433             | 3,913  | 467                 | 106,630              | (5,795)               | 485,424         |
| Issue of shares  | 130   | 3,210            | -                 | -                  | -  | -                   | -                    | -                     | 3,340           |
| Employee share option benefit                                    | -   | 241              | -                 | -                  | 733  | -                   | 45                   | -                     | 1,019           |
| Exchange differences   | -   | -                | -                 | -                  | -  | 978                 | -                    | 207                   | 1,185           |
| Profit/(loss) for the period                                     | -   | -                | -                 | -                  | -  | -                   | 42,613               | (2,585)               | 40,028          |
| Dividend   | -   | -                | -                 | -                  | -  | -                   | (10,139)             | -                     | (10,139)        |
|  | <u>67,714</u>                               | <u>125,556</u>   | <u>177,087</u>    | <u>13,433</u>      | <u>4,646</u>                                       | <u>1,445</u>        | <u>139,149</u>       | <u>(8,173)</u>        | <u>520,857</u>  |
| At 31 December 2006  |   |                  |                   |                    |  |                     |                      |                       |                 |
| At 1 January 2007  | 67,714                                      | 125,556          | 177,087           | 13,433             | 4,646  | 1,445               | 139,149              | (8,173)               | 520,857         |
| Issue of shares  | 451   | 11,853           | -                 | -                  | -  | -                   | -                    | -                     | 12,304          |
| Acquisition of subsidiaries<br>(note 15(a))                      | 4,664                                       | 139,914          | -                 | -                  | -  | -                   | -                    | -                     | 144,578         |
| Employee share option benefit                                    | -   | 486              | -                 | -                  | 868  | -                   | -                    | -                     | 1,354           |
| Exchange differences   | -   | -                | -                 | -                  | -  | 1,004               | -                    | 255                   | 1,259           |
| Acquisition of additional interest<br>in subsidiary (note 15(b)) | -   | -                | -                 | -                  | -  | -                   | (5,212)              | 5,083                 | (129)           |
| Profit/(loss) for the period                                     | -   | -                | -                 | -                  | -  | -                   | 37,503               | (2,569)               | 34,934          |
| Dividend   | -   | -                | -                 | -                  | -  | -                   | (36,216)             | -                     | (36,216)        |
|  | <u>72,829</u>                               | <u>277,809</u>   | <u>177,087</u>    | <u>13,433</u>      | <u>5,514</u>                                       | <u>2,449</u>        | <u>135,224</u>       | <u>(5,404)</u>        | <u>678,941</u>  |
| At 30 June 2007  |   |                  |                   |                    |  |                     |                      |                       |                 |



## 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 2006 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 2006 except the Group has changed its accounting policy for transactions with minority interest. Moreover, the Group has adopted new/revised standards and interpretations of Hong Kong Financial Reporting Standard which are effective for accounting periods commencing on or after 1 January 2007.

#### *Change in accounting policy for transactions with minority interest*

In prior years, the Group treated transactions with minority interest as transactions with parties external to the Group. Purchase from minority interest result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated profit and loss account.

With effect from 1 January 2007, the Group no longer accounts for transactions with minority interest as transactions with parties external to the Group but as transactions with equity owners of the Group. For purchases from minority interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the relevant subsidiary is credited/charged to equity. For disposals to minority interest, differences between any proceeds received and the relevant share of minority interest are also recorded in equity. The Group regards the change is appropriate as under this new treatment, the Group only recognises goodwill in the balance sheet and gain/loss on disposal in the profit and loss account from the purchase and disposal of interest of a subsidiary when there is a change in control in the subsidiary.

Adoption of this new treatment has no significant impact to the consolidated financial statements in prior years and had this not been applied for the Group’s purchase of additional interest in a subsidiary from a minority shareholder during the period, the Group’s retained earnings and goodwill as at 30 June 2007 would have been increased by HK\$5,212,000 respectively.

#### *New standards/amendments to standards effective in 2007*

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures is mandatory for accounting periods beginning on or after 1 January 2007. HKFRS 7 and Amendments to HKAS 1 introduce new disclosures relating to financial instruments and capital in the Company’s annual financial statements. The adoption does not have any impact on the condensed consolidated interim accounts.



## 2. Revenue, other income and segment information

The Group is principally engaged in the operation of chains of convenience stores and bakeries. Revenues recognised during the three months and six months ended 30 June 2007 are as follows:

|  | (Unaudited)<br>Three months ended<br>30 June |                  | (Unaudited)<br>Six months ended<br>30 June |                  |
|--|--|------------------|--|------------------|
|  | 2007<br>HK\$'000                             | 2006<br>HK\$'000 | 2007<br>HK\$'000                           | 2006<br>HK\$'000 |
| Revenue                                |  |                  |  |                  |
| Merchandise sales revenue              | 600,885                                      | 560,851          | 1,155,017                                  | 1,075,239        |
| Bakery sales revenue                   | 125,954                                      | –                | 168,577                                    | –                |
|  | <u>726,839</u>                               | <u>560,851</u>   | <u>1,323,594</u>                           | <u>1,075,239</u> |
| Other income                           |  |                  |  |                  |
| Supplier rebate and promotion fees     | 39,012                                       | 35,964           | 77,070                                     | 67,585           |
| Service items and miscellaneous income | 10,827                                       | 9,563            | 21,606                                     | 18,050           |
| Interest income                        | 1,304  | 4,557            | 4,523                                      | 8,988            |
|  | <u>51,143</u>                                | <u>50,084</u>    | <u>103,199</u>                             | <u>94,623</u>    |



Primary reporting format – business segments

|                          | (Unaudited)                     |                    |                   | (Unaudited)                     |                    |                   |
|--------------------------|---------------------------------|--------------------|-------------------|---------------------------------|--------------------|-------------------|
|                          | Three months ended 30 June 2007 |                    |                   | Three months ended 30 June 2006 |                    |                   |
|                          | Convenience Store<br>HK\$'000   | Bakery<br>HK\$'000 | Group<br>HK\$'000 | Convenience Store<br>HK\$'000   | Bakery<br>HK\$'000 | Group<br>HK\$'000 |
| Revenue                  | 600,885                         | 125,954            | 726,839           | 560,851                         | –                  | 560,851           |
| Other income             | 49,529                          | 310                | 49,839            | 45,527                          | –                  | 45,527            |
|                          | <u>650,414</u>                  | <u>126,264</u>     | <u>776,678</u>    | <u>606,378</u>                  | <u>–</u>           | <u>606,378</u>    |
| Segment results          | <u>22,055</u>                   | <u>7,956</u>       | <u>30,011</u>     | <u>21,886</u>                   | <u>–</u>           | <u>21,886</u>     |
| Interest income          |                                 |                    | 1,304             |                                 |                    | 4,557             |
| Finance costs            |                                 |                    | (445)             |                                 |                    | –                 |
| Profit before income tax |                                 |                    | 30,870            |                                 |                    | 26,443            |
| Income tax expenses      |                                 |                    | (6,618)           |                                 |                    | (5,272)           |
| Profit for the period    |                                 |                    | <u>24,252</u>     |                                 |                    | <u>21,171</u>     |
|                          | (Unaudited)                     |                    |                   | (Unaudited)                     |                    |                   |
|                          | Six months ended 30 June 2007   |                    |                   | Six months ended 30 June 2006   |                    |                   |
|                          | Convenience Store<br>HK\$'000   | Bakery<br>HK\$'000 | Group<br>HK\$'000 | Convenience Store<br>HK\$'000   | Bakery<br>HK\$'000 | Group<br>HK\$'000 |
| Revenue                  | 1,155,017                       | 168,577            | 1,323,594         | 1,075,239                       | –                  | 1,075,239         |
| Other income             | 98,319                          | 357                | 98,676            | 85,635                          | –                  | 85,635            |
|                          | <u>1,253,336</u>                | <u>168,934</u>     | <u>1,422,270</u>  | <u>1,160,874</u>                | <u>–</u>           | <u>1,160,874</u>  |
| Segment results          | <u>32,945</u>                   | <u>8,611</u>       | <u>41,556</u>     | <u>27,696</u>                   | <u>–</u>           | <u>27,696</u>     |
| Interest income          |                                 |                    | 4,523             |                                 |                    | 8,988             |
| Finance costs            |                                 |                    | (745)             |                                 |                    | –                 |
| Profit before income tax |                                 |                    | 45,334            |                                 |                    | 36,684            |
| Income tax expenses      |                                 |                    | (10,400)          |                                 |                    | (7,275)           |
| Profit for the period    |                                 |                    | <u>34,934</u>     |                                 |                    | <u>29,409</u>     |





Secondary reporting format – geographical segments

|                          | (Unaudited)<br>Three months ended 30 June 2007 |                                 |                   | (Unaudited)<br>Three months ended 30 June 2006 |                                 |                   |
|--------------------------|--|---------------------------------|-------------------|--|---------------------------------|-------------------|
|                          | Hong Kong<br>and Macau<br>HK\$'000             | Chinese<br>Mainland<br>HK\$'000 | Group<br>HK\$'000 | Hong Kong<br>and Macau<br>HK\$'000             | Chinese<br>Mainland<br>HK\$'000 | Group<br>HK\$'000 |
| Revenue                  | 689,767  | 37,072                          | 726,839           | 537,681  | 23,170                          | 560,851           |
| Other income             | 47,519   | 2,320                           | 49,839            | 43,418   | 2,109                           | 45,527            |
|                          | <u>737,286</u>                                 | <u>39,392</u>                   | <u>776,678</u>    | <u>581,099</u>                                 | <u>25,279</u>                   | <u>606,378</u>    |
| Segment results          | <u>35,800</u>                                  | <u>(5,789)</u>                  | <u>30,011</u>     | <u>28,505</u>                                  | <u>(6,619)</u>                  | <u>21,886</u>     |
| Interest income          |  |                                 | 1,304             |  |                                 | 4,557             |
| Finance costs            |  |                                 | (445)             |  |                                 | –                 |
| Profit before income tax |  |                                 | 30,870            |  |                                 | 26,443            |
| Income tax expenses      |  |                                 | (6,618)           |  |                                 | (5,272)           |
| Profit for the period    |  |                                 | <u>24,252</u>     |  |                                 | <u>21,171</u>     |
|                          | (Unaudited)<br>Six months ended 30 June 2007   |                                 |                   | (Unaudited)<br>Six months ended 30 June 2006   |                                 |                   |
|                          | Hong Kong<br>and Macau<br>HK\$'000             | Chinese<br>Mainland<br>HK\$'000 | Group<br>HK\$'000 | Hong Kong<br>and Macau<br>HK\$'000             | Chinese<br>Mainland<br>HK\$'000 | Group<br>HK\$'000 |
| Revenue                  | 1,257,562                                      | 66,032                          | 1,323,594         | 1,033,098                                      | 42,141                          | 1,075,239         |
| Other income             | 94,156   | 4,520                           | 98,676            | 81,743   | 3,892                           | 85,635            |
|                          | <u>1,351,718</u>                               | <u>70,552</u>                   | <u>1,422,270</u>  | <u>1,114,841</u>                               | <u>46,033</u>                   | <u>1,160,874</u>  |
| Segment results          | <u>54,339</u>                                  | <u>(12,783)</u>                 | <u>41,556</u>     | <u>40,289</u>                                  | <u>(12,593)</u>                 | <u>27,696</u>     |
| Interest income          |  |                                 | 4,523             |  |                                 | 8,988             |
| Finance costs            |  |                                 | (745)             |  |                                 | –                 |
| Profit before income tax |  |                                 | 45,334            |  |                                 | 36,684            |
| Income tax expenses      |  |                                 | (10,400)          |  |                                 | (7,275)           |
| Profit for the period    |  |                                 | <u>34,934</u>     |  |                                 | <u>29,409</u>     |



### 3. Expenses by nature

|  | (Unaudited)<br>Three months ended<br>30 June |                  | (Unaudited)<br>Six months ended<br>30 June |                  |
|--|--|------------------|--|------------------|
|  | 2007<br>HK\$'000                             | 2006<br>HK\$'000 | 2007<br>HK\$'000                           | 2006<br>HK\$'000 |
| Amortisation of lease premium for land   | 1,050  | 107              | 1,474                                      | 213              |
| Depreciation of owned fixed assets   | 16,292                                       | 9,638            | 28,849                                     | 18,827           |
| Loss on disposal of fixed assets   | 759  | 430              | 904  | 720              |
| Other expenses   | 728,566                                      | 574,317          | 1,349,487                                  | 1,113,418        |
| <b>Total cost of sales, store expenses,<br/>distribution costs and<br/>administrative expenses</b> | <b>746,667</b>                               | <b>584,492</b>   | <b>1,380,714</b>                           | <b>1,133,178</b> |

### 4. Finance costs

|                                 | (Unaudited)<br>Three months ended<br>30 June |                  | (Unaudited)<br>Six months ended<br>30 June |                  |
|---------------------------------|--|------------------|--|------------------|
|                                 | 2007<br>HK\$'000                             | 2006<br>HK\$'000 | 2007<br>HK\$'000                           | 2006<br>HK\$'000 |
| Interest expenses on bank loans | 445  | –                | 745  | –                |

On 2 March 2007, the Group had drawn bank loan amounting to HK\$80 million to facilitate the acquisition of Saint Honore. As at 30 June 2007, the bank loan was fully repaid.

### 5. 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 2007 and 2006. Taxation on overseas profits has been calculated on the estimated assessable profits for the three months and six months ended 30 June 2007 at the rates prevailing in the countries in which the Group operates (2006: Nil).

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

|                                | (Unaudited)<br>Three months ended<br>30 June |                  | (Unaudited)<br>Six months ended<br>30 June |                  |
|--------------------------------|--|------------------|--|------------------|
|                                | 2007<br>HK\$'000                             | 2006<br>HK\$'000 | 2007<br>HK\$'000                           | 2006<br>HK\$'000 |
| Current income tax             |  |                  |  |                  |
| – Hong Kong profits tax        | 7,650  | 4,939            | 10,302                                     | 5,132            |
| – Overseas profits tax         | 349  | –                | 434  | –                |
| – Over provision in prior year | (164)  | –                | (164)                                      | –                |
| Deferred income tax            | (1,217)                                      | 333              | (172)                                      | 2,143            |
|                                | <b>6,618</b>                                 | <b>5,272</b>     | <b>10,400</b>                              | <b>7,275</b>     |

## 6. Dividend

|   | <b>(Unaudited)</b><br><b>Three months ended</b><br><b>30 June</b> |                  | <b>(Unaudited)</b><br><b>Six months ended</b><br><b>30 June</b> |                  |
|---|---|------------------|---|------------------|
|   | <b>2007</b><br>HK\$'000   | 2006<br>HK\$'000 | <b>2007</b><br>HK\$'000   | 2006<br>HK\$'000 |
| Interim dividend – proposed after<br>balance sheet date of 1.7 HK cents<br>(2006: 1.5 HK cents) per share | <u>12,384</u>   | <u>10,138</u>    | <u>12,384</u>   | <u>10,138</u>    |

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

## 7. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30 June 2007 is based on the unaudited consolidated profit attributable to shareholders of the Company of HK\$25,523,000 (2006: HK\$22,368,000) and HK\$37,503,000 (2006: HK\$32,441,000) respectively.

The basic earnings per share is based on the weighted average of 726,325,206 (2006: 675,671,957) and 708,946,611 (2006: 675,477,744) shares of HK\$0.10 each (the "Shares") in issue during the three months and six months ended 30 June 2007 respectively.

The diluted earnings per share is based on 729,048,906 (2006: 677,422,995) and 711,352,673 (2006: 676,891,427) shares which is the weighted average number of 726,325,206 (2006: 675,671,957) and 708,946,611 (2006: 675,477,744) shares in issue plus the weighted average of 2,723,700 (2006: 1,751,038) and 2,406,062 (2006: 1,413,683) shares deemed to be issued at no consideration if all outstanding options granted by the Company had been exercised during the three months and six months ended 30 June 2007 respectively.

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

Included in profit attributable to shareholders of the Company, there is a loss of HK\$11,284,000 (2006: HK\$9,514,000) from the Group's convenience store operations in Chinese Mainland.

## 9. Fixed assets

|  | <b>(Unaudited)</b><br><b>30 June</b><br><b>2007</b><br>HK\$'000 | (Audited)<br>31 December<br>2006<br>HK\$'000 |
|--|---|--|
| Opening net book amount                  | 99,093  | 89,827                                       |
| Exchange differences                     | 1,052   | 901  |
| Acquisition of subsidiaries (note 15(a)) | 140,579   | –  |
| Additions                                | 23,273  | 49,830                                       |
| Disposals                                | (1,275)   | (2,214)                                      |
| Depreciation                             | <u>(28,849)</u>   | <u>(39,251)</u>                              |
| Closing net book amount                  | <u>233,873</u>  | <u>99,093</u>                                |



## 10. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from suppliers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 30 June 2007, the ageing analysis of trade receivables was as follows:

|              | <b>(Unaudited)</b><br><b>30 June</b><br><b>2007</b><br>HK\$'000 | (Audited)<br>31 December<br>2006<br>HK\$'000 |
|--------------|---|--|
| 0-30 days    | 26,159  | 20,943                                       |
| 31-60 days   | 1,623   | 1,351  |
| 61-90 days   | 673   | 1,124  |
| Over 90 days | 1,307   | 690  |
|              | <u>29,762</u>   | <u>24,108</u>                                |

## 11. Trade payables

At 30 June 2007, the ageing analysis of the trade payables was as follows:

|              | <b>(Unaudited)</b><br><b>30 June</b><br><b>2007</b><br>HK\$'000 | (Audited)<br>31 December<br>2006<br>HK\$'000 |
|--------------|---|--|
| 0-30 days    | 209,055   | 173,012                                      |
| 31-60 days   | 98,467  | 99,804                                       |
| 61-90 days   | 51,935  | 51,370                                       |
| Over 90 days | 35,829  | 33,013                                       |
|              | <u>395,286</u>  | <u>357,199</u>                               |

## 12. Share capital

|   | <b>(Unaudited)</b><br><b>30 June 2007</b> |                | <b>(Audited)</b><br><b>31 December 2006</b> |                |
|---|---|----------------|---|----------------|
|   | <b>Shares of HK\$0.10 each</b>            |                | <b>Shares of HK\$0.10 each</b>              |                |
|   | No. of shares                             | HK\$'000       | No. of shares                               | HK\$'000       |
| Authorised:   |   |                |   |                |
| At end of the period  | <u>2,000,000,000</u>                      | <u>200,000</u> | <u>2,000,000,000</u>                        | <u>200,000</u> |
| Issued and fully paid:  |   |                |   |                |
| At beginning of the period  | 677,142,000                               | 67,714         | 673,668,000                                 | 67,367         |
| Issue of shares on exercise of share options ( <i>note a</i> )    | 4,506,000                                 | 451            | 3,474,000                                   | 347            |
| Issue of shares for acquisition of subsidiaries ( <i>note b</i> ) | <u>46,637,974</u>                         | <u>4,664</u>   | <u>–</u>                                    | <u>–</u>       |
| At end of the period  | <u>728,285,974</u>                        | <u>72,829</u>  | <u>677,142,000</u>                          | <u>67,714</u>  |

*Note:*

- (a) During the period, nil (year ended 31 December 2006: 1,600,000) and 4,506,000 (year ended 31 December 2006: 1,874,000) 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.
- (b) On 22 February 2007, 46,637,974 shares were issued for the acquisition of Saint Honore. The fair value of the shares issued was HK\$144,578,000 which is based on the published share price of HK\$3.10 as of the acquisition date (*note 15(a)*).

## 13. Capital commitments

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

|                                   | <b>(Unaudited)</b><br><b>30 June</b><br><b>2007</b><br>HK\$'000 | <b>(Audited)</b><br><b>31 December</b><br><b>2006</b><br>HK\$'000 |
|-----------------------------------|---|---|
| Contracted but not provided for   | 3,348   | 2,291   |
| Authorised but not contracted for | <u>14,645</u>   | <u>10,099</u>   |
|                                   | <u>17,993</u>   | <u>12,390</u>   |



#### 14. Related party transactions

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 51.3% of the Company's shares. The remaining 48.7% 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 period:

(a) Immediate holding company

|  |             | (Unaudited)<br>Six months ended<br>30 June |                   |
|--|-------------|--|-------------------|
|  |             | 2007                                       | 2006              |
|  |             | HK\$'000                                   | HK\$'000          |
|  | <i>Note</i> |  |                   |
| Management fee and reimbursement of office and administrative expenses | (i)         | 9,314                                      | 8,408             |
| Rental payable   | (ii)        | 373  | 442               |
|  |             | <u>          </u>                          | <u>          </u> |

(b) Fellow subsidiaries

|                |             | (Unaudited)<br>Six months ended<br>30 June |                   |
|----------------|-------------|--|-------------------|
|                |             | 2007                                       | 2006              |
|                |             | HK\$'000                                   | HK\$'000          |
|                | <i>Note</i> |  |                   |
| Rental payable | (ii)        | 2,004                                      | 2,054             |
| Net purchases  | (iii)       | 4,205                                      | 2,744             |
|                |             | <u>          </u>                          | <u>          </u> |

(c) Key management personnel compensation

|  |  | (Unaudited)<br>Six months ended<br>30 June |                   |
|--|--|--|-------------------|
|  |  | 2007                                       | 2006              |
|  |  | HK\$'000                                   | HK\$'000          |
| Fees   |  | 350  | 238               |
| Discretionary bonuses                        |  | 3,211                                      | 2,564             |
| Salaries, share options and other allowances |  | 6,232                                      | 3,910             |
| Pension costs – defined contribution scheme  |  | 40   | 27                |
|  |  | <u>          </u>                          | <u>          </u> |
|  |  | <u>9,833</u>                               | <u>6,739</u>      |



(d) Balance arising from related party transactions

|                             | <b>(Unaudited)</b><br><b>30 June</b><br><b>2007</b><br>HK\$'000 | (Audited)<br>31 December<br>2006<br>HK\$'000 |
|-----------------------------|---|--|
| Amounts due from/(to):      |   |  |
| – Immediate holding company | (1,903)   | 48   |
| – Fellow subsidiaries       | (2,721)   | (2,478)                                      |
|                             | <u>(4,624)</u>  | <u>(2,430)</u>                               |

The outstanding amounts with the related parties 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) Rental are payable to the immediate holding company and fellow subsidiaries in accordance with the terms of agreements.
- (iii) Purchase from fellow subsidiaries are carried out in ordinary course of business and on terms mutually agreed between the Group and the related companies.

**15. Business combinations**

(a) Acquisition of Saint Honore Holdings Limited ("Saint Honore")

On 22 February 2007, the Group acquired 100% interest in Saint Honore, a company incorporated in Bermuda. Saint Honore is principally engaged in the manufacturing of bakery products and operation of retail chain of bakeries. It contributed revenue of HK\$168,577,000 and net profit of HK\$7,689,000 to the Group for the period from 23 February 2007 to 30 June 2007.

If the acquisition had occurred on 1 January 2007, the Group's revenue and net profit for the period ended 30 June 2007 would have been HK\$1,417,223,000 and HK\$34,391,000 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to leasehold land and land use rights, property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

The purchase consideration was comprised of:

|  |                |
|--|----------------|
|  | HK\$'000       |
| Cash paid                                      | 494,181        |
| Direct costs relating to the acquisition       | 9,010          |
| Fair value of shares issued ( <i>note 12</i> ) | 144,578        |
|  | <u>647,769</u> |



The assets and liabilities arising from the acquisition are as follows:

|   | Fair value<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|---|------------------------|--------------------------------|
| Net tangible assets acquired                    |                        |                                |
| Cash and cash equivalents                       | 155,128                | 155,128                        |
| Leasehold land and land use rights              | 168,714                | 72,583                         |
| Property, plant and equipment ( <i>note 9</i> ) | 140,579                | 135,985                        |
| Rental deposits paid                            | 10,942                 | 10,942                         |
| Deferred income tax assets                      | 539                    | 539                            |
| Inventories                                     | 11,847                 | 11,847                         |
| Trade receivables                               | 6,464                  | 6,464                          |
| Deposits, prepayments and other receivables     | 13,072                 | 13,072                         |
| Other financial assets                          | 8,147                  | 8,147                          |
| Trade payables                                  | (26,175)               | (26,175)                       |
| Other payables and accrued charges              | (50,897)               | (50,897)                       |
| Tax payable                                     | (342)                  | (342)                          |
| Cake coupon liabilities                         | (123,282)              | (123,282)                      |
| Rental deposits received                        | (97)                   | (97)                           |
| Provision for long service payments             | (6,248)                | (6,248)                        |
| Deferred tax liabilities                        | (18,087)               | (1,370)                        |
|   | <u>290,304</u>         | <u>206,296</u>                 |
| Net intangible assets acquired                  |                        |                                |
| Trademarks                                      | 110,000                | 27,600                         |
| Goodwill  | 247,465                | –                              |
|   | <u>357,465</u>         | <u>27,600</u>                  |
| Total net assets acquired                       | <u>647,769</u>         | <u>233,896</u>                 |
| Purchase consideration settled in cash          |                        | 497,991                        |
| Cash and cash equivalents acquired              |                        | <u>(155,128)</u>               |
| Cash outflow on acquisition                     |                        | <u>342,863</u>                 |

The goodwill is attributable to the workforce of Saint Honore and the synergies expected to arise after the acquisition.

(b) Acquisition of additional interest in Convenience Retail Southern China Limited (“CRSC”)

During the period, the Group acquired an additional 8.5% interest in CRSC from a minority shareholder with a total purchase consideration of HK\$5,212,000. The difference between the consideration paid and the share of net assets acquired has been debited to retained earnings.