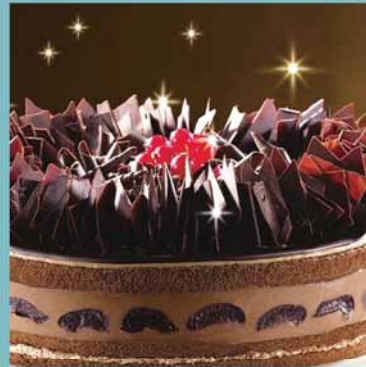




Convenience Retail Asia Limited
利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00831



Annual Report 2012



A Fung Retailing Company



The bakery-cum-cafe model of the new Saint Honore flagship store in Guangzhou's Tianhe district provides an excellent showcase for the premium product range of the brand.

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Corporate Information

Executive Directors

Richard YEUNG Lap Bun (*Chief Executive Officer*)

PAK Chi Kin (*Chief Operating Officer*)

Non-executive Directors

Victor FUNG Kwok King# (*Chairman*)

William FUNG Kwok Lun+

Godfrey Ernest SCOTCHBROOK*

Jeremy Paul Egerton HOBBS+

Benedict CHANG Yew Teck*

Independent Non-executive Directors

Raymond CH'IEN Kuo Fung**

Malcolm AU Man Chung**

Anthony LO Kai Yiu**

ZHANG Hongyi**

Group Chief Compliance Officer

Srinivasan PARTHASARATHY

Company Secretary

Maria LI Sau Ping

Registered Office

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Grand Cayman KY1-1111

Cayman Islands

Head Office and Principal Place of Business

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Kowloon

Hong Kong

Website

www.cr-asia.com

Legal Advisers

Mayer Brown JSM

(as to Hong Kong Law)

Conyers Dill & Pearman, Cayman

(as to Cayman Islands Law)

Auditor

PricewaterhouseCoopers

Certified Public Accountants

Principal Banker

The Hongkong and Shanghai Banking

Corporation Limited

* *Audit Committee members*

+ *Remuneration Committee members*

Nomination Committee members

Highlights

Financial Highlights

	Change	2012 HK\$'000	2011 HK\$'000
Revenue	+7.5%	4,270,318	3,972,615
Profit attributable to shareholders of the Company	+20.2%	199,951	166,320
Basic earnings per share (HK cents)	+19.6%	27.13	22.69
Dividend per share (HK cents)			
Final	+18.2%	13.00	11.00
Full year			
Basic	+13.5%	16.80	14.80
Special – paid	N/A	5.20	Nil

Operation Highlights

- Satisfactory sales and profit growth for the year
- Solid profit and cash contributions from Circle K and Saint Honore Hong Kong
- Complete integration of the Circle K and Saint Honore management and operations teams in Guangzhou
- Challenging outlook for 2013 as rentals and labour cost continue to be concerns
- Group maintains a strong financial position with net cash of HK\$743 million without any bank borrowings

Highlights (continued)

Number of Stores as of 31 December 2012

Circle K Stores

Hong Kong	331
Guangzhou	70
Shenzhen	1

Subtotal	402
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Franchised Circle K Stores

Guangzhou	12
Macau	23
Zhuhai	14

Subtotal	49
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Total number of Circle K Stores	451
----------------------------------------	------------

Saint Honore Cake Shops

Hong Kong	90
Macau	8
Guangzhou	38
Shenzhen	2

Total number of Saint Honore Cake Shops	138
------------------------------------------------	------------

Total number of Stores under Convenience Retail Asia	589
-------------------------------------------------------------	------------

Chairman's Statement



Dr. Victor FUNG Kwok King
Chairman

Financial Overview

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), achieved turnover of HK\$4,270.3 million and net profit of HK\$199.9 million for 2012. This represents satisfactory sales growth and a net profit increase of 7.5% and 20.2% respectively compared to 2011. Net profit included the gain on the disposal of a real estate property in 2012 and the one-off gain in gross margin resulting from cigarette inventory after the tobacco tax increase in 2011. Excluding the one-off gains, the Group recorded a net profit of HK\$161.4 million, representing an increase of 10.9% over 2011.

For 2012, basic earnings per share increased by 19.6%, from 22.69 HK cents to 27.13 HK cents.

As at 31 December 2012, the Group had a net cash balance of HK\$743 million with no bank borrowings.

Review of the Hong Kong Retail Market

The second half of 2012 proved difficult as anticipated, with consumer sentiment weakening amid concerns about the sovereign debt crisis in the Eurozone and the fragile recovery of the US economy. Both domestic consumption and tourist spending were affected, resulting in a slowdown in retail sales growth.

However, Hong Kong saw a surge of inbound tourist arrivals and a broadly stable labour market toward the end of the last quarter, helping drive high-single-digit growth in retail sales. As a result, the Hong Kong retail market closed with strong year-on-year growth. Total retail sales for 2012 increased by 9.8% in value and 7.2%¹ in volume over 2011.

A notable trend in the retail market is that Chinese Mainland visitors are becoming more prudent in their spending and shying away from higher-priced items. For this reason, the year-on-year increase in overall retail sales is not expected to return to double-digit figures.

Note:

1. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 31 January 2013.*

Company Initiatives in the Hong Kong Operations

In Hong Kong, the Group was able to maintain 6.7% sales growth for the second half of 2012 despite a difficult retail market. High rents remained challenging as renewed lease agreements averaged increases of 20% to 30%. In such an environment, the Group has strengthened its commitment to enhancing its competitiveness, customer experience, branding, store network, people, core competencies and new products, all of which are important foundations for future growth.

During the year under review, steady progress was made implementing key company initiatives. One of these was service-oriented training, an initiative that was validated when the Group won the Hong Kong Retail Management Association's Service Retailer of the Year 2012 award in the Convenience Store Category for the third consecutive year.

The year also saw the addition of further initiatives addressing cost control, store productivity improvement and streamlining of operational processes, each of which yielded tangible results.

Review of the Retail Market on the Chinese Mainland

The Consumer Price Index stabilised in the second half of 2012, finishing with a year-on-year increase in the low single digit. This had a positive impact on food and raw material costs, which benefited the Saint Honore operations in particular.

The growth rate for retail sales slowed from the high teens to between 13% and 15%² in the second half due to the contraction of export trade resulting from on-going global economic uncertainty. Consumer sentiment in Guangzhou remains cautious as customers save more and spend less, except for necessities.

Review of the Guangzhou Circle K Operations

During the year the Group achieved total integration of the management and operations teams for the convenience store and cake shop businesses. The new store opening programme also remained on target, with 11 new stores added to the network for a total of 70 stores as at the end of 2012.

Hot & In food services continued to be the key driver for sales and profit growth while customer traffic was maintained by new product introductions and a loyalty programme promotion. However, the weak economic environment and conservative consumer sentiment prevailing in the second half of the year resulted in a modest 9.7% increase in comparable store sales growth, while a steady increase in operating expenses negatively impacted profit.

Note:

2. *Published by the National Bureau of Statistics of China on 18 January 2013.*

Review of the Saint Honore Cake Shop Operations

Saint Honore achieved a healthy increase in revenue with a minor reduction in the cost of goods sold. This was mainly due to savings in the food and raw materials category that followed the stabilisation of the consumer price index. As a result, gross profit saw modest 1% growth, with a significant increase in profit attributable to shareholders.

During the year the Group experimented with managing two stores in Shenzhen through the Hong Kong store operating team as a learning opportunity to understand more about the Shenzhen market. The Group also doubled the number of cake shops in Guangzhou and its surrounding cities to 38 stores, with the aim of doubling that number again to approximately 80 in 2013. The Group aims to operate almost the same number of cake shops as convenience stores in Guangzhou in order to maximise store profit and achieve an economy of scale through the two-brand expansion strategy.

Corporate Governance and Sustainability

The Group conducts constant reviews of its corporate governance practices to ensure high standards of compliance. During the year it appointed an independent professional assessment agency to review food hygiene and safety, occupational health and safety, and the environmental management systems of the Saint Honore Cake Shop operations in Hong Kong and Shenzhen.

The Group remains firmly committed to support the principles of the United Nations Global Compact, which covers human rights, labour standards, environmental protection and anti-corruption as well as the principles of sustainability.

The Group also continued emphasising the "4Rs" – Reduce, Re-use, Re-cycle and Refrain – throughout its store operations and customer communications. Internal communication platforms included "Green Day" every Tuesday, featuring educational email messages nurturing eco-awareness and promoting useful tips for environmental conservation. A biannual sustainability workshop was also introduced to provide a platform for sharing and interaction about topics related to the management of natural resources as well as environmental disaster alerts and information on global warming. Energy-saving initiatives and paper consumption monitoring/recycling programmes played key roles in the implementation of the Group's "Green Office" concept.

In Shenzhen, the Saint Honore factory successfully switched from heavy oil to natural gas in an effort to save energy and reduce carbon emissions, setting the benchmark for the industry in Shenzhen. In Hong Kong, Saint Honore Cake Shop and Circle K Hong Kong partnered with Foodlink and other charitable organisations to minimise food wastage by donating unsold bread and prepared food to the needy.

Outlook for 2013

The Group anticipates another year of uncertainty and volatility in global finance. As an open economy, Hong Kong is susceptible to external market upheavals that could also impact consumer sentiment.

In Guangzhou, the Group will open Saint Honore Cake Shops at a faster pace than convenience stores, in order to take advantage of the absence of a market leader in the bakery segment and to optimise the profit potential of the cake shop business model. As part of a vertically integrated business, new Saint Honore stores can build loyal customer bases more easily with their exclusive house brand products, deliver higher gross profit and achieve store breakeven sooner than stores in the convenience stores segment. Saint Honore also offers significant potential as a gifting brand for festive products in both the consumer and corporate market segments.

Rents are expected to remain at high level, although they are unlikely to increase significantly as they did in 2012. Combined with higher labour costs, this will still be a concern for 2013. However, both Circle K and Saint Honore Hong Kong have become solid profit and cash contributors. The Group also feels it has very positive brand perceptions and a good core management team in place, all of which will provide a solid foundation for future network expansion and sales growth.

In conclusion, I would like to take this opportunity to express my deep appreciation to the Board of Directors, which has made significant contributions to the Group's business performance with its valuable guidance and professional advice. I would also like to thank the management team and all members of the Group for their hard work and dedication in delivering a satisfactory business performance amid a challenging market environment.

Victor FUNG Kwok King

Chairman

Hong Kong, 27 March 2013

Management Discussion and Analysis



Mr. Richard YEUNG Lap Bun
Chief Executive Officer

Financial Review

The Board is pleased to report the financial results of the Group for the year ended 31 December 2012. The Group's turnover for the year increased to HK\$4,270.3 million, representing growth of 7.5% when compared to the corresponding period in 2011.

In 2012 the turnover of the convenience store business was HK\$3,387.7 million, an increase of 7.4% compared to 2011. This was mainly attributable to the opening of new stores and an increase in comparable convenience store sales (stores in existence throughout 2012 and 2011). Comparable convenience store sales in Hong Kong and Southern China increased by 4% and 11% respectively against 2011. Meanwhile, turnover for the Saint Honore Cake Shop business increased by 7.3% to HK\$950 million year on year. This was primarily due to single-digit comparable store sales growth in Hong Kong, an increase in the number of stores and improvement in festive products sales in 2012.

Gross margin and other income decreased from 36.9% to 36.4% of turnover for the year against 2011. The higher gross margin achieved last year was mainly due to the one-off gain as a result of the favourable impact on cigarette margin for a certain amount of inventory after the tobacco tax increase in 2011. Excluding this one-off gain, gross margin as percentage of turnover maintained a level similar to the same period in 2011.

Operating expenses as a percentage of turnover decreased marginally from 32.4% to 32.3% for the year against 2011. Despite escalating rentals and inflationary operating costs, the Group's store operating expenses were managed well on a percentage-of-sales basis.

Compared to 2011, net profit attributable to shareholders increased by 20.2% to HK\$199.9 million for the year. This result included factoring in the gain on the disposal of a real estate property in 2012 and the one-off gain in gross margin resulting from cigarette inventory after the tobacco tax increase in 2011. Excluding the one-off gains, the Group recorded year-on-year growth in net profit attributable to shareholders of 10.9%.

For 2012, basic earnings per share increased by 19.6%, from 22.69 HK cents to 27.13 HK cents.

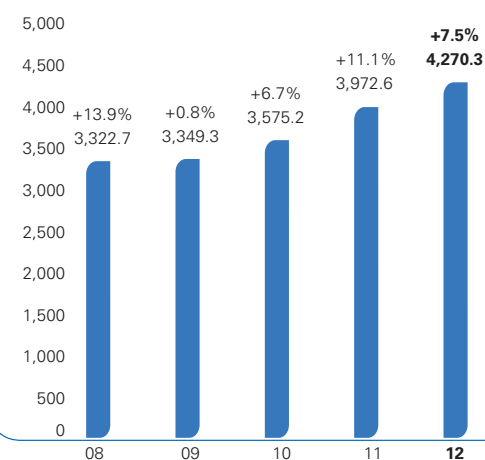
Management Discussion and Analysis (continued)

Financial Review (continued)

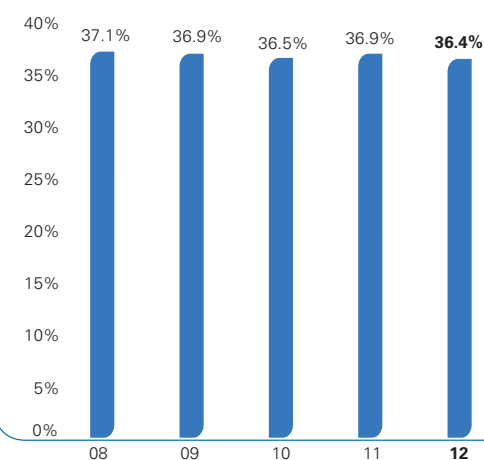
The Group continued to maintain a strong financial position with net cash of HK\$743 million and no bank borrowings. Most of the Group's cash and bank deposits were in HK dollars as well as Renminbi and deposited with major banks in Hong Kong and the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held in either HK dollars or Renminbi. The Group had limited foreign exchange exposure in Renminbi as a result of its business operations on the Chinese Mainland, except for certain Renminbi bank deposits held in Hong Kong, which are subject to foreign exchange risk. The Group is subject to interest rate risks on the interest income earned from bank deposits. The Group will continue its policy of placing surplus cash in HK dollar or Renminbi bank deposits, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.

Turnover

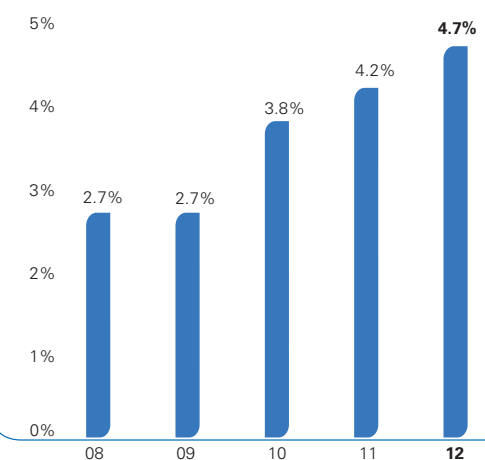
(HK\$ Million)



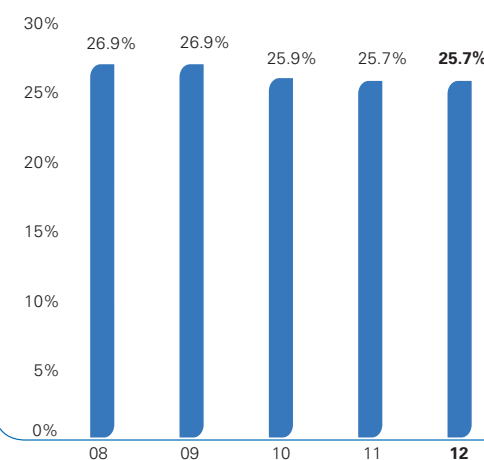
Gross Margin and Other Income



Net Margin

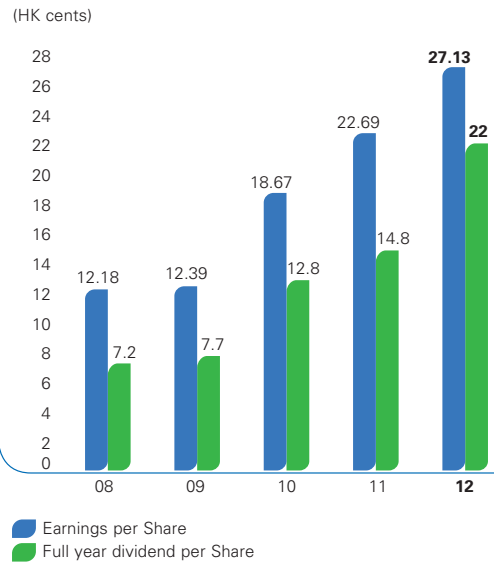


Store Operating Expenses as % of Sales

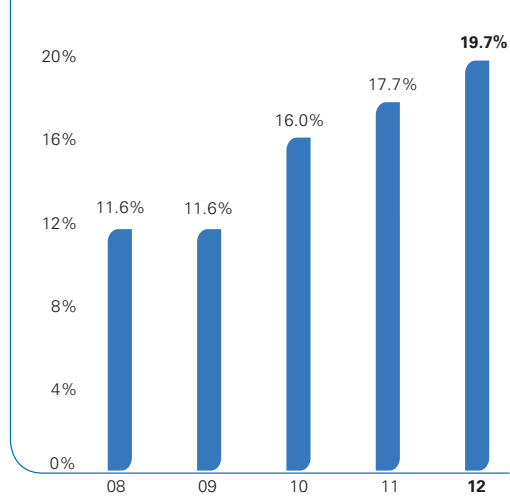


Financial Review (continued)

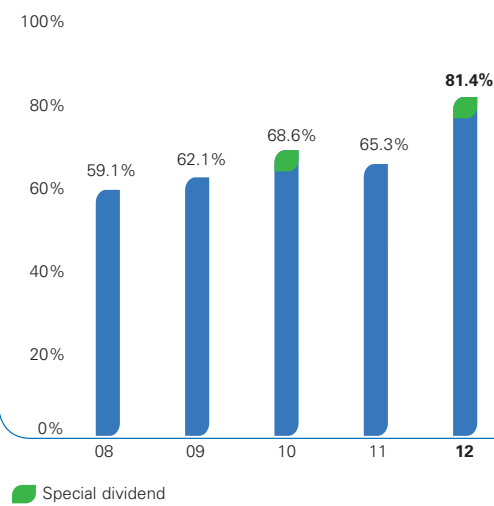
Earnings per Share and Dividend per Share



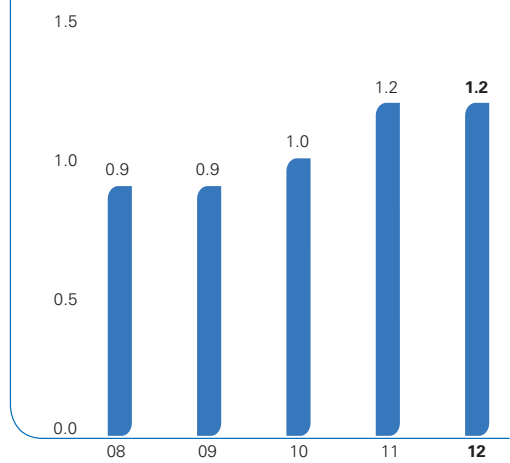
Return on Capital Employed



Dividend Payout



Current Ratio



Business Model and Corporate Strategy

The Group is a member of Fung Retailing and has the exclusive right to use the Circle K brand name, one of the fastest-growing convenience store brands worldwide, for convenience retailing in Hong Kong, Macau and the Chinese Mainland. In addition, the Group owns Saint Honore Holdings Limited and its bakery chain Saint Honore Cake Shop, a household name for bakery in Hong Kong, Macau and the Pearl River Delta. The Group operates nearly 600 stores under the two brands in Hong Kong, Macau, Guangzhou, Shenzhen and Zhuhai.

The Group's vision is to be the preferred brands for customers and the most innovative convenience and bakery store chain operator in the markets where it operates. It employs a multi-pronged strategy to accomplish this market positioning:

- Innovative product offerings through "Always Something New" operations and marketing platforms
- Customer-centric business focus
- Excellence in customer service
- Convenient store locations
- Highly motivated and engaged employees
- Maximising efficiency by adopting the latest information technology
- Synchronised supply chain management infrastructure and processes
- Continuous investment in brand-building, store network, people, training, IT systems and supply chain infrastructure

The Group strives to achieve sustainable, long-term value for its shareholders through total commitment to its customers, employees and business. The Group's keys to success are its innovation, execution, ethics, strong partnerships with quality suppliers, and the prudent, professional management of its growth and profitability.

The Board and the Management have played and will continue to play a proactive role in the Group's development of its business model and pursue new business ventures to maintain competitiveness as well as to drive for sustainable long-term growth of the Group.

Operations Review – Hong Kong

During the year, Circle K opened 19 new stores and closed 12 stores in Hong Kong for a net increase of seven. The total number of stores at year-end was 331 compared to 324 at the end of 2011.

Saint Honore Cake Shop opened six new stores and closed six stores in Hong Kong, maintaining the same number as 2011. The Group upgraded a number of store sites and designs during the year.

There do not seem to be any indications of a peak or correction in the retail rental market, although landlords appear more open to negotiations during new site acquisitions and lease renewals.

Employees

As at 31 December 2012, the Group had a total of 6,515 employees, with 4,250, or 65%, based in Hong Kong and 2,265, or 35%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 34% of total headcount.

The Group offers remunerative schemes that are competitive in the market. For eligible employees, salary packages were supplemented by discretionary bonuses and share options based on individual and company performance. Additional incentives were provided in the form of career advancement opportunities, comprehensive job-related skills training and quality customer service training for the frontline operations team.

Employee engagement was one of the Group's key management initiatives during 2012. The Group completed a total of 18 focus group sessions with employees to gauge its level of staff engagement and consolidated the resulting feedback to formulate future direction and action. It also launched the "Journey of the HEARTS" initiative to enhance staff engagement. Within the HEARTS campaign framework, a series of activities will be rolled out focusing on the themes of "Happy", "Energised", "Achievements", "Respect", "Training" and "Success". A HEARTS booklet was also presented to each employee.

Other new initiatives introduced throughout the year included an Internal Transfer Policy, Flexi-working Hours, Home Early, and a review of the Study Sponsorship Policy, the latter of which resulted in a new sponsorship programme to facilitate personal and career training and development for employees. The Group also developed various platforms to enhance internal communication, including an Activity Organising Board and an intranet promoting HEARTS messages and activities.



The Group launched a holistic engagement programme in 2012 with "Journey of the HEARTS" as the theme to raise the engagement level of colleagues.

Marketing and Promotion

The Group continued to introduce aggressive promotions aimed at increasing transaction value and contributing to daily store sales growth. These also helped offset the minor decrease in transaction count resulting from the drop in newspaper and magazine sales, which was caused by consumer reading habits shifting towards digital media.

The year under review also saw the launch of an innovative UNO Card promotion in the fourth quarter to build excitement for the shopping experience and generate repeat purchases. The novelty of the card collection game mechanics created substantial media buzz both online and offline.



Premiums promotions were conducted regularly during the year to increase transaction value and contribute to daily store sales growth.



An innovative UNO Card promotion was launched in the fourth quarter, another breakthrough in support of Circle K's "Always Something New" marketing platform.

Category Management

In line with the Group's strategic objectives to expand the convenience service category, payment services for water bills and various taxes were rolled out, supported by extensive publicity in the media and promotional messages in stores. The Group introduced a new product category, packaged frozen yogurt, under the brand name Hokkaido-Yo before the start of the hot weather. Hokkaido-Yo contributed to incremental sales with its attractive attributes of deliciousness, smoothness and health benefits. A "On-the-Go" breakfast campaign was also launched in the third quarter to promote a comprehensive range of packaged bread baked by Saint Honore Cake Shop, freshly delivered to Circle K stores every morning. The combo price of the packaged bread and a choice of packaged beverage also presented an attractive value proposition.

A promotion campaign for "On-the-Go" breakfast combo was introduced.



Customer Service Excellence

Building on the principle that “happy employees beget happy customers”, the Group launched a “Be Happy, We Kare” programme promoting a caring culture among the store operations team. The programme included organising store visits by the management team in a “Back to Store” initiative.

During the year the Group’s consistent efforts to maintain a high standard of customer service were duly recognised by industry organisations in 2012:

- Circle K Hong Kong won the Hong Kong Retail Management Association’s Service Retailer of the Year 2012 Award in the Convenience Store Category for the third consecutive year.
- Circle K Hong Kong and Saint Honore Cake Shop won the Hong Kong Retail Management Association’s Service & Courtesy Award 2012 at the Supervisory level.
- Circle K Hong Kong and Saint Honore Hong Kong were both named “Smiling Enterprises” in the Smiling Report by the Mystery Shopping Provider Association.
- The Circle K store at Luk Yeung Galleria was named a top-quality performer under the “2011 Total Quality Service Regime” organised by the MTR Corporation.
- The Circle K store at Hong Kong International Airport won the Customer Service Excellence Individual Award, given by Airport Authority Hong Kong, for the second consecutive year. It also won the Team Award for the first time.



The Group won industry recognition from the Hong Kong Retail Management Association as the Service Retailer of the Year 2012 in the Convenience Store Category for the third consecutive year.



Circle K Hong Kong and Saint Honore Cake Shop won the Hong Kong Retail Management Association’s Service & Courtesy Award 2012 at the Supervisory level.

As part of an annual event recognising outstanding performers from the operations team, the Group appointed 100 Service Stars to be role models promoting quality customer service for frontline colleagues. Also, in an effort to enhance customer experience during special occasions such as Mother’s Day, Father’s Day, Halloween and more, staff prepared special gifts for customers.

Supply Chain Management and Logistics

To foster the growth of the store network, the Group expanded its supply chain management service to cover the Pearl River Delta region, from the distribution centre in Guangzhou to second- and third-tier cities such as Zhaoqing, Foshan, Jiangmen, Zhongshan, Dongguan, Huizhou, Shenzhen and Zhuhai. The distribution centre in Hong Kong will also support Shenzhen and Macau.



Regional logistics service coverage of the Group's two distribution centres for Southern China operations.

Operations Review – Guangzhou

Operating costs continued to rise with increasingly high wages, significant social welfare expenditure and increased energy consumption, especially during the summer.

The Group celebrated the 10th anniversary of its Guangzhou operations with a multi-channel consumer promotion conducted both online and offline. As part of this promotion, customers were encouraged to participate in the celebrations by selecting the most popular cold drinks from the Hot & In range via an online poll. In another promotion effort for the Hot & In food service, its VIP programme recruited over 70,000 members who accounted for a significant proportion of sales.



In November 2012, a celebration ceremony was held for the 10th anniversary of Circle K convenience stores in Guangzhou at the Fortune Plaza flagship store.

Operations Review – Guangzhou (continued)

Convenience services are an increasingly important part of the store experience, providing added value for customers. During the year, the Group introduced DHL document delivery service in select stores and also offered transaction discounts for Unionpay credit card “quick pass” payments.

Environmental initiatives included the launch of LED lighting pilot schemes at three stores, which demonstrated satisfactory energy-saving results. The Group now targets replacing the lighting in all stores with LED by the end of the first quarter of 2013.

The Group achieved exceptionally high scores in an AON Hewitt Best Employer Survey in October, reflecting a very high level of employee engagement with employees who are greatly motivated by the company’s aggressive network expansion strategy. During the year, new store uniforms were also rolled out to project a trendier, more energetic image.

Operations Review – Saint Honore Cake Shop

In 2012 Saint Honore Cake Shop business registered turnover growth of 7.3% over 2011. Gross profit of the business showed a slight increase of 1% despite the impacts of the minimum wage being in effect for a full year as well as surging rents. Rising food costs have been contained since the second quarter, contributing to the overall improvement in gross profit.

Saint Honore received a number of important recognitions during the year. These included the MetroBox Prime Awards for Brand Excellence 2012 in the Bakery Category; being named a Touch Brand 2012 by East Touch; and winning the Outstanding Corporate Image Award and Superbrand 2012, organised by TVB Weekly.

The Group also engaged Moses Chan, a popular television artist, as its spokesperson for brand and product advertising for the second year.



The Group has engaged the services of Moses Chan as spokesperson for Saint Honore Cake Shop for the second consecutive year.

Operations Review – Saint Honore Cake Shop (continued)

The Group expanded its store network from 19 to 38, rolling out from Guangzhou to second-tier cities including Foshan, Jiangmen and Huiyang. The Group aims to double the size of its store network again in 2013 to about 80, covering areas such as Dongguan, Huizhou and Conghua. The strategy for locations is to partner with big developers and explore sites along key subway routes, and to work closely with supermarkets like Lotus, Jusco and Tesco.

The flagship store opening in Guangzhou in June provided a showcase for the brand’s premium positioning as well as its full range of cake and bread products. The flagship’s bakery-cum-cafe model represents an important experiment to see whether such a store is financially viable. The Group also plans on introducing illy Coffee – a premium Italian coffee brand – to Saint Honore stores as an endorsement of its coffee offering.

Other notable developments during the year included the launch of the Saint Honore Guangzhou website and an online cake ordering system; the successful recruitment of more than 12,000 VIP members as at the end of 2012; and the Group’s 10th anniversary celebrations in October, which featured a consumer promotion focusing on the 10 signature products.



Print advertisement in local newspaper to announce the opening of Saint Honore’s flagship store in Tianhe district, Guangzhou.

Corporate Social Responsibility

The Group partnered with Heifer International – Hong Kong for the sixth consecutive year to participate in their various charitable events, including the “Race to Feed” and the Annual Study Tour. Employees also took part in the Walk for Nature 2012 organised by the World Wide Fund for Nature Hong Kong; supported the Helping Hand Cookie Campaign 2012; and donated premiums to the Tung Wah Group of Hospitals for the benefit of their service recipients, who are typically low-income families, the elderly and disabled.



For the sixth consecutive year, Circle K Hong Kong participated in the annual “Race to Feed” fundraising event organised by Heifer International – Hong Kong.



Colleagues participated in “Walk for Nature” by the World Wide Fund for Nature Hong Kong with their families and friends.

Future Prospects

Continued global economic uncertainty points to another challenging year in 2013, but the efforts of the past year to strengthen store brands and networks should have the Group well placed to generate further business growth.

The first half of 2013 will be devoted to more store openings, with lower expectations of significant growth at the bottom line. Second-half financial performance should be more promising as the new stores opened in 2012 begin to mature and make more significant contributions. Southern China will be looked at as a major growth engine, especially in view of the encouraging market potential of the Saint Honore business model.

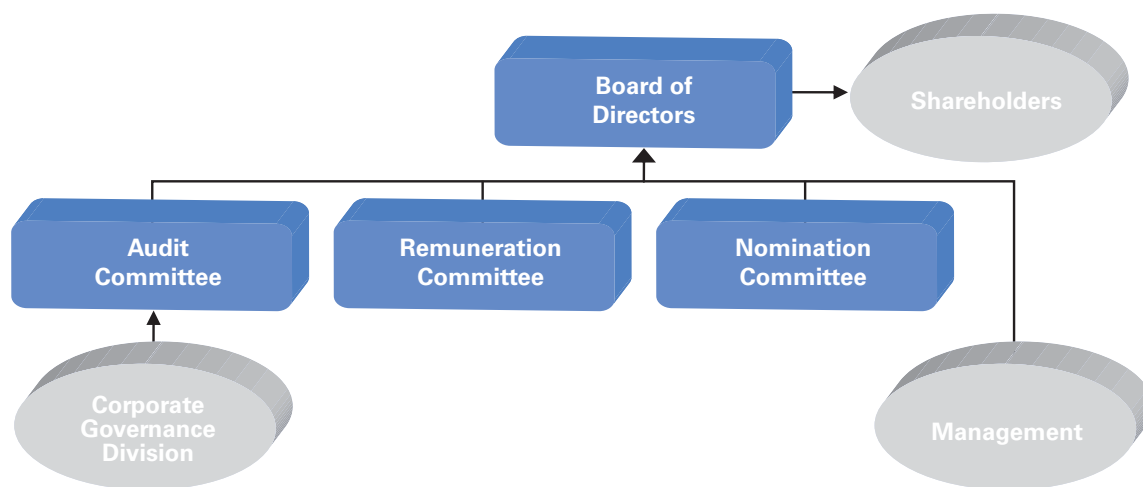
The Group’s management and operations teams remain highly motivated and committed, and improving performance from the Guangzhou operations will help pave the way for success in the future.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 27 March 2013

Corporate Governance Report

The Board of Directors and management are committed to principles of good corporate governance consistent with prudent enhancement and management of shareholder value. These principles emphasise transparency, accountability and independence. Set out below are those principles of corporate governance as adopted by the Company.



The Board

Board Composition

The Board is structured to ensure it is of a high calibre and has a balance of skills, experience and knowledge desirable for effective leadership of the Group. As at 31 December 2012, the Board comprised the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and four Non-executive Directors. Biographical details and relevant relationships of the Board members are set out in the Directors and Senior Management Profile section on pages 35 to 40.

Chairman and Chief Executive Officer

In order to enhance independence, accountability and responsibility, the roles of Chairman and Chief Executive Officer are held separately by Dr. Victor Fung Kwok King and Mr. Richard Yeung Lap Bun. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for overseeing the proper functioning of the Board with good corporate governance practices and procedures, whilst the Chief Executive Officer is responsible for managing the Group's business, including the implementation of major strategies and initiatives adopted by the Board.

The Board (continued)

Roles and Responsibilities of the Board and Delegation to Management

The Board is responsible for setting the overall strategy of the Group and making decisions on major operational and financial matters as well as investments. The Board reserves for its decision or approval matters involving:

- Recommendations on Directors' appointment or re-appointment;
- Composition and terms of reference of Board committees;
- Major acquisitions and disposals;
- Remuneration of individual Executive Directors, Non-executive Directors and senior management;
- Annual budgets;
- Annual and interim reports;
- Major capital and borrowing transactions; and
- Other significant operational and financial matters.

The Non-executive Directors, who offer diverse industry expertise and do not involve in the day-to-day management of the Group, serve the important functions of advising the management on strategies, ensuring high standards of financial and other mandatory reporting, and providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

Corporate Governance Report (continued)

The Board (continued)

Roles and Responsibilities of the Board and Delegation to Management (continued)

Day-to-day operational responsibilities are delegated by the Board to management, such matters include:

- Preparation of annual and interim financial statements for Board approval before public reporting;
- Execution of business strategies and initiatives adopted by the Board;
- Monitoring of budgets; and
- Implementation of sound and effective internal control system and review of relevant financial, operational and compliance controls and risk management functions, ensuring relevant statutory and regulatory compliance.

The Board and management fully appreciate their respective roles and responsibilities, and are supportive of the development of a healthy corporate governance culture.

Board and Committee Meetings

The Board held four meetings in 2012 (with an average attendance rate of directors of 92.5%). The Chairman holds meetings annually with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

The dates of the 2012 Board meetings and committee meetings were determined in the third quarter of 2011 to facilitate maximum attendance of Directors. Amendments to this schedule were notified to the Directors within a reasonable time before a regular Board meeting/committee meeting.

The Board meeting agenda is set by the Chairman in consultation with members of the Board. Notice of at least 14 days is given of a regular Board meeting. Agenda and accompanying board papers are sent in full to all Directors at least three days before the date of the meeting so as to give the Directors sufficient time to prepare before the meeting. Draft minutes are sent to all Directors for their comment within a reasonable time after the meeting. The Board formally adopts the draft minutes at the subsequent meeting.

The committee meeting agenda is set by the respective committee chairman and notice of at least 14 days is also given. Agenda and accompanying papers are sent in full to all committee members at least three days before the date of the meeting. Draft minutes are sent to all committee members for their comment within a reasonable time after the meeting. Each committee formally adopts the draft minutes at the subsequent meeting.

The adopted minutes of the Board meetings and committee meetings are kept by the Company Secretary and are open for inspection by all Directors.

The Board (continued)**Board and Committee Meetings** (continued)

Details of the attendance at the meetings held in 2012 are set out in the following table:

	No. of meetings attended /held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Non-executive Directors:					
Victor FUNG Kwok King <i>(Group Chairman and Chairman of Nomination Committee)</i>	3/4	–	1/1	2/2	1/1
William FUNG Kwok Lun	4/4	–	–	–	1/1
Godfrey Ernest SCOTCHBROOK	3/4	3/4	–	–	0/1
Jeremy Paul Egerton HOBBS	4/4	3/3	–	–	1/1
Benedict CHANG Yew Teck <i>(Appointed on 1 July 2012)</i>	2/2	1/1	–	–	–
Independent Non-executive Directors:					
Raymond CH'EN Kuo Fung <i>(Chairman of Audit Committee)</i>	4/4	3/4	1/1	–	0/1
Malcolm AU Man Chung <i>(Chairman of Remuneration Committee)</i>	3/4	3/4	0/1	2/2	0/1
Anthony LO Kai Yiu	4/4	4/4	–	2/2	1/1
ZHANG Hongyi <i>(Appointed on 1 July 2012)</i>	2/2	–	–	–	–
Executive Directors:					
Richard YEUNG Lap Bun <i>(Chief Executive Officer)</i>	4/4	–	–	–	1/1
PAK Chi Kin <i>(Chief Operating Officer)</i>	4/4	–	–	–	1/1
Group Chief Compliance Officer:					
Srinivasan PARTHASARATHY*	4/4	4/4	1/1	2/2	1/1
Average Attendance Rate of Directors	92.5%	85%	about 67%	100%	about 67%
Dates of Meeting	7 March 2012 4 May 2012 6 August 2012 22 November 2012	7 March 2012 4 May 2012 6 August 2012 22 November 2012	6 March 2012	4 May 2012 6 August 2012	4 May 2012

* Attended Board and committee meetings as a non-member

Corporate Governance Report (continued)

The Board (continued)

Independence of Non-executive Directors

The Company has received from each Independent Non-executive Director an annual written confirmation of his independence in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors to be independent during the year ended 31 December 2012.

Each Independent Non-executive Director is required to inform the Company as soon as practicable if there is any change of circumstances that may affect his independence.

Appointment and Re-appointment of Directors

The appointment of a new Director must be approved by the Board. The Board has delegated to the Nomination Committee to select and recommend candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Nomination Committee has established guidelines to assess the candidates. These guidelines include appropriate professional knowledge and industry experience, character, integrity, personal skills and expertise and ability to contribute sufficient time and attention to the affairs of the Company for the proper functioning of the Board.

In 2012, the Board reviewed its composition, the nomination of new Directors and the retirement of Directors by rotation. The changes in Board members during the year ended 31 December 2012 were as follows:

- Mr. Benedict Chang Yew Teck was appointed as Non-executive Director with effect from 1 July 2012.
- Mr. Zhang Hongyi was appointed as Independent Non-executive Director with effect from 1 July 2012.

Non-executive Directors were appointed for an initial term of three years and will continue in office thereafter subject to termination by not less than three months' prior notice in writing by either party to the other. In addition, all Directors including the Non-executive Directors are required to retire from office by rotation and are subject to re-election by shareholders at the Annual General Meeting (the "AGM") at least once every three years pursuant to the Company's Articles of Association. This is also in accordance with the former Code on Corporate Governance Practices (effective until 31 March 2012) and the revised Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules (collectively referred to as the "CG Code").

Potential Conflict of Interest

If a potential conflict of interest involving a substantial shareholder or a Director arises, the matter will be dealt with by a physical Board meeting instead of a written resolution. Directors who have a potential conflict of interest shall not be counted in the quorum of the meeting and must abstain from voting on the relevant resolutions. Directors with no conflict of interest will attend and vote at meetings dealing with such conflict issues.

The Board (continued)

Information and Continuous Professional Development

All new Directors receive an induction on the Group's structure, businesses and governance practices to enhance their understanding of the Group's operations.

All Directors are kept informed on a timely basis of major changes that may affect the Group's business, including relevant rules and regulations. Management provides the Directors with a monthly financial summary of the Group giving a balanced and understandable assessment of the Group's performance, position and prospects.

The Board and each Director have separate and independent access to the Company's senior management. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, and all applicable rules and regulations, are followed.

The Directors are encouraged to attend relevant training sessions to develop and refresh their knowledge and skills for discharging their duties and responsibilities as Directors of the Company.

All Directors are required to provide the Company with their training records on an annual basis. For the year ended 31 December 2012, all Directors have attended the training sessions arranged by the Company, they have also attended and/or given talks at external seminars/training sessions.

Other Matters Concerning Directors

Written procedures are put in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice in 2012.

The Directors ensure that they can give sufficient time and attention to the affairs of the Company. The Directors are requested to disclose to the Company on a periodic basis the number and nature of offices held in public companies or organisations and other significant commitments. The identity of the public companies or organisations should also be disclosed.

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed regularly.

Independent Reporting of Corporate Compliance Function

The Board recognises the importance of independent reporting of the corporate compliance function. The Group Chief Compliance Officer is invited to attend all Board and committee meetings to advise on corporate governance matters covering risk management, internal controls and compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

Corporate Governance Report (continued)

Board Committees

The Board has established the following committees with defined terms of reference, which are of no less exacting terms than those set out in the CG Code:

- Audit Committee
- Remuneration Committee
- Nomination Committee

All the committees comprise a majority of Independent Non-executive Directors and are chaired by Non-executive Directors. Such committees are provided with sufficient resources to discharge their duties and have access to independent professional advice if considered necessary at the Company's expense.

Audit Committee

The Audit Committee was established in January 2001 to review the Group's financial reporting, internal controls, corporate governance and risk management matters, and to make recommendations to the Board. Its current members include:

Raymond CH'IEN Kuo Fung* – *Committee Chairman*

Malcolm AU Man Chung*

Anthony LO Kai Yiu*

Godfrey Ernest SCOTCHBROOK⁺

Jeremy Paul Egerton HOBBS⁺ (*resigned as member with effect from 7 August 2012*)

Benedict CHANG Yew Teck⁺ (*appointed as member with effect from 7 August 2012*)

* *Independent Non-executive Director*

⁺ *Non-executive Director*

All committee members possess appropriate professional qualifications, accounting and related financial management expertise as required under the Listing Rules.

The Audit Committee met four times in 2012 (with an average attendance rate of 85%) to consider and review with senior management, the Company's Corporate Governance Division ("CGD") and external auditor various matters as set out in the Audit Committee's terms of reference, which included the following:

- Audit plans, findings and reports of CGD and external auditor;
- Independence of external auditor, their related terms of engagement and fees;
- The Group's accounting policies and practices, compliance with the Listing Rules and statutory requirements, connected transactions, internal controls, policies and practices on corporate governance, risk management, treasury and financial reporting matters (including the annual and interim financial statements before recommending to the Board for approval); and
- Adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

Board Committees (continued)**Audit Committee** (continued)

The Audit Committee has authority to investigate any activity within its terms of reference and has full access to and the cooperation of management. It has direct access to CGD and the external auditor, and full discretion to invite any management to attend its meetings.

Under the Group's Whistleblowing Policy, employees can report any concern, including actual or potential misconduct, possible impropriety or fraud in financial reporting, accounting and internal control matters, to either senior management or the Group Chief Compliance Officer. Any shareholders or stakeholders can also report similar concerns by writing in confidence to the Group Chief Compliance Officer at the Company's principal place of business in Hong Kong. No incident of fraud or misconduct that has material effect on the Company's financial statements and overall operations was reported by employees, shareholders or stakeholders in 2012.

External Auditor's Independence

In order to enhance independent reporting by external auditor, part of the Audit Committee meetings was attended only by the Committee members and the external auditor. In addition, the external audit engagement partner is subject to periodical rotation. A policy restricting the employment of employees or former employees of the external auditor at senior executive or financial positions within the Group has also been put in place.

A policy on provision of non-audit services by the external auditor has been established since 2005 which includes prohibition of specified non-audit services to be performed by the external auditor. Other non-audit services, with fees above a threshold and are considered not to affect the independence of the external auditor, require prior approval of the Audit Committee.

For the year ended 31 December 2012, the following fees paid or payable to the external auditor have been endorsed by the Audit Committee:

	Fees HK\$'000
Audit services	1,950
Non-audit services (including agreed-upon procedures regarding interim financial information and tax services)	453
Total	2,403

Prior to the commencement of the audit of the Company's financial statements for the year ended 31 December 2012, the Audit Committee received written confirmation from the external auditor on their independence as required by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Audit Committee is satisfied with the review of audit fees and scope, effectiveness of the audit process, independence and objectivity of the external auditor, PricewaterhouseCoopers ("PwC"), and has recommended to the Board the re-appointment of PwC as the Company's external auditor for the financial year ending 31 December 2013 at the forthcoming AGM.

Corporate Governance Report (continued)

Board Committees (continued)

Remuneration Committee

The Remuneration Committee was established in January 2005. Its current members include:

Malcolm AU Man Chung* (*appointed as Committee Chairman with effect from 8 March 2012*)

Victor FUNG Kwok King+

(*ceased as Committee Chairman with effect from 8 March 2012 and remained as member until 6 August 2012*)

Raymond CH'IEN Kuo Fung*

William FUNG Kwok Lun+ (*appointed as member with effect from 7 August 2012*)

Jeremy Paul Egerton HOBBS+ (*appointed as member with effect from 7 August 2012*)

ZHANG Hongyi* (*appointed as member with effect from 7 August 2012*)

* *Independent Non-executive Director*

+ *Non-executive Director*

The duties of the Remuneration Committee include:

- Make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, including allocation of share options to employees under the Company's Share Option Scheme;
- Make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management;
- Make recommendations to the Board on the remuneration of Non-executive Directors; and
- Review the Group's remuneration and human resources policy.

The Remuneration Committee met once in 2012 (with an attendance rate of about 67%) to consider and recommend to the Board the change of the composition of the Remuneration Committee, and to consider the grant of share options to the employees. Written resolutions were also signed by members of the Remuneration Committee during the year in relation to the allotment of shares upon exercise of share options by the employees.

Remuneration Policy for Executive Directors

Remuneration for Executive Directors includes fees, basic salary, bonus based on performance and share options which are designed to align Directors' interest with maximising the Company's long term shareholder value. No Executive Director is allowed to approve his own remuneration.

Board Committees (continued)

Remuneration Committee (continued)

Remuneration Policy for Non-executive Directors

Remuneration for Non-executive Directors comprises Directors' fees which are subject to assessment and recommendation by the Remuneration Committee for shareholders' approval at the AGM. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

Details of Directors' emoluments of the Company are set out in note 14 to the consolidated financial statements on pages 90 to 91.

Nomination Committee

The Nomination Committee was established in March 2012. Its current members include:

Victor FUNG Kwok King⁺ – *Committee Chairman*

Malcolm AU Man Chung* (*resigned as member with effect from 7 August 2012*)

Anthony LO Kai Yiu*

ZHANG Hongyi* (*appointed as member with effect from 7 August 2012*)

⁺ *Non-executive Director*

* *Independent Non-executive Director*

The duties of the Nomination Committee include:

- Review the structure, size and composition of the Board;
- Assess the independence of Independent Non-executive Directors;
- Make recommendations to the Board on the appointment or re-appointment of Directors; and
- Review and monitor the training and continuous professional development of Directors and senior management.

The Nomination Committee met twice in 2012 (with a 100% attendance rate) to review the composition (including diversity) of the Board and committees and to nominate new Directors to the Board.

Code of Conduct and Business Ethics

The Group places great emphasis on staff's ethical standards and integrity in all aspects of its operations. Guidelines of the Group's business ethical practices as endorsed by the Board are set out in the Code of Conduct and Business Ethics. All Directors and staff are expected to comply with the code at all times. The code is posted on the Company's intranet for ease of reference and as a constant reminder to all staff.

Directors' and Relevant Employees' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific confirmation of compliance has been obtained from all Directors.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2012.

Directors' Interests

Details of Directors' interests in the shares of the Company and its associated corporations are set out in the Directors' Report on pages 49 to 50.

Directors' and Auditor's Responsibilities for Financial Statements

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor to the shareholders are set out on pages 54 and 55 respectively.

Internal Control and Risk Management

The Board recognises the importance of internal controls to safeguard shareholders' interests and investments and the Group's assets, as well as to manage business risks.

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

The Board has delegated to executive management the design, implementation and ongoing monitoring of the system of internal controls covering financial, operational and compliance controls and risk management functions. Qualified personnel throughout the Group maintain and monitor this system of controls on an ongoing basis.

Internal Control and Risk Management (continued)

Control Environment

The Group operates within an established control environment, which is consistent with the principles outlined in “Internal Control and Risk Management – A Basic Framework” issued by HKICPA. The scope of internal controls for the Group relates to three major areas: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.

The Group maintains a tailored governance framework with defined lines of responsibility and appropriate delegation of authority.

Financial Risk Management

The Board approves the Group’s Three-Year Business Plan and annual budgets, reviews the Group’s operating and financial performance and key performance indicators against the budgets on a quarterly basis. Executive management closely monitors actual financial performance of the Group on a monthly basis.

The Group adopts a principle of minimising financial risks. Details of the Group’s financial risk management (encompassing foreign exchange risk, credit risk, liquidity risk and interest rate risk) are set out in note 3 to the consolidated financial statements on pages 77 to 79.

Operational Control Management

Corporate policies and procedures covering key risks and control standards have been established and implemented. Control procedures are put in place in connection with the approval of the Group’s major business transactions and investments, and the monitoring of daily operations of the Group’s business.

Regulatory Compliance Control Management

The Corporate Compliance Group (comprising CGD and Corporate Secretarial Division), under the supervision of the Group Chief Compliance Officer, in conjunction with our external advisors reviews the adherence to relevant laws and regulations, compliance with the Listing Rules, public disclosure requirements and our standards of compliance practices.

Internal and External Auditors

CGD staff independently review the internal controls and evaluate their adequacy, effectiveness and compliance. In addition, CGD staff regularly visit the Group’s offices, factories and selected stores in Hong Kong, Macau and on the Chinese Mainland to help embedding the compliance culture in the Group’s business practices by performing on-site reviews.

The Audit Committee approved CGD’s current Three-Year Internal Audit Plan (2011 to 2013) that is linked to the Group’s Three-Year Business Plan. The Internal Audit Plan is based on a risk assessment methodology and covers the Group’s major operations over a three-year period. The scope of the internal audit review covers material financial, operational and compliance controls, as well as risk management policies and procedures. A summary of the key recommendations is presented at the Audit Committee meetings. The implementation of all agreed recommendations is being followed up on a quarterly basis and the progress of implementation is reported to the Audit Committee at each committee meeting.

Corporate Governance Report (continued)

Internal Control and Risk Management (continued)

Internal and External Auditors (continued)

As part of the annual review of the effectiveness of the Group's system of internal controls, CGD independently reviews the Internal Control Self-Assessment Checklist completed by management, and assesses the adequacy and effectiveness of the internal controls implemented. CGD's review also considers the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The outcome of the review is reported to the Audit Committee.

The external auditor, PwC, performs independent statutory audit on the Group's financial statements. As part of the audit engagement, PwC also reports to the Audit Committee any significant weaknesses in the Group's internal control procedures which might come to their attention during the course of audit. PwC noted no significant internal control weaknesses in their audit for the financial year ended 31 December 2012.

Overall Assessment

Based on the respective assessments made by senior management and CGD, and also taking into account the results of the work conducted by the external auditor for the purpose of their audit, the Audit Committee considered that for the year ended 31 December 2012:

- The internal controls and accounting systems of the Group were in place and functioning effectively and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with management's authorisation and the financial statements were reliable for publication.
- There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.
- The resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function were adequate.

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2012.

Shareholders' Rights

Under the Company's Articles of Association, on the written requisition of shareholder(s) holding not less than one-tenth of the Company's paid-up capital carrying the right of voting at the Company's general meetings, the Board shall convene an extraordinary general meeting for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of the requisition.

Shareholders' Rights (continued)

Any proposal to be tabled at the Company's general meetings for consideration can be put forward in writing to the Board or the Company Secretary at the Company's principal place of business in Hong Kong. The detailed procedures vary depending on whether the proposal constitutes an ordinary resolution or a special resolution or whether the proposal relates to the election of an individual other than a Director of the Company as a Director.

The Company has since 2007 conducted all voting at general meetings by poll. Notice to shareholders will be sent in the case of AGM at least 20 clear business days before the meeting and at least 10 clear business days in the case of all other general meetings.

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to the Company Secretary at the Company's principal place of business in Hong Kong. Other general enquiries can be directed to the Company through the Company's website.

Investor Relations and Communication

The Company continues to pursue a policy of promoting transparency in corporate communication and investor relations. Regular communication programmes include conducting analyst briefing in person and/or via email, participation in investor conferences, arranging company visits and ad hoc meetings with institutional shareholders and analysts.

The Company maintains a corporate website (www.cr-asia.com) as one of the channels to promote effective corporate communication with the investors and the general public. The website is used to disseminate company announcements, shareholder information and other relevant financial and non-financial information in an electronic format on a timely basis.

The Board confirmed that there were no significant changes in the Company's Articles of Association during 2012 which affected the Company's operations and reporting practices.

Key calendar events for shareholders' attention and share information, including market capitalisation as at 31 December 2012, are set out in the Information for Investors section on page 41.

Annual General Meeting

AGM provides an opportunity for communication between the Board and the shareholders of the Company. All shareholders have proper notice of the AGM at which Directors and chairmen or members of the committees are available to take shareholders' questions.

The most recent AGM of the Company was held at the Auditorium, 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong on 4 May 2012 at 4:00 p.m. The notice of AGM, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders at least 20 clear business days prior to the meeting. Separate resolutions were proposed in respect of each substantially separate issue. Members of the Audit Committee, Remuneration Committee and Nomination Committee were available to answer questions from shareholders. A representative of the external auditor (the engagement partner) also attended the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

Corporate Governance Report (continued)

Investor Relations and Communication (continued)

Annual General Meeting (continued)

At the AGM, all resolutions as set out in the notice were put to vote by way of poll by the shareholders. An explanation was provided of the detailed procedures for conducting a poll. The Company's branch share registrar in Hong Kong, Tricor Abacus Limited, was appointed as the scrutineer at the AGM for the purpose of vote-taking.

The major items discussed and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

Ordinary resolutions passed	Percentage of votes cast
<ul style="list-style-type: none">To receive and adopt the audited consolidated financial statements and reports of the Directors and the Auditor of the Company and its subsidiaries for the year ended 31 December 2011	99.99%
<ul style="list-style-type: none">To declare a final dividend of 11 HK cents per share	99.99%
<ul style="list-style-type: none">To re-elect Dr. William Fung Kwok Lun as Director	99.75%
<ul style="list-style-type: none">To re-elect Mr. Anthony Lo Kai Yiu as Director	99.85%
<ul style="list-style-type: none">To re-elect Mr. Godfrey Ernest Scotchbrook as Director	99.99%
<ul style="list-style-type: none">To re-appoint PwC as Auditor and authorise the Board to fix their remuneration	99.85%
<ul style="list-style-type: none">To give a general mandate to the Directors to allot and issue additional shares not exceeding 20% of the issued share capital of the Company	70.53%
<ul style="list-style-type: none">To give a general mandate to the Directors to repurchase shares of the Company not exceeding 10% of the issued share capital of the Company	99.99%
<ul style="list-style-type: none">To extend the general mandate given to the Directors to allot and issue additional shares of an amount not exceeding the aggregate amount of shares repurchased by the Company	70.53%

All resolutions put to shareholders at the aforesaid AGM were passed. The results of the poll were published on the Company's and the Stock Exchange's website on the business day following the AGM.

Directors and Senior Management Profile

Executive Directors

Richard YEUNG Lap Bun – *Chief Executive Officer*

Mr. Yeung, aged 56, has over 20 years of experience in general management, food distribution and supply chain management and was appointed as Director of the Company on 1 November 2000. He is currently the Chief Executive Officer of the Group responsible for overseeing the Group's operations, marketing, logistics and supply chain management, and is actively involved in new business development in the Chinese Mainland. Prior to joining the Group in October 1998, he spent about ten years in senior positions at HAVI Food Services Group, managing the supply chain of McDonald's Restaurants in various countries in Asia. Mr. Yeung graduated from the University of Hawaii with a Bachelor of Business Administration degree. Mr. Yeung also holds a Master's degree in Business Administration from the California State University of Los Angeles and is a Certified Public Accountant of the American Institute of Certified Public Accountants. He is also a director of Fung Retailing Limited (formerly known as Li & Fung (Retailing) Limited, a substantial shareholder of the Company).

PAK Chi Kin – *Chief Operating Officer*

Mr. Pak, aged 54, has over 20 years of experience in the retailing and food distribution business and was appointed as Director of the Company on 10 March 2011. He is currently the Chief Operating Officer of the Group responsible for overseeing the Circle K operations of Hong Kong and providing strategic guidance, leadership support and advice to the operations of the Group jointly with the Chief Executive Officer. Prior to joining the Group in May 1999, Mr. Pak was the senior manager at HAVI Food Services Group in charge of the distribution of food products and logistics services to McDonald's Restaurants. Mr. Pak graduated from the University of Hong Kong with a Bachelor's degree of Science in Engineering, and also holds a Master's degree of Science in Engineering from the University of Hong Kong. Mr. Pak is a member of the executive committee of the Hong Kong Retail Management Association and also a member of the Retail Industry Training Advisory Committee – Qualifications Framework.

Directors and Senior Management Profile (continued)

Non-executive Directors

Victor FUNG Kwok King – *Chairman*

Dr. Fung, aged 67, brother of Dr. William Fung Kwok Lun, has been a Non-executive Director of the Company since 3 January 2001. Dr. Fung is Group Chairman of the Fung group (formerly known as Li & Fung group, a Hong Kong-based multinational which comprises major subsidiaries in trading, logistics, distribution and retailing). They include publicly-listed Li & Fung Limited, Trinity Limited and the Company. Dr. Fung has become Honorary Chairman of Li & Fung Limited after stepping down as its Group Chairman since May 2012. He is also a director of King Lun Holdings Limited, Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited) and Fung Retailing Limited (formerly known as Li & Fung (Retailing) Limited), which are substantial shareholders of the Company. Dr. Fung holds Bachelor and Master degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. He is an independent non-executive director of BOC Hong Kong (Holdings) Limited (Hong Kong), Chow Tai Fook Jewellery Group Limited (Hong Kong) and Koç Holding A.Ş. (Turkey). He has also been appointed as independent non-executive director of China Petrochemical Corporation (People's Republic of China) since April 2012. Dr. Fung is Founding Chairman of the Fung Global Institute, an independent and non-profit think-tank based in Hong Kong. He is also Honorary Chairman of the International Chamber of Commerce and a member of the WTO Panel on Defining the Future of Trade (since April 2012). In public service, Dr. Fung is a member of the Chinese People's Political Consultative Conference and a Vice Chairman of China Centre for International Economic Exchanges. He has also been appointed as a member of the Economic Development Commission of the Hong Kong Government recently. Dr. Fung was Chairman of the Hong Kong Trade Development Council (1991–2000), the Hong Kong representative on the APEC Business Advisory Council (1996–2003), Chairman of the Hong Kong Airport Authority (1999–2008), Chairman of The Council of The Hong Kong University (2001–2009), Chairman of the Hong Kong – Japan Business Co-operation Committee (2004–2010), Chairman of the Greater Pearl River Delta Business Council (2004 – end of February 2013) and a member of the Commission on Strategic Development of the Hong Kong Government (2005 – June 2012). Dr. Fung ceased as a director of Baosteel Group Corporation by end of January 2013 upon expiry of the term. In 2003 and 2010, the Hong Kong Government awarded Dr. Fung the Gold Bauhinia Star and the Grand Bauhinia Medal respectively for his distinguished service to the community.

William FUNG Kwok Lun

Dr. Fung, SBS, OBE, JP, aged 64, brother of Dr. Victor Fung Kwok King, is the Group Chairman of Li & Fung Limited and a non-executive director of Trinity Limited, both of the Fung group (formerly known as Li & Fung group). Dr. Fung has been a Non-executive Director of the Company since 3 January 2001 and is also a director of the substantial shareholders of the Company, King Lun Holdings Limited, Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited) and Fung Retailing Limited (formerly known as Li & Fung (Retailing) Limited). He is a director of the Fung Global Institute, an independent and non-profit think-tank based in Hong Kong. Dr. Fung has held key positions at major trade and business organisations. He is the past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation. He has been awarded the Silver Bauhinia Star by the Hong Kong Government in 2008. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and holds a Master's degree in Business Administration from the Harvard Graduate School of Business. He was awarded the degree of Doctor of Business Administration, *honoris causa* by the Hong Kong University of Science and Technology and by the Hong Kong Polytechnic University. Currently, Dr. Fung is an independent non-executive director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited, and is also an independent director of Singapore Airlines Limited of Singapore.

Non-executive Directors (continued)

Godfrey Ernest SCOTCHBROOK

Mr. Scotchbrook, aged 66, prior to re-designation as Non-executive Director of the Company on 3 August 2005, was an Independent Non-executive Director since November 2002. Mr. Scotchbrook presently serves as an independent director of Del Monte Pacific Limited (a company engaged in the production, marketing and distribution of premium branded food and beverage products) and a non-executive director of Boustead Singapore Limited (a company engaged in engineering services and geo-spatial technology) in Singapore. Mr. Scotchbrook was a founder of Scotchbrook Communications Ltd., a firm specialising in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance. He is a Fellow of the Hong Kong Management Association and also of the British Chartered Institute of Public Relations.

Jeremy Paul Egerton HOBBS

Mr. Hobbs, aged 65, was appointed a Non-executive Director of the Company on 29 October 2004. Mr. Hobbs is also a director of various companies within the Fung group (formerly known as Li & Fung group) including Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited, a substantial shareholder of the Company). He was also a director of Trinity Limited from December 2006 to June 2011 and the formerly listed Integrated Distribution Services Group Limited (which was privatised in October 2010) from October 2003 to April 2011. Mr. Hobbs joined the Fung group in 1999 and was group managing director of Fung Retailing Limited (formerly known as Li & Fung (Retailing) Limited, a substantial shareholder of the Company) and previous Deputy Chairman of Fung Distribution International Limited (formerly known as Li & Fung (Distribution) Limited). Prior to joining the Fung group, Mr. Hobbs has held a number of management positions in a variety of companies including Chief Executive of Inchcape Marketing Services – Asia Pacific, which was listed in Singapore, Chief Executive of Inchcape Buying Services based in Hong Kong, President of the Campbell Soup Company, United Kingdom, and President of Ault Foods, Canada. He has also held a number of senior management positions in Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes where he started his career as a commercial apprentice working in brand management.

Benedict CHANG Yew Teck

Mr. Chang, aged 58, was appointed as Non-executive Director of the Company on 1 July 2012. He was the group managing director of Integrated Distribution Services Group Limited (“IDS”) which was privatised on 29 October 2010, and had been a director of IDS from October 2003 to April 2011. He is currently a director of Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited, a substantial shareholder of the Company) and has been a non-executive director of Li & Fung Limited since February 2011. Mr. Chang graduated from the University of Surrey, United Kingdom, with a Bachelor of Science Degree (First Class Honours) in Marine Engineering. He is also the Chairman of the Advisory Board of the Li & Fung Institute of Supply Chain Management and Logistics of The Chinese University of Hong Kong, and a member of the Advisory Board of the School of Information Systems, Singapore Management University.

Directors and Senior Management Profile (continued)

Independent Non-executive Directors

Raymond CH' IEN Kuo Fung

Dr. Ch'ien, aged 61, has been an Independent Non-executive Director of the Company since 3 January 2001. Dr. Ch'ien is Chairman of MTR Corporation Limited, Hang Seng Bank Limited and China.com Inc. Dr. Ch'ien also serves on the boards of The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Mercantile Exchange Limited, The Wharf (Holdings) Limited, Swiss Re Limited (also its predecessor Swiss Reinsurance Company Limited), China Resources Power Holdings Company Limited and UGL Limited. Formerly, Dr. Ch'ien was director of HSBC Holdings plc, VTech Holdings Limited and Inchcape plc, and Chairman of CDC Corporation. In public service, Dr. Ch'ien is Honorary President and past Chairman of the Federation of Hong Kong Industries, a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference, and a member of the Economic Development Commission of the Hong Kong Government since January 2013. From 1992 to 1997, Dr. Ch'ien was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of Hong Kong on 1 July 1997 and served until June 2002 and was also past Chairman of the Hong Kong/European Union Business Cooperation Committee. Dr. Ch'ien received a Doctoral degree in Economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal. In 2008, Dr. Ch'ien was awarded The Honour of Chevalier de l'Ordre du Merite Agricole of France.

Malcolm AU Man Chung

Mr. Au, aged 63, has been an Independent Non-executive Director of the Company since 3 January 2001. Mr. Au holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, the United States of America and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also an independent non-executive director of China-Hongkong Photo Products Holdings Limited, a listed company in Hong Kong.

Anthony LO Kai Yiu

Mr. Lo, aged 64, has been an Independent Non-executive Director of the Company since 3 August 2005. Mr. Lo is Chairman of Shanghai Century Capital Limited and has over 30 years of experience in banking, finance and investments. Mr. Lo also serves as an independent non-executive director of Hong Kong listed Playmates Holdings Limited, Tristate Holdings Limited, IDT International Limited and Lam Soon (Hong Kong) Limited. He is also an independent non-executive director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange, and Mecox Lane Limited, a company listed on Nasdaq. Mr. Lo was former Chairman and Co-Chief Executive Officer of Shanghai Century Acquisition Corporation (a company formerly listed on the American Stock Exchange). Mr. Lo is qualified as a Chartered Accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants.

Independent Non-executive Directors (continued)

ZHANG Hongyi

Mr. Zhang, aged 67, was appointed Independent Non-executive Director of the Company on 1 July 2012. Mr. Zhang graduated from Peking Institute of Foreign Trade and retired from Bank of China. He has been an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd. (listed in Hong Kong and Shanghai) since March 2007, a Council Member of China Development Institute (Shenzhen, PRC) since March 2008, and an independent non-executive director of Shenzhen Rural Commercial Bank Limited since August 2012. In addition, Mr. Zhang is a non-executive director of Bank of East Asia (China) Limited. Mr. Zhang is a Senior Economist and a fellow of the Hong Kong Institute of Bankers. He previously served as the President of Shenzhen Branch of Bank of China, Vice Mayor of Shenzhen Municipal Government, Deputy C.E.O. of Hong Kong & Macau Regional Office of Bank of China, Chairman of Nanyang Commercial Bank, Limited, Chairman of Hua Chiao Commercial Bank Ltd., Vice Chairman of BOC Credit Card (International) Limited, General Manager of Macau branch of Bank of China, Managing Director of Banco Tai Fung, Chairman of Nam Tung Trust & Investment Co. Ltd., Chairman of Nantong Bank Ltd. (Zhuhai), Executive Vice President of China Development Institute (Shenzhen, PRC), a director of Henderson (China) Investment Company Limited, and an independent non-executive director of Shenzhen Overseas Chinese Town Co., Ltd. (listed on the Shenzhen Stock Exchange). In November 2012, Mr. Zhang resigned as a non-executive director of Inter-Citi Minerals Inc. (listed on the Canadian Stock Exchange).

Group Chief Compliance Officer

Srinivasan PARTHASARATHY

Mr. Parthasarathy, aged 55, was appointed as the Group Chief Compliance Officer of the Company in January 2012. He is also the Group Chief Compliance Officer of Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited, a substantial shareholder of the Company) and of the Fung group (formerly known as Li & Fung group) of companies including Li & Fung Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. He has over 30 years of experience and has held various financial and commercial positions with the Fung group since 1999, and the Inchcape Group before that, in Hong Kong, Singapore, the United Kingdom and the Middle East. He is a Commerce Graduate of Bombay University and qualified as a Chartered Accountant in India, securing fourth position in the All India Merit Rankings. He is also a Fellow Member of the Chartered Institute of Management Accountants, United Kingdom.

Directors and Senior Management Profile (continued)

Senior Management

Carrina CHAN Wong Man Li – *Managing Director, Saint Honore Retailing Group*

Mrs. Chan, aged 50, has over 20 years of experience in the food and beverage and retail chain industry. She is currently responsible for the Saint Honore operations in Hong Kong, Macau and Shenzhen overseeing marketing and category, retail operations, products and site development management. She also took up the advisory role for the Group's cake shop operation in Guangzhou. Mrs. Chan holds a Master degree in Business Administration jointly conferred by the J.L. Kellogg Graduate School of Management, Northwestern University in the United States and the Hong Kong University of Science and Technology. She also holds a Bachelor degree in Administrative Studies from the Trent University in Canada. Mrs. Chan joined Saint Honore group in 1986 and was promoted to the position of Managing Director in 1996.

Raphael KAN Wing Chuen – *Managing Director, Saint Honore Food Manufacturing*

Mr. Kan, aged 61, has over 30 years of experience in manufacturing and logistics management with multinationals and local companies in Hong Kong and Southern China. Previously the General Manager of Convenience Retail Southern China, he was transferred to the position of Managing Director of Saint Honore Food Manufacturing in March 2007 and is currently responsible for managing the manufacturing functions of Saint Honore group including the factories in Hong Kong, Shenzhen, Guangzhou and Macau. Prior to joining the Group in February 2000, he was the General Manager of HAVI Food Services Group and IDS Logistics (HK) Limited, and was responsible for providing supply chain management services to multinational clients of the companies. After joining the Group, he was appointed as General Manager for Southern China and responsible for the Group's expansion into the PRC market. He graduated from the McGill University of Canada with a Bachelor degree in Mechanical Engineering. He also holds a Master degree in Business Administration from the University of East Asia, Macau.

LAI Chun Pang – *Managing Director, Convenience Retail Southern China*

Mr. Lai, aged 51, was promoted as Director and General Manager of Convenience Retail Southern China in October 2009, and responsible for the business of Circle K and Saint Honore in Southern China. He has been working for the Group since 1987 and was the General Manager – Operations in Circle K Hong Kong from 2006. He holds a Bachelor degree of Arts with Honours in Business Studies and a Master degree of Arts in International Business Management from the City University of Hong Kong.

Sam HUI Chi Ho – *Group Finance Director*

Mr. Hui, aged 38, has extensive experience in finance and accounting in the retailing industry. Prior to joining the Group in July 2004, he was the manager of PricewaterhouseCoopers, and was responsible for providing assurance and business advisory services to a wide range of well established wholesaling and retailing clients. Mr. Hui graduated from the Hong Kong University of Science and Technology with a Bachelor degree in Business Administration majoring in Accounting and also holds a Master degree in Business Administration from the University of Hong Kong. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants and also a member of CFA Institute.

Information for Investors

Listing Information

Listing Hong Kong Stock Exchange
Stock code 00831

Key Dates

27 March 2013	Announcement of 2012 Final Results
6 May 2013	Record date for right to attend Annual General Meeting
7 May 2013	Annual General Meeting
13 May to 15 May 2013 (both days inclusive)	Closure of Register of Shareholders for 2012 Final Dividend
22 May 2013	Despatch of 2012 Final Dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2012	739,381,974 shares
Market capitalisation as at 31 December 2012	HK\$4,081,388,000
Earnings per share for 2012	
Interim	14.09 HK cents
Full year	27.13 HK cents
Dividend per share for 2012	
Interim	3.8 HK cents
Special	5.2 HK cents
Final	13.0 HK cents
Full year	22.0 HK cents

Share Registrar & Transfer Offices

Principal:

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch:

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Enquiries Contact

Sam HUI Chi Ho	
Group Finance Director	
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Fax	2991 6302
E-mail	investor@cr-asia.com

Convenience Retail Asia Limited
5th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon
Hong Kong

Website

www.cr-asia.com

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2012.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the operation of chains of convenience stores and bakeries under the brand name of Circle K and Saint Honore respectively in Hong Kong, Macau and the Chinese Mainland.

An analysis of the Group's performance for the year by business segments and by geographical segments is set out in note 5 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 56.

The Directors had declared an interim dividend of 3.8 HK cents per share, totaling HK\$28,060,000, and a special dividend of 5.2 HK cents per share, totaling HK\$38,399,000, which were paid on 28 August 2012.

The Directors recommended the payment of a final dividend of 13 HK cents per share, totaling HK\$96,217,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$170,000.

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in note 15 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 26 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company at 31 December 2012 calculated under the Companies Law of the Cayman Islands amounted to HK\$383,659,000 (2011: HK\$364,110,000).

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2012 are set out in note 19 to the consolidated financial statements.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120.

Purchase, Sale or Redemption of Listed Securities

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

Share Options

1. 2001 Share Option Scheme

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

2. 2010 Share Option Scheme

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

Directors' Report (continued)

Share Options (continued)

A summary of the major terms of the abovementioned 2001 Share Option Scheme and the 2010 Share Option Scheme (the "Share Option Schemes") are as follows:

(i) *Purpose of the Share Option Schemes*

The purpose of the Share Option Schemes 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 Share Option Schemes 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 granted/to be granted under the 2001 Share Option Scheme or the 2010 Share Option Scheme must not exceed 10% of the shares in issue as at the date of approval of the respective share option scheme.

The total number of shares available for issue, save for those already granted, under the 2010 Share Option Scheme is 54,490,597, representing approximately 7.36% of the issued share capital of the Company as at the date of this Report.

(iv) *Limit for each participant*

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.

(v) *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 ten 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.

Share Options (continued)

(vi) *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.

(vii) *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 daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the Commencement Date (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets 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.

(viii) *The remaining life of the 2010 Share Option Scheme*

The Board shall be entitled at any time within ten years commencing on 10 May 2010 to offer the grant of an option to any qualifying participants.

Directors' Report (continued)

Share Options (continued)

Details of the movements of share options under the Share Option Schemes during the year ended 31 December 2012 are as follows:

(A) Continuous contract employees

As at 1 January 2012	Number of share options				As at 31 December 2012	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)					
620,000	-	(406,000)	-	(214,000)	-	3.00	30 March 2007	30 March 2008	29 March 2012
182,000	-	(138,000)	-	(44,000)	-	3.00	30 March 2007	30 March 2009	29 March 2012
1,780,000	-	(1,620,000)	(40,000)	(120,000)	-	3.39	3 May 2007	3 May 2009	2 May 2012
2,080,000	-	(870,000)	(80,000)	-	1,130,000	3.39	3 May 2007	3 May 2010	2 May 2013
2,180,000	-	(760,000)	(80,000)	-	1,340,000	3.39	3 May 2007	3 May 2011	2 May 2014
428,000	-	(418,000)	(10,000)	-	-	3.46	19 November 2007	19 November 2009	18 November 2012
600,000	-	(240,000)	(20,000)	-	340,000	3.46	19 November 2007	19 November 2010	18 November 2013
620,000	-	(120,000)	(20,000)	-	480,000	3.46	19 November 2007	19 November 2011	18 November 2014
280,000	-	(160,000)	-	-	120,000	2.04	21 December 2009	21 December 2010	20 December 2014
100,000	-	(40,000)	-	-	60,000	2.04	21 December 2009	21 December 2011	20 December 2014
15,125,000	-	-	(800,000)	-	14,325,000	3.22	10 March 2011	1 April 2014	31 March 2017
-	332,000	-	-	-	332,000	3.71	8 March 2012	1 April 2014	31 March 2017
23,995,000	332,000	(4,772,000)	(1,050,000)	(378,000)	18,127,000				

Share Options (continued)

(B) Directors

	Number of share options					As at 31 December 2012	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	As at 1 January 2012	Granted	Exercised (Note 2)	Lapsed	Expired					
Richard Yeung	400,000	-	(400,000)	-	-	-	3.39	3 May 2007	3 May 2009	2 May 2012
Lap Bun	400,000	-	-	-	-	400,000	3.39	3 May 2007	3 May 2010	2 May 2013
	400,000	-	-	-	-	400,000	3.39	3 May 2007	3 May 2011	2 May 2014
	2,000,000	-	-	-	-	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
Pak Chi Kin	300,000	-	(300,000)	-	-	-	3.39	3 May 2007	3 May 2009	2 May 2012
	300,000	-	-	-	-	300,000	3.39	3 May 2007	3 May 2010	2 May 2013
	300,000	-	-	-	-	300,000	3.39	3 May 2007	3 May 2011	2 May 2014
	2,000,000	-	-	-	-	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
	6,100,000	-	(700,000)	-	-	5,400,000				

Notes:

- During the year, share options to subscribe for a total of 332,000 shares were granted on 8 March 2012. The closing price of the shares immediately before the date on which the options were granted was HK\$3.55.
- Share options to subscribe for 5,472,000 shares were exercised during the year. The weighted average closing market price per share immediately before the dates on which the options were exercised was approximately HK\$4.33.
- Share options to subscribe for 1,050,000 shares lapsed during the year following the cessation of employment of certain grantees.
- Share options to subscribe for 378,000 shares expired during the year following the expiry of the options.
- The value of the options granted during the year is HK\$187,680 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK\$3.71 at the grant date, exercise price shown above, standard deviation of expected share price returns of 30%, expected life of options of four years, expected dividend paid out rate of 4.4% and annual risk-free interest rate of 0.6%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Save as disclosed above, as at 31 December 2012, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates have been granted any other share options.

Directors' Report (continued)

Directors

The Directors during the year and up to the date of this Report were:

Non-executive Directors

Victor FUNG Kwok King

William FUNG Kwok Lun

Raymond CH' IEN Kuo Fung*

Malcolm AU Man Chung*

Anthony LO Kai Yiu*

ZHANG Hongyi* (*appointed on 1 July 2012*)

Godfrey Ernest SCOTCHBROOK

Jeremy Paul Egerton HOBBS

Benedict CHANG Yew Teck (*appointed on 1 July 2012*)

Executive Directors

Richard YEUNG Lap Bun

PAK Chi Kin

* *Independent Non-executive Directors*

In accordance with Articles 86 and 87 of the Company's Articles of Association, Mr. Benedict Chang Yew Teck, Mr. Zhang Hongyi, Mr. Richard Yeung Lap Bun, Mr. Jeremy Paul Egerton Hobbins and Dr. Raymond Ch'ien Kuo Fung will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

Non-executive Directors were appointed for an initial term of three years and will continue in office thereafter subject to termination by not less than three months' prior notice in writing by either party to the other. In addition, all Directors including the Non-executive Directors are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once every three years pursuant to the Company's Articles of Association.

Directors' Service Contracts

Mr. Richard Yeung Lap Bun has entered into a service contract with the Company for an initial term of three years commencing on 1 January 2001 and will continue in office thereafter subject at all times (including the initial three years period) to termination by not less than three months' prior notice in writing by either party to the other.

Mr. Pak Chi Kin was appointed as Executive Director of the Company with effect from 10 March 2011. According to his terms of employment, he will continue in office subject at all times to termination by not less than three months' prior notice in writing by either party to the other.

Save as disclosed, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year except as disclosed under "Connected Transactions" stated below and note 31 "Related Party Transactions" to the consolidated financial statements.

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

As at 31 December 2012, the Directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and/or the Code for Securities Transactions by Directors and Relevant Employees adopted by the Company:

Long positions in shares and the underlying shares of the Company

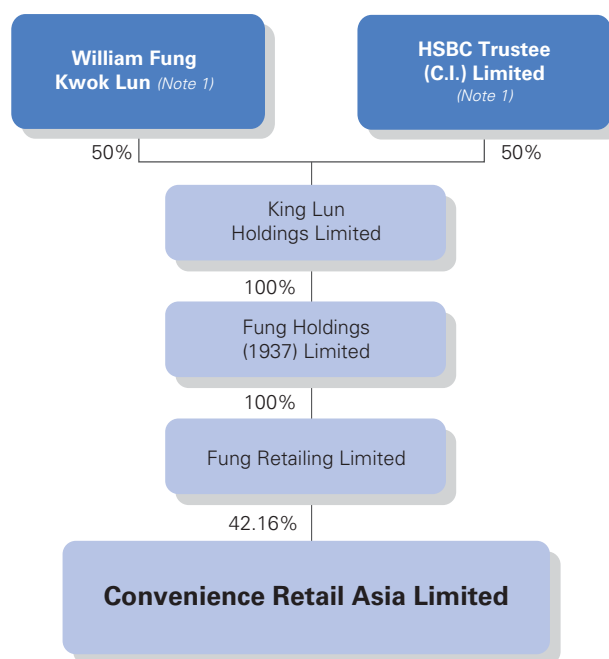
Name of Directors	Number of shares			Equity derivatives (share options)	Total interests	Approximate percentage of interests
	Personal interests	Family interests	Corporate/ Trust interests			
Victor Fung Kwok King	-	-	311,792,000 <i>(Note 1)</i>	-	311,792,000	42.16%
William Fung Kwok Lun	-	-	311,792,000 <i>(Note 1)</i>	-	311,792,000	42.16%
Richard Yeung Lap Bun	19,596,000	-	-	2,800,000 <i>(Note 2)</i>	22,396,000	3.02%
Pak Chi Kin	800,000	-	-	2,600,000 <i>(Note 2)</i>	3,400,000	0.45%
Raymond Ch'ien Kuo Fung	600,000	-	-	-	600,000	0.08%
Jeremy Paul Egerton Hobbins	180,000	-	-	-	180,000	0.02%

Directors' Report (continued)

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

Long positions in shares and the underlying shares of the Company (continued)

As at 31 December 2012, the interests of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun in the shares of the Company are summarised in the following chart:



Notes:

1. King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, Fung Retailing Limited ("FRL", formerly known as Li & Fung (Retailing) Limited) (a wholly owned subsidiary of Fung Holdings (1937) Limited ("FH (1937)", formerly known as Li & Fung (1937) Limited)) held 311,792,000 shares in the Company. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, the remaining 50% is owned by Dr. William Fung Kwok Lun. Therefore, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, by virtue of their interests in King Lun, are deemed to have interests in 311,792,000 shares of the Company.
2. These interests represented the interests in the share options (being regarded as unlisted physically settled equity derivatives) granted by the Company to these Directors as beneficial owners, the details of which are set out in the section headed "Share Options" above.

Save as disclosed above, as at 31 December 2012, none of the Directors, chief executives and their associates had any other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations. Besides, at no time during the year, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

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

As at 31 December 2012, other than the interests of the Directors or chief executives of the Company as disclosed above, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares of the Company

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	311,792,000	Trustee (Note 1)	42.16%
King Lun Holdings Limited	311,792,000	Corporate interests (Note 1)	42.16%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000	Other	12.52%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000	Other (Note 2)	12.52%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000	Corporate interests (Note 3)	12.52%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	87,790,000	Other (Note 4)	11.87%
JPMorgan Chase & Co.	37,752,000	Corporate interests (Note 5)	5.10%
Dempsey Hill Asia Master Fund ("Dempsey Hill Asia")	37,008,000	Other	5.00%
Dempsey Hill Capital Pte Ltd ("Dempsey Hill Capital")	37,008,000	Other (Note 6)	5.00%
Lim Thiam Soon ("Mr. Lim")	37,008,000	Corporate interests (Note 6)	5.00%

Directors' Report (continued)

Interests and Short Positions of Shareholders in the Shares and Underlying Shares (continued)

Long positions in shares of the Company (continued)

Notes:

1. *These shares were held by FRL. King Lun indirectly owns 100% interests in FRL through its wholly owned subsidiary, FH (1937). All of HSBC Trustee (C.I.) Limited, King Lun, FH (1937) and FRL are taken to be interested in the shares pursuant to the SFO. Please refer to Note 1 in the above section headed "Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures".*
2. *These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager.*
3. *These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager. Arisaig Partners is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely, through Skye Partners Limited (directly owned as to 33.33% by Mr. Cooper), and in turn Skye Partners Limited wholly owns Arisaig Partners (Holdings) Ltd., which in turn wholly owns Arisaig Partners.*
4. *The Aberdeen Group held the shares on behalf of accounts (under discretionary or segregated mandates) managed by the Aberdeen Group.*
5. *These shares were held by JPMorgan Chase & Co. as investment manager.*
6. *These shares were held by Dempsey Hill Asia of which Dempsey Hill Capital is the fund manager. Dempsey Hill Capital is owned as to 70% by Mr. Lim.*

Save as disclosed above, as at 31 December 2012, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Major Customers and Suppliers

The percentage of purchases for the year attributable to the Group's major suppliers is as follows:

- | | |
|-----------------------------------|-----|
| – the largest supplier | 25% |
| – five largest suppliers combined | 48% |

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the issued share capital of the Company) had an interest in the five largest suppliers noted above.

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

Connected Transactions

During the year, the Group had various transactions with related parties (details are set out in note 31 to the consolidated financial statements on pages 118 and 119). Certain reimbursement of office and administrative expenses between the Group and FH (1937) (the controlling shareholder of the Company) and its associates also constitute connected transactions of the Company which are fully exempted under Rule 14A.31(8) of the Listing Rules. The following transactions are expected to continue on an on-going basis and constitute continuing connected transactions (exempt from independent shareholders' approval requirements) of the Company:

		HK\$'000
1.	Purchases of various products (being both food and non-food products) from FH (1937) and its associates (<i>Note 1</i>)	9,487
2.	Rentals for the leasing and/or licensing of properties from FH (1937) and its associates (<i>Note 2</i>)	8,439

Notes:

- This refers to the purchases of various products (being both food and non-food products) by the Group from FH (1937) (the controlling shareholder of the Company) and its associates under a master agreement signed on 5 November 2010 for a term of two years commencing from 1 January 2011 and ending on 31 December 2012 (details of which were disclosed in the announcement dated 5 November 2010).*
- This refers to the rentals for the leasing and/or licensing of properties by the Group from FH (1937) (the controlling shareholder of the Company) and its associates under a master agreement signed on 18 December 2009 for a term of three years commencing from 1 January 2010 and ending on 31 December 2012 (details of which were disclosed in the announcement dated 18 December 2009).*

On 22 November 2012, new master agreements in connection with the purchases of various products and leasing and/or licensing of properties by the Group from FH (1937) (the controlling shareholder of the Company) and its associates were signed by the Company with FH (1937). Each of the new master agreement is for a term of three years commencing 1 January 2013, details of which, including the annual caps, were disclosed in the announcement dated 22 November 2012. Such master agreements constituted continuing connected transactions (exempt from independent shareholders' approval requirements) of the Company.

The Independent Non-executive Directors confirmed that the above transactions have been entered into on normal commercial terms no less favourable to the Group than terms available from independent third parties and each of these transactions has been entered into in the ordinary course of business of the Group, and is fair and reasonable to the Company and in the interests of the shareholders of the Company as a whole. In addition, all the disclosure requirements in connection with the above transactions pursuant to Chapter 14A of the Listing Rules have been duly complied with by the Company.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Directors' Report (continued)

Contracts with Controlling Shareholders

Save as disclosed under "Connected Transactions" above and note 31 "Related Party Transactions" to the consolidated financial statements, no other contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries were entered into or existed during the year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2012, the Directors have selected suitable and relevant accounting policies and applied them consistently as stated in note 2 to the consolidated financial statements; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Victor FUNG Kwok King

Chairman

Hong Kong, 27 March 2013

Independent Auditor's Report



羅兵咸永道

Independent Auditor's Report
To the shareholders of Convenience Retail Asia Limited
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Convenience Retail Asia Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 56 to 119, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2013

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Consolidated Profit and Loss Account

For the year ended 31 December 2012

	<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Revenue	5	4,270,318	3,972,615
Cost of sales	6	(2,801,587)	(2,589,639)
Gross profit		1,468,731	1,382,976
Other income	5	84,250	84,534
Other gains, net	7	42,621	15,789
Store expenses	6	(1,099,556)	(1,022,760)
Distribution costs	6	(103,918)	(94,418)
Administrative expenses	6	(174,135)	(173,176)
Operating profit		217,993	192,945
Interest income	8	11,585	8,575
Profit before income tax		229,578	201,520
Income tax expenses	9	(29,627)	(35,200)
Profit attributable to shareholders of the Company	10 & 27	199,951	166,320
Earnings per share (HK cents)			
Basic	11	27.13	22.69
Diluted	11	26.94	22.68
Dividends	12	162,676	108,614

The notes on pages 64 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012	2011
	HK\$'000	HK\$'000
Profit attributable to shareholders of the Company	199,951	166,320
Other comprehensive income for the year, net of tax		
Actuarial gains on post employment benefit obligation	–	3,156
Exchange differences	945	700
Total comprehensive income attributable to shareholders of the Company	200,896	170,176

The notes on pages 64 to 119 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2012

	<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Fixed assets	15	362,250	306,645
Investment property	16	–	35,031
Lease premium for land	17	31,197	32,252
Intangible assets	18	357,465	357,465
Available-for-sale financial asset	20	1,895	1,895
Rental and other long-term deposits		65,180	63,254
Bank deposit	24	–	18,534
Deferred tax assets	21	9,152	7,949
		827,139	823,025
Current assets			
Inventories	22	180,914	179,426
Rental deposits		41,820	34,120
Trade receivables	23	47,819	46,791
Other receivables, deposits and prepayments		83,872	76,377
Taxation recoverable		–	6
Bank deposits	24	203,998	305,933
Cash and cash equivalents	24	539,035	394,283
		1,097,458	1,036,936
Current liabilities			
Trade payables	25	551,015	536,020
Other payables and accruals		184,225	208,247
Taxation payable		5,638	11,967
Cake coupons		142,555	134,522
		883,433	890,756
Net current assets		214,025	146,180
Total assets less current liabilities		1,041,164	969,205

Consolidated Balance Sheet (continued)

As at 31 December 2012

	<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Financed by:			
Share capital	26	73,938	73,391
Reserves	27	845,026	785,950
Proposed dividend	27	96,217	80,731
Shareholders' funds		1,015,181	940,072
Non-current liabilities			
Long service payment liabilities	28	16,962	17,699
Deferred tax liabilities	21	9,021	11,434
		1,041,164	969,205

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 64 to 119 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2012

	<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Non-current assets			
Investments in subsidiaries	19	654,538	654,538
Fixed assets	15	4,548	4,759
Rental and other long-term deposits		23	1,999
Bank deposit	24	–	18,534
		659,109	679,830
Current assets			
Amounts due from subsidiaries	19	173,297	246,971
Rental deposits		1,793	7
Other receivables, deposits and prepayments		1,560	1,108
Bank deposits	24	48,710	–
Cash and cash equivalents	24	76,682	5,486
		302,042	253,572
Current liabilities			
Amounts due to subsidiaries	19	492,716	478,739
Other payables and accruals		9,725	15,875
Taxation payable		–	192
		502,441	494,806
Net current liabilities		(200,399)	(241,234)
Total assets less current liabilities		458,710	438,596
Financed by:			
Share capital	26	73,938	73,391
Reserves	27	287,442	283,379
Proposed dividend	27	96,217	80,731
		457,597	437,501
Non-current liabilities			
Long service payment liabilities	28	1,113	1,095
		458,710	438,596

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 64 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to shareholders of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserves HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1 January 2011	73,157	286,940	177,087	16,472	12,894	9,065	274,014	849,629
Profit attributable to shareholders of the Company	-	-	-	-	-	-	166,320	166,320
Actuarial gains on post employment benefit obligation								
gross	-	-	-	-	-	-	3,823	3,823
tax	-	-	-	-	-	-	(667)	(667)
Exchange differences	-	-	-	-	-	700	-	700
Total comprehensive income for the year	-	-	-	-	-	700	169,476	170,176
Issue of new shares	234	6,722	-	-	-	-	-	6,956
Employee share option benefit	-	1,828	-	-	374	-	1,242	3,444
Dividends paid	-	-	-	-	-	-	(90,133)	(90,133)
	234	8,550	-	-	374	-	(88,891)	(79,733)
At 31 December 2011	73,391	295,490	177,087	16,472	13,268	9,765	354,599	940,072

The notes on pages 64 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2012

	Attributable to shareholders of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserves HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1 January 2012	73,391	295,490	177,087	16,472	13,268	9,765	354,599	940,072
Profit attributable to shareholders of the Company	-	-	-	-	-	-	199,951	199,951
Exchange differences	-	-	-	-	-	945	-	945
Total comprehensive income for the year	-	-	-	-	-	945	199,951	200,896
Issue of new shares	547	17,575	-	-	-	-	-	18,122
Employee share option benefit	-	4,912	-	-	(1,951)	-	675	3,636
Transfer to capital reserves	-	-	-	750	-	-	(750)	-
Dividends paid	-	-	-	-	-	-	(147,545)	(147,545)
	547	22,487	-	750	(1,951)	-	(147,620)	(125,787)
At 31 December 2012	73,938	317,977	177,087	17,222	11,317	10,710	406,930	1,015,181

The notes on pages 64 to 119 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	<i>Note</i>	2012 HK\$'000	2011 HK\$'000
Cash flows from operating activities			
Cash generated from operations	29	226,479	285,674
Hong Kong profits tax paid		(34,186)	(26,430)
Overseas income tax paid		(5,376)	(4,077)
Net cash generated from operating activities		186,917	255,167
Cash flows from investing activities			
Purchase of fixed assets		(106,071)	(59,640)
Purchase of investment property		–	(35,278)
Proceeds from disposal of fixed assets		61,183	900
Decrease/(increase) in bank deposits		120,469	(151,154)
Interest received		11,165	6,984
Net cash generated from/(used in) investing activities		86,746	(238,188)
Cash flows from financing activities			
Proceeds from issuance of shares		18,122	6,956
Dividends paid		(147,545)	(90,133)
Net cash used in financing activities		(129,423)	(83,177)
Increase/(decrease) in cash and cash equivalents		144,240	(66,198)
Cash and cash equivalents at 1 January		394,283	454,227
Effect of foreign exchange rate changes		512	6,254
Cash and cash equivalents at 31 December		539,035	394,283

The notes on pages 64 to 119 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Convenience Retail Asia Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the operation of chains of convenience stores and bakeries under the brand name of Circle K and Saint Honore respectively in Hong Kong, Macau and the Chinese Mainland.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is at 5th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

The Company’s shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and under historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The following amended standards of HKFRS are mandatory for accounting periods beginning on or after 1 January 2012 but they are not relevant to the Group’s operations:

HKFRS 1 Amendment	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 Amendment	Disclosures – Transfers of Financial Assets
HKAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(a) Basis of preparation** (continued)

The Group has not early adopted the following new and amended standards and interpretations of HKFRS that have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2013. The adoption of such new and amended standards and interpretations will have no material impact on the consolidated financial statements and will not result in substantial changes to the Group's accounting policies.

HKFRS 1 Amendment	Government Loans
HKFRS 7 Amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 9	Financial Instruments
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 and HKFRS 12 Amendment	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendment	Investment Entities
HKFRS 13	Fair Value Measurement
HKAS 1 Amendment	Presentation of Items of Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements Project	Annual Improvements 2009-2011 Cycle

Certain statutory reserve of the Group has been presented as retained earnings in prior years. Such presentation has been revised for the prior year to be consistent with the current year presentation. As at 1 January 2012 and 31 December 2011, the effect of such change is an increase of capital reserves and a decrease of retained earnings of HK\$3,039,000 respectively. Such change has no impact to the total reserves as at both dates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Goodwill (*note 2g*) is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated profit and loss account.

Inter-company transactions, balances, income and expenses on transactions between the group companies are eliminated. Profits and losses resulting from inter-company transaction that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from the investments if the dividends exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all of the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to consolidated profit or loss. In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange difference is reclassified to consolidated profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(e) Fixed assets and lease premium for land

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Freehold land is stated at cost without amortisation. Leasehold land classified as finance lease and properties are depreciated on a straight-line basis over the unexpired term of the leases of 24 years to 43 years. Lease premium for land are accounted for as operating leases and amortised in the consolidated profit and loss account on a straight-line basis over the unexpired term of the leases of 24 years to 58 years. Leasehold improvements are depreciated on a straight-line basis over the leases of 3 years to 10 years. Other fixed assets are depreciated at rates sufficient to write off their costs over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

Equipment, furniture and fixtures	10% to 33 $\frac{1}{3}$ %
Motor vehicles	16 $\frac{2}{3}$ % to 25%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets and lease premium for land (continued)

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the consolidated profit and loss account.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (*note 2h*).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated profit and loss account.

(f) Investment property

Property that is held for rental yields and not occupied by the Group is classified as investment property. The Group applies the cost model of accounting as permitted by HKAS 40. Land are classified and accounted for as finance lease in the consolidated financial statements.

After initial recognition, investment property is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the property.

Investment property is depreciated on a straight-line basis over the unexpired term of the leases of 36 years.

Major costs incurred in restoring property to its normal working conditions is charged to the consolidated profit and loss account.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (*note 2h*).

Gain and loss on disposal is determined by comparing the proceed with the carrying amount and is recognised in the consolidated profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose identified according to the operating segment.

(ii) Trademarks

Acquired trademarks have an infinite useful life and are carried at historical cost without amortisation. Trademarks are tested annually for impairment and carried at cost less accumulated impairment losses.

(h) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets

The Group classifies its investments as loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Classification

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, certain bank deposits and cash and cash equivalents in the consolidated balance sheet (*note 2k and 2l*).

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

(iii) *Financial assets at fair value through profit or loss*

Financial assets are classified in this category as designated at fair value through profit or loss at inception by management. They are classified as current assets if they are expected to be realised within twelve months of the balance sheet date.

Recognition and measurement

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Recognition and measurement (continued)

Gains or losses arising from changes in fair value of financial assets at fair value through profit or loss are presented in the consolidated profit and loss account in the period in which they arise. Dividend income from the financial assets at fair value through profit or loss and available-for-sale equity instruments is recognised in the consolidated profit and loss account in other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the consolidated profit and loss account as gains and losses from investment securities.

Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the consolidated profit and loss account.

In the case of loans and receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the impairment loss is recognised in the consolidated profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an asset's fair value using an observable market price. If the amount of the impairment loss decreases in a subsequent period, the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories

Inventories comprising merchandises and bakery products are stated at the lower of cost and net realisable value. The cost of inventories is calculated on the weighted average basis including all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the consolidated profit and loss account.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

(o) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Current and deferred income tax (continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(p) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Profit sharing and bonus plans*

Provisions for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iii) Pension obligations

The Group pays contributions to an independently administered fund on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Group in the independently administered fund.

(iv) Long service payment liabilities

The Group's net obligation in respect of long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed by using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the consolidated profit and loss account so as to spread the costs over the service lives of employees.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements accrued under the Group's defined contribution retirement scheme that is attributable to contributions made by the Group. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefit become vested.

(v) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated profit and loss account, and a corresponding adjustment to equity employee share-based compensation reserve over the remaining vesting period.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's business. Revenue is shown net of discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (i) Sales of goods are recognised when a product is sold to the customer. Payments that are related to cake coupons not yet redeemed by the customers are deferred and shown as cake coupons in the consolidated balance sheet. Cake coupons surrendered in exchange for products or upon expiry during the period are recognised as revenue in the consolidated profit and loss account using the weighted average cake coupon sale value.
- (ii) Sales of services are recognised in the accounting period in which the services are rendered.
- (iii) Interest income is recognised on a time proportion basis using the effective interest method.

(s) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease.

(t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk.

(i) Foreign exchange risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities are primarily denominated in the functional currency of the operations to which they relate, except for certain Renminbi bank deposits held in Hong Kong amounting to HK\$170,721,000 (2011: HK\$286,246,000) as at 31 December 2012.

If Renminbi had been strengthened/weakened by 1% against HK dollar with all other variables held constant, the Group's net profit would have been increased/decreased by HK\$1,707,000 (2011: HK\$2,862,000) for the year ended 31 December 2012.

(ii) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, bank deposits, trade receivables, rental deposits and other receivables. The carrying amounts of these balances represent the maximum exposure to credit risk in relation to financial assets and the Group regularly monitored the level of these balances.

The majority of the Group's trade receivables are supplier rebate and promotion fees receivables. The Group mitigates its exposure to risk relating to the trade receivables by performing regular reviews of the aging profile of trade receivables. The Group has no significant concentrations of credit risk, with exposure spread over a large number of debtors.

Retail sales are usually paid in cash. The Group mitigates its exposure to risk relating to cash at bank and bank deposits by placing them with renowned financial institutions registered in Hong Kong and the Chinese Mainland. All bank deposits and majority of cash and cash equivalents are placed in banks with high credit rankings. Rental deposits are also placed with various landlords in Hong Kong and the Chinese Mainland and are due upon the expiry of the tenancy agreements and handover of the leased premises. The Group did not experience any default by the landlords and there is no material concentration of credit risk for rental deposits due to a large number of landlords.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iii) Liquidity risk

The Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due. To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents, bank deposits and banking facilities considered to be adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. All of the Group's financial liabilities, including trade payables of HK\$551,015,000 (2011: HK\$536,020,000) and other payables and accruals of HK\$184,225,000 (2011: HK\$208,247,000) are contractually maturing within one year. On the company level, all of the financial liabilities, including the balances with subsidiaries of HK\$492,716,000 (2011: HK\$478,739,000) are repayable on demand and other payables and accruals of HK\$9,725,000 (2011: HK\$15,875,000) are contractually maturing within one year. The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK\$32,888,000 (2011: HK\$32,888,000).

(iv) Interest rate risk

The Group has no significant interest-bearing assets, except the cash at bank and bank deposits, which are exposed to changes in market interest rates. It is the Group's policy to maintain surplus cash with an appropriate portfolio of short-term and long-term deposits.

If the interest rates had been increased/decreased by 0.5% with all other variables held constant, the Group's net profit would have been increased/decreased by HK\$2,489,000 (2011: HK\$2,262,000) for the year ended 31 December 2012.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the total shareholders' equity as shown in the consolidated balance sheet. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long-term.

3. FINANCIAL RISK MANAGEMENT (continued)**(c) Fair value estimation**

The Group adopted the HKFRS 7 Amendments for financial instruments that are measured in the consolidated balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) Quoted prices in active markets for identical assets or liabilities (level 1)
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
- (iii) Inputs for the asset or liability that are not based on observable market data (level 3)

The Group's assets that are measured at fair value as at 31 December 2012 are as follows:

	2012	2011
	HK\$'000	HK\$'000
Bank deposits designated as financial assets at fair value through profit or loss (level 2)	–	80,000
Available-for-sale financial asset (level 3)	1,895	1,895
	1,895	81,895

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an asset are observable, the asset is included in level 2. If one or more of the significant inputs is not based on observable market data, the asset is included in level 3.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of fixed assets

The Group conducts impairment reviews of fixed assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Determining whether an asset is impaired requires an estimation of the higher of the amount of value-in-use or fair value less costs to sell. These calculations require the use of judgements and estimates.

(b) Estimated impairment of intangible assets

The Group tests annually whether goodwill and trademarks have suffered any impairment, in accordance with the accounting policy stated in note 2g. The recoverable amounts of goodwill and trademarks are determined based on fair value less costs to sell calculations and royalty relief valuation method. These calculations require the use of estimates (*note 18*).

(c) Estimated useful lives of trademarks

Trademarks represent the power of Saint Honore brand which the Group's management consider to have indefinite useful lives due to the enduring nature of the brand. These estimates are based on the historical experience of the actual useful lives of trademarks of similar nature and functions. Periodic review could result in a change in useful lives and consequently amortisation expenses in future periods.

(d) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares and the risk-free interest rate for the life of the options as stated in note 26. Where the outcome of the number of options that are exercisable is different, such difference will impact the consolidated profit and loss account in the subsequent remaining vesting period of the relevant share options.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**(e) Income taxes**

The Group is subject to income taxes in numerous jurisdictions. Significant judgements are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination is made.

Deferred tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to utilise against the temporary differences or tax losses. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets in the periods in which such estimates have been changed.

5. 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 year are as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Revenue		
Merchandise sales revenue	3,387,685	3,155,518
Bakery sales revenue	882,633	817,097
	4,270,318	3,972,615
Other income		
Service items and miscellaneous income	84,250	84,534

Segment information

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

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

Notes to the Consolidated Financial Statements (continued)

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (continued)

Segment information (continued)

The segment information provided to the management for the reportable segments for the year ended 31 December 2012 and 2011 are as follows:

	2012				
	Convenience Store		Bakery		Group HK\$'000
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment revenue	3,216,504	171,186	912,255	77,166	
Inter-segment revenue	(5)	–	(106,255)	(533)	(106,793)
Revenue from external customers	3,216,499	171,186	806,000	76,633	4,270,318
Total segment other income	80,880	1,852	3,749	107	86,588
Inter-segment other income	–	(68)	(2,270)	–	(2,338)
Other income	80,880	1,784	1,479	107	84,250
	3,297,379	172,970	807,479	76,740	4,354,568
Profit/(loss) after tax (after gain on disposal of property)	135,102	(18,748)	86,930	(3,333)	199,951
Profit/(loss) after tax (before gain on disposal of property)	135,102	(18,748)	48,428	(3,333)	161,449
Profit/(loss) after tax includes:					
Depreciation	(24,844)	(7,932)	(24,700)	(2,930)	(60,406)
Amortisation	–	(523)	(584)	–	(1,107)
Interest income	9,027	1,201	657	700	11,585
Income tax (expenses)/credit	(24,887)	–	(6,445)	1,705	(29,627)
Gain on disposal of property, net of tax	–	–	38,502	–	38,502

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (continued)**Segment information** (continued)

	2011				
	Convenience Store		Bakery		Group HK\$'000
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment revenue	3,023,513	132,015	856,030	61,278	
Inter-segment revenue	(10)	–	(99,635)	(576)	(100,221)
Revenue from external customers	3,023,503	132,015	756,395	60,702	3,972,615
Total segment other income	80,434	2,657	3,662	79	86,832
Inter-segment other income	–	(44)	(2,254)	–	(2,298)
Other income	80,434	2,613	1,408	79	84,534
	3,103,937	134,628	757,803	60,781	4,057,149
Profit/(loss) after tax	148,407	(17,724)	35,959	(322)	166,320
Profit/(loss) after tax includes:					
Depreciation	(25,836)	(7,896)	(25,343)	(1,715)	(60,790)
Amortisation	–	(520)	(584)	–	(1,104)
Interest income	6,963	415	768	429	8,575
Income tax (expenses)/credit	(27,645)	–	(7,993)	438	(35,200)

The revenue from external parties is derived from numerous external customers and the revenue reported to the management is measured in a manner consistent with that of the consolidated profit and loss account. The management assesses the performance of the operating segments based on a measure of profit after tax.

Notes to the Consolidated Financial Statements (continued)

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (continued)

Segment information (continued)

The segment assets and liabilities as at 31 December 2012 and 2011 are as follows:

	2012				
	Convenience Store		Bakery		Group HK\$'000
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment assets	545,154	99,217	728,380	49,308	1,422,059
Total segment assets include:					
Additions to segment non-current assets	42,911	11,435	36,742	15,122	106,210
Total segment liabilities	578,113	39,507	262,167	14,970	894,757

	2011				
	Convenience Store		Bakery		Group HK\$'000
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment assets	489,369	100,491	790,511	37,447	1,417,818
Total segment assets include:					
Additions to segment non-current assets	26,418	9,355	59,512	3,625	98,910
Total segment liabilities	587,514	32,360	269,371	7,243	896,488

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

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION (continued)**Segment information** (continued)

Reportable segment assets are reconciled to total assets as follows:

	2012	2011
	HK\$'000	HK\$'000
Segment assets for reportable segments	1,422,059	1,417,818
Unallocated:		
Deferred tax assets	9,152	7,949
Taxation recoverable	–	6
Corporate bank deposits	493,386	434,188
Total assets per consolidated balance sheet	1,924,597	1,859,961

Reportable segment liabilities are reconciled to total liabilities as follows:

	2012	2011
	HK\$'000	HK\$'000
Segment liabilities for reportable segments	894,757	896,488
Unallocated:		
Deferred tax liabilities	9,021	11,434
Taxation payable	5,638	11,967
Total liabilities per consolidated balance sheet	909,416	919,889

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK\$3,906,107,000 (2011: HK\$3,680,713,000), and the total of revenue from external customers from other countries is HK\$364,211,000 (2011: HK\$291,902,000) for the year ended 31 December 2012.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK\$721,798,000 (2011: HK\$722,038,000), and the total of these non-current assets located in other countries is HK\$94,294,000 (2011: HK\$72,609,000) as at 31 December 2012.

6. EXPENSES BY NATURE

	Group	
	2012 HK\$'000	2011 HK\$'000
Amortisation of lease premium for land (note 17)	1,107	1,104
Auditor's remuneration		
Audit services	1,950	1,920
Non-audit services	453	682
Changes in inventories	2,628,521	2,421,919
Depreciation of owned fixed assets (note 15)	60,077	60,543
Depreciation of investment property (note 16)	329	247
Employee benefit expense (note 13)	701,286	680,283
Operating leases rental for land and buildings		
Minimum lease payment	397,140	357,461
Contingent lease payment	9,872	11,279
Other expenses	378,461	344,555
Total cost of sales, store expenses, distribution costs and administrative expenses	4,179,196	3,879,993

7. OTHER GAINS, NET

For the year ended 31 December 2012, other gains, net mainly included gain on disposal of a real estate property amounting to HK\$36,788,000 (2011: nil), net exchange gains amounting to HK\$1,322,000 (2011: HK\$13,815,000) and rental compensation from Urban Renewal Authority amounting to HK\$5,324,000 (2011: HK\$3,292,000).

8. INTEREST INCOME

	Group	
	2012 HK\$'000	2011 HK\$'000
Interest income on bank deposits	11,585	8,575

9. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2012 and 2011. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates prevailing in the countries in which the Group operates.

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

	Group	
	2012 HK\$'000	2011 HK\$'000
Current income tax		
Hong Kong profits tax	27,314	29,085
Overseas profits tax	5,899	4,742
Deferred (tax credit)/income tax (note 21)	(3,586)	1,373
	29,627	35,200

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of the consolidated entities as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Profit before income tax	229,578	201,520
Calculated at a taxation rate of 16.5%	37,880	33,251
Effect of different taxation rates in other jurisdiction	(3,113)	(2,275)
Income not subject to taxation	(8,544)	(3,323)
Expenses not deductible for tax purposes	1,904	1,925
Tax losses not recognised	5,924	5,355
Effect of previously unrecognised temporary differences	(191)	344
Reversal of previously recognised temporary differences	(3,304)	–
Over-provision in prior year	(1,108)	(385)
Remeasurement of deferred tax – change in tax rate	179	308
	29,627	35,200

Notes to the Consolidated Financial Statements (continued)

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK\$146,526,000 (2011: HK\$108,114,000).

11. EARNINGS PER SHARE

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

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

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

	2012	2011
	HK\$'000	HK\$'000
Profit attributable to shareholders of the Company	199,951	166,320
	Number of	Number of
	Shares	Shares
Weighted average number of ordinary shares in issue	736,912,534	733,016,859
Adjustments for:		
Share options	5,175,150	403,630
Weighted average number of ordinary shares for diluted earnings per share	742,087,684	733,420,489

12. DIVIDENDS

	2012	2011
	HK\$'000	HK\$'000
Interim dividend, proposed of 3.8 HK cents (2011: 3.8 HK cents) per share	28,060	27,883
Special dividend, proposed of 5.2 HK cents (2011: nil) per share	38,399	–
Final dividend, proposed of 13 HK cents (2011: 11 HK cents) per share	96,217	80,731
	162,676	108,614

At a meeting held on 27 March 2013, the Directors proposed a final dividend of 13 HK cents per share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

13. EMPLOYEE BENEFIT EXPENSE

	Group	
	2012	2011
	HK\$'000	HK\$'000
Wages and salaries	672,298	652,531
Unutilised annual leave	281	611
Employee share option benefit	3,636	3,444
Pension costs – defined contribution plan (<i>note b & c</i>)	24,537	23,325
Long service payment costs (<i>note 28</i>)	534	372
	701,286	680,283

Notes:

- (a) The employee benefit expense includes directors' and senior management's emoluments (*note 14*).
- (b) Forfeited contributions totalling HK\$663,000 (2011: HK\$1,350,000) were utilised during the year leaving nil amount (2011: nil) available at the year-end to reduce future contributions.
- (c) Contributions totalling HK\$3,786,000 (2011: HK\$3,899,000) were payable to the independently administered fund at the year-end.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

The remuneration of every Director for the year ended 31 December 2012 is set out below:

Name of Director	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits (note i) HK\$'000	Employer's	Total HK\$'000
					contribution to pension scheme HK\$'000	
Victor Fung Kwok King	241	–	–	–	–	241
William Fung Kwok Lun	130	–	–	–	–	130
Jeremy Paul Egerton Hobbins	160	–	–	–	–	160
Richard Yeung Lap Bun (note ii)	110	3,180	7,243	519	14	11,066
Pak Chi Kin	110	1,920	1,449	500	14	3,993
Raymond Ch'ien Kuo Fung	290	–	–	–	–	290
Malcolm Au Man Chung	300	–	–	–	–	300
Godfrey Ernest Scotchbrook	160	–	–	–	–	160
Anthony Lo Kai Yiu	221	–	–	–	–	221
Benedict Chang Yew Teck (note iii)	75	–	–	–	–	75
Zhang Hongyi (note iv)	105	–	–	–	–	105
	1,902	5,100	8,692	1,019	28	16,741

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)**(a) Directors' emoluments** (continued)

The remuneration of every Director for the year ended 31 December 2011 is set out below:

Name of Director	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits (note i) HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Victor Fung Kwok King	220	-	-	-	-	220
William Fung Kwok Lun	110	-	-	-	-	110
Jeremy Paul Egerton Hobbins	160	-	-	-	-	160
Richard Yeung Lap Bun (note ii)	110	3,075	8,445	484	12	12,126
Pak Chi Kin (note v)	90	1,920	1,668	454	12	4,144
Louisa Wong Yuk Nor (note vi)	38	-	-	77	-	115
Raymond Ch'ien Kuo Fung	290	-	-	-	-	290
Malcolm Au Man Chung	230	-	-	-	-	230
Godfrey Ernest Scotchbrook	160	-	-	-	-	160
Anthony Lo Kai Yiu	180	-	-	-	-	180
	1,588	4,995	10,113	1,015	24	17,735

Notes:

- (i) Other benefits include leave pay, share options, insurance premium, club membership and mortgage subsidies.
- (ii) Mr. Richard Yeung Lap Bun is the Chief Executive Officer of the Company.
- (iii) Mr. Benedict Chang Yew Teck was appointed as a Non-executive Director of the Company on 1 July 2012.
- (iv) Mr. Zhang Hongyi was appointed as an Independent Non-executive Director of the Company on 1 July 2012.
- (v) Mr. Pak Chi Kin was appointed as an Executive Director of the Company on 10 March 2011.
- (vi) Ms. Louisa Wong Yuk Nor retired as Director of the Company with effect from 5 May 2011.
- (vii) No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2012 and 2011.
- (viii) During the year, no emoluments have been paid by the Group to the Directors as an inducement to join the Group, or as a compensation for loss of office.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2011: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2011: three) individuals during the year are as follows:

	2012	2011
	HK\$'000	HK\$'000
Salaries, housing allowances, share options, other allowances and benefit in kind	6,242	6,128
Discretionary bonuses	1,201	2,082
Pension costs – defined contribution scheme	41	36
	7,484	8,246

The emoluments of the above individuals fell within the band between HK\$2,000,001 and HK\$3,000,000 during the years of 2012 and 2011.

During the year, no emoluments have been paid by the Group to the five highest paid individuals as an inducement to join the Group, or as a compensation for loss of office.

(c) Senior management's emoluments

The emoluments of the senior management included two (2011: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2011: four) senior executives fell within the band between HK\$2,000,001 and HK\$3,000,000 during the years of 2012 and 2011.

15. FIXED ASSETS

Group

	Land and properties HK\$'000	Leasehold improvements HK\$'000	Equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2011					
Cost	205,740	233,378	422,558	21,817	883,493
Accumulated depreciation	(30,365)	(190,270)	(336,536)	(17,126)	(574,297)
Net book amount	175,375	43,108	86,022	4,691	309,196
Year ended 31 December 2011					
Opening net book amount	175,375	43,108	86,022	4,691	309,196
Additions	–	18,752	38,493	2,395	59,640
Disposals	–	(705)	(1,496)	(17)	(2,218)
Depreciation (note 6)	(4,786)	(18,885)	(35,087)	(1,785)	(60,543)
Exchange differences	15	242	312	1	570
Closing net book amount	170,604	42,512	88,244	5,285	306,645
At 31 December 2011					
Cost	205,761	244,470	443,546	22,326	916,103
Accumulated depreciation	(35,157)	(201,958)	(355,302)	(17,041)	(609,458)
Net book amount	170,604	42,512	88,244	5,285	306,645
Year ended 31 December 2012					
Opening net book amount	170,604	42,512	88,244	5,285	306,645
Additions	20,961	36,373	46,542	2,195	106,071
Transfer from investment property (note 16)	34,702	–	–	–	34,702
Disposals	(23,956)	(642)	(581)	(29)	(25,208)
Depreciation (note 6)	(5,050)	(19,403)	(34,208)	(1,416)	(60,077)
Exchange differences	3	22	83	9	117
Closing net book amount	197,264	58,862	100,080	6,044	362,250
At 31 December 2012					
Cost	230,541	272,465	475,778	23,274	1,002,058
Accumulated depreciation	(33,277)	(213,603)	(375,698)	(17,230)	(639,808)
Net book amount	197,264	58,862	100,080	6,044	362,250

Notes to the Consolidated Financial Statements (continued)

15. FIXED ASSETS (continued)

Group (continued)

The net book value of leasehold land which is included in land and properties is analysed as follows:

	2012	2011
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of 10 to 50 years	128,744	100,494
Outside Hong Kong, held on:		
Leases of 10 to 50 years	10,862	11,133
	139,606	111,627

As at 31 December 2012 and 2011, freehold land of HK\$11,561,000 included in land and properties is located outside Hong Kong.

Depreciation expense of HK\$9,221,000 (2011: HK\$9,296,000) has been charged in cost of sales, HK\$41,357,000 (2011: HK\$42,611,000) in store expenses, HK\$3,338,000 (2011: HK\$3,331,000) in distribution costs and HK\$6,161,000 (2011: HK\$5,305,000) in administrative expenses.

15. FIXED ASSETS (continued)**Company**

	Leasehold improvements HK\$'000	Equipment, furniture and fixtures HK\$'000	Total HK\$'000
At 1 January 2011			
Cost	3,481	2,536	6,017
Accumulated depreciation	(314)	(973)	(1,287)
Net book amount	3,167	1,563	4,730
Year ended 31 December 2011			
Opening net book amount	3,167	1,563	4,730
Additions	4	1,274	1,278
Disposals/transfer	–	(12)	(12)
Depreciation	(349)	(888)	(1,237)
Closing net book amount	2,822	1,937	4,759
At 31 December 2011			
Cost	3,485	3,782	7,267
Accumulated depreciation	(663)	(1,845)	(2,508)
Net book amount	2,822	1,937	4,759
Year ended 31 December 2012			
Opening net book amount	2,822	1,937	4,759
Additions	410	901	1,311
Depreciation	(382)	(1,140)	(1,522)
Closing net book amount	2,850	1,698	4,548
At 31 December 2012			
Cost	3,895	4,670	8,565
Accumulated depreciation	(1,045)	(2,972)	(4,017)
Net book amount	2,850	1,698	4,548

16. INVESTMENT PROPERTY

	Group HK\$'000
Year ended 31 December 2011	
Addition	35,278
Depreciation (<i>note 6</i>)	(247)
Closing net book amount	35,031
At 31 December 2011	
Cost	35,278
Accumulated depreciation	(247)
Net book amount	35,031
Year ended 31 December 2012	
Opening net book amount	35,031
Transfer to fixed assets (<i>note 15</i>)	(34,702)
Depreciation (<i>note 6</i>)	(329)
Closing net book amount	-
At 31 December 2012	
Cost	35,278
Transfer to fixed assets (<i>note 15</i>)	(34,702)
Accumulated depreciation	(576)
Net book amount	-

Depreciation expense of HK\$329,000 (2011: HK\$247,000) has been charged in administrative expenses.

The Group's interests in investment property at their net book value is analysed as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Lease of 10 to 50 years	-	35,031

17. LEASE PREMIUM FOR LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their movements and net book value are analysed as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
At 1 January	32,252	33,098
Amortisation (<i>note 6</i>)	(1,107)	(1,104)
Exchange differences	52	258
Net book value at 31 December	31,197	32,252

	Group	
	2012 HK\$'000	2011 HK\$'000
Outside Hong Kong, held on:		
Lease of over 50 years	649	661
Leases of 10 to 50 years	30,548	31,591
	31,197	32,252

18. INTANGIBLE ASSETS

	Goodwill HK\$'000	Trademarks HK\$'000	Group HK\$'000
At 31 December 2012 and 2011			
Cost and net book amount	247,465	110,000	357,465

(a) Impairment test for trademarks

Trademarks represent the power of Saint Honore brand which delivers an earning stream and generates value for the Group. The Group's management considers the brand has an indefinite useful life due to the enduring nature of the brand.

The recoverable amount of the trademarks is determined by reference to a valuation performed using the royalty relief valuation method. Under this method, the value of the trademarks represents the present value of the hypothetical royalty income from licensing out the trademarks.

Key assumptions used in the valuation of trademarks are as follows:

Revenue growth rate (<i>note i</i>)	9%–25%
Long-term growth rate (<i>note ii</i>)	2%
Discount rate (<i>note iii</i>)	11%

Notes:

- (i) Management determined budgeted revenue growth rate over a five-year budget period by reference to the past performance and its expectations for the market development.
- (ii) The long-term growth rate used does not exceed the long-term growth rate for the bakery business in which it operates and is used to extrapolate cash flow beyond the budget period.
- (iii) The discount rate used is pre-tax discount rate applied to the cash flow projections which reflects specific risks relating to the relevant segment.

The Group does not have to recognise an impairment loss as at 31 December 2012 based on the impairment assessment performed.

If the annual revenue has no growth over the five-year budget period or the discount rate applied in the valuation increased by 1%, the trademarks' recoverable amount would still be greater than its carrying value and no impairment would be noted.

18. INTANGIBLE ASSETS (continued)**(b) Impairment test for goodwill**

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operating segment, Hong Kong and others bakery segment.

The recoverable amount of a CGU is determined based on fair value less costs to sell calculation, which is calculated by using pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year budget period are extrapolated using the estimated long-term growth rate stated below.

Key assumptions used in the fair value less costs to sell calculation of goodwill are as follows:

Gross margin (<i>note i</i>)	48%
Long-term growth rate (<i>note ii</i>)	2%
Discount rate (<i>note iii</i>)	11%

Notes:

- (i) The budgeted gross margin over the five-year budget period is approximately 48% and is estimated by management with reference to the past performance and its expectations for the market development.
- (ii) The long-term growth rate used does not exceed the long-term growth rate for the bakery business in which it operates and is used to extrapolate cash flow beyond the budget period.
- (iii) The discount rate used is pre-tax discount rate applied to the cash flow projections which reflects specific risks relating to the relevant operating segment.

The Group does not have to recognise an impairment loss as at 31 December 2012 based on the impairment assessment performed.

If the gross margin decreased by 1% during the five-year budget period or the discount rate applied in the fair value less costs to sell calculation had increased by 1%, the goodwill's recoverable amount would still be greater than its carrying value and no impairment would be noted.

Notes to the Consolidated Financial Statements (continued)

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	HK\$'000	HK\$'000
Unlisted shares at cost	654,538	654,538

As at 31 December 2012 and 2011, the balances with subsidiaries are unsecured, interest free and repayable on demand.

As at 31 December 2012, the Company has interests in the following subsidiaries:

Name	Place of incorporation/operation	Principal activities	Particulars of issued share capital/registered capital	Interest held
<i>Directly held:</i>				
Convenience Retail Asia (BVI) Limited	British Virgin Islands	Investment holding	10,000 ordinary shares of US\$1 each	100%
Saint Honore Holdings Limited	Bermuda	Investment holding	1,000,000 ordinary shares of HK\$0.1 each	100%
<i>Indirectly held:</i>				
Bliset Investment Limited	Hong Kong	Property holding	100 ordinary shares of HK\$1 each 102 non-voting deferred shares of HK\$1 each	100%
Bodega Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100%
Bread Boutique Limited	Hong Kong	Property holding	3,000,000 ordinary shares of HK\$1 each	100%
Circle K Convenience Stores (Greater China) Limited	Hong Kong	Property holding	10,000 ordinary shares of HK\$100 each	100%
Circle K Convenience Stores (HK) Limited	Hong Kong	Convenience stores operator and lease-holder	183,756 ordinary shares of HK\$1,000 each	100%
Circle K Convenience Stores Limited	Hong Kong	Lease-holder	10,000 ordinary shares of HK\$10 each	100%
Circle K Convenience Stores PRC (BVI) Limited	British Virgin Islands	Inactive	1 ordinary share of US\$1	100%
Circle K Convenience Stores PRC Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital/registered capital	Interest held
<i>Indirectly held: (continued)</i>				
Circle K PRC Properties Limited	Hong Kong	Property holding	2 ordinary shares of HK\$1 each	100%
City Producer Limited	Hong Kong	Dormant	10,000 ordinary shares of HK\$1 each	100%
Convenience Retail Dongguan Limited 東莞利亞便利店有限公司*	PRC (note i)	Inactive	Registered capital of RMB30,000,000	100%
Convenience Retail and Cake Shop Shenzhen Limited 深圳利亞餅屋便利店有限公司* (Formerly known as Convenience Retail Shenzhen Limited 深圳利亞便利店有限公司)	PRC (note i)	Convenience stores and bakery chain operator and lease-holder	Registered capital of RMB20,000,000	100%
Convenience Retail Southern China Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Convenience Retail Southern China Limited 利亞華南便利店有限公司*	PRC (note ii)	Convenience stores operator and lease-holder	Registered capital of RMB128,000,000	99.3%
Dinamo Investments Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100%
Easy Triumph Holdings Limited	Hong Kong	Inactive	1 ordinary share of HK\$1	100%
Easywin Limited	British Virgin Islands	Trademark holder	1 ordinary share of US\$1	100%
Eltham Agents Limited	British Virgin Islands	Investment holding	10 ordinary shares of US\$1 each	100%
Everfit Agents Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100%
Evergain Consultants Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100%
FingerShopping Limited (Formerly known as Web-Logistic (HK) Limited)	Hong Kong	E-business	15,600,000 ordinary shares of HK\$1 each	100%
Gold Tree Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100%

Notes to the Consolidated Financial Statements (continued)

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/operation	Principal activities	Particulars of issued share capital/registered capital	Interest held
<i>Indirectly held: (continued)</i>				
Golden Mindset Company Limited	Hong Kong	Marketing of festive and bakery products	2 ordinary shares of HK\$1 each	100%
Great Moment Investment Limited	Hong Kong	Property holding	2 ordinary shares of HK\$1 each	100%
Green Rich Enterprises Limited	Hong Kong	Property holding	1 ordinary share of HK\$1	100%
Kingdom Wise Limited	Hong Kong	Property holding	2 ordinary shares of HK\$1 each	100%
Marine Merit Limited	Hong Kong	Property holding	1 ordinary share of HK\$1	100%
Saint Honore Cake Shop Limited	Hong Kong	Bakery chain operator and lease-holder	5 ordinary shares of HK\$10 each 345,005 non-voting deferred shares of HK\$10 each	100%
Saint Anna Cake Shop (Macau) Limited Pastelarias Santa Ana (Macau), Limitada #	Macau	Bakery chain operator and lease-holder	Quota capital of MOP100,000	100%
Saint Honore Cake Shop Guangzhou Limited 廣州市聖安娜餅屋有限公司*	PRC (note i)	Bakery chain operator and lease-holder	Registered capital of RMB38,345,674	100%
Saint Honore Cake Shop (Shenzhen) Investment Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Saint Honore Cake Shop (Shenzhen) Limited 聖安娜餅屋(深圳)有限公司*	PRC (note i)	Food factory operator	Registered capital of HK\$18,610,000	100%
Silver Wave Agents Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100%
Strong Glory Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Uni-Leptics Limited	Hong Kong	Property holding	2 ordinary shares of HK\$1 each	100%

* The legal name of the company is in Chinese.

The legal name of the company is in Portuguese.

Notes:

- (i) Registered as a wholly foreign-owned enterprise under the People's Republic of China ("PRC") law.
- (ii) Registered as sino-foreign cooperative joint ventures under the PRC law.

20. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group	
	2012	2011
	HK\$'000	HK\$'000
Unlisted investment in Macau	1,895	1,895

Note:

The investment represents 19.5% equity interest in Circle K Armazens Retalhistas Macau, Limitada and the contribution of a shareholders' loan of MOP1,931,000 (approximately HK\$1,876,000). The shareholders' loan is unsecured, interest free and not repayable within twelve months of balance sheet date.

The maximum exposure to credit risk is the carrying amount of the available-for-sale financial asset. It is neither past due nor impaired.

21. DEFERRED TAXATION

Movements on the net deferred tax (assets)/liabilities are as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
At 1 January	3,485	1,502
(Credited)/charged to the consolidated profit and loss account (<i>note 9</i>)	(3,586)	1,373
Charged directly to other comprehensive income	–	667
Exchange difference	(30)	(57)
At 31 December	(131)	3,485

Notes to the Consolidated Financial Statements (continued)

21. DEFERRED TAXATION (continued)

Movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax assets	Group							
	Tax losses		Accelerated tax depreciation		Others		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(4,811)	(4,408)	(3,792)	(4,634)	(588)	(660)	(9,191)	(9,702)
(Credited)/charged to the consolidated profit and loss account	(1,070)	(346)	512	842	(651)	243	(1,209)	739
Credited directly to other comprehensive income	-	-	-	-	-	(171)	-	(171)
Exchange difference	(30)	(57)	-	-	-	-	(30)	(57)
At 31 December	(5,911)	(4,811)	(3,280)	(3,792)	(1,239)	(588)	(10,430)	(9,191)
Deferred tax liabilities	Group							
	Accelerated tax depreciation		Fair value gain		Others		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	2,128	1,528	9,710	9,676	838	-	12,676	11,204
(Credited)/charged to the consolidated profit and loss account	(317)	600	(2,060)	34	-	-	(2,377)	634
Charged directly to other comprehensive income	-	-	-	-	-	838	-	838
At 31 December	1,811	2,128	7,650	9,710	838	838	10,299	12,676
Deferred tax assets	Group		Group					
	2012	2011	2012	2011				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
	Deferred tax assets to be recovered after more than 12 months	(6,224)	(7,748)	(6,224)	(7,748)			
Deferred tax assets to be recovered within 12 months	(4,206)	(1,443)	(4,206)	(1,443)				
	(10,430)	(9,191)	(10,430)	(9,191)				
Deferred tax liabilities	Group		Group					
	2012	2011	2012	2011				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
	Deferred tax liabilities to be settled after more than 12 months	9,210	11,706	9,210	11,706			
Deferred tax liabilities to be settled within 12 months	1,089	970	1,089	970				
	10,299	12,676	10,299	12,676				

21. DEFERRED TAXATION (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Deferred tax assets	(9,152)	(7,949)
Deferred tax liabilities	9,021	11,434

The Group did not recognise deferred income tax assets amounting to HK\$33,131,000 (2011: HK\$33,167,000) in respect of tax losses that can be carried forward against future taxable income. The expiry dates of the unrecognised tax losses are as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Less than 1 year	24,486	20,592
1-5 years	110,906	114,919
	135,392	135,511

Deferred income tax liabilities of HK\$1,652,000 (2011: HK\$1,302,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of a subsidiary. Such unremitted earnings are to be reinvested and amount to HK\$33,049,000 at 31 December 2012 (2011: HK\$26,049,000).

22. INVENTORIES

	Group	
	2012	2011
	HK\$'000	HK\$'000
Raw materials and packing materials	24,473	26,940
Finished goods	156,441	152,486
	180,914	179,426

Notes to the Consolidated Financial Statements (continued)

23. 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 31 December 2012, the aging analysis of trade receivables is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
0-30 days	34,728	37,856
31-60 days	4,308	3,606
61-90 days	2,582	1,495
Over 90 days	6,201	3,834
	47,819	46,791

As of 31 December 2012, trade receivables of HK\$1,187,000 (2011: HK\$394,000) were impaired. The amount of the provision was HK\$217,000 as of 31 December 2012 (2011: HK\$188,000). The individually impaired receivables are mainly due from suppliers, which are in financial difficulties. It was assessed that a portion of the receivables is expected to be recovered.

As of 31 December 2012, trade receivables of HK\$12,121,000 (2011: HK\$8,729,000) were past due but not impaired. These relate to a number of independent customers who have no recent history of default. The aging of these receivables is as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Past due		
1 to 3 months	6,890	5,101
Over 3 months	5,231	3,628
	12,121	8,729

23. TRADE RECEIVABLES (continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	Group	
	2012	2011
	HK\$'000	HK\$'000
HK dollar (HK\$)	34,059	36,107
Renminbi (RMB)	11,443	8,682
Patacas (MOP)	2,317	2,002
	47,819	46,791

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
At 1 January	188	678
Provision for receivable impairment	62	–
Receivables written off	(33)	(490)
At 31 December	217	188

The maximum exposure to credit risk is the carrying value of the trade receivables mentioned above. The Group does not hold any collateral as security.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Cash at bank and in hand	211,278	199,552	11,682	5,486
Bank deposits	327,757	194,731	65,000	–
Cash and cash equivalents	539,035	394,283	76,682	5,486
Non-current bank deposit	–	18,534	–	18,534
Current bank deposits	203,998	305,933	48,710	–
Total cash and bank balances	743,033	718,750	125,392	24,020

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK\$678,223,000 (2011: HK\$677,438,000).

As at 31 December 2012, bank deposits of HK\$531,755,000 (2011: HK\$439,198,000) bear effective interest rate of approximately 2.3% (2011: 1.7%) per annum. These deposits have an average maturity of 54 days (2011: 29 days).

As at 31 December 2011, included in the bank deposits was a deposit of HK\$80,000,000, which was matured on 4 August 2012. Such deposit had a 3-year term and borne interest rate of 3.5% per annum for the first year and thereafter at 3-month HIBOR plus 1.3% per annum with an interest rate floor of 2.5% per annum. Such bank deposit was classified as financial asset at fair value through profit and loss.

The cash and bank balances are mainly denominated in Hong Kong dollars and Renminbi. As at 31 December 2012, certain cash and bank balances of HK\$58,239,000 (2011: HK\$103,452,000) are kept in the Chinese Mainland. The remittance of funds out of the Chinese Mainland is subject to rules and regulations of foreign exchange control promulgated by the Chinese Mainland government.

24. CASH AND CASH EQUIVALENTS (continued)

At 31 December 2012, the Group's total bank balances and cash are denominated in the following currencies:

	Group	
	2012	2011
	HK\$'000	HK\$'000
HK dollar (HK\$)	507,301	322,849
Renminbi (RMB)	228,797	389,503
Patacas (MOP)	6,935	6,398
	743,033	718,750

25. TRADE PAYABLES

At 31 December 2012, the aging analysis of the trade payables is as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
0-30 days	299,803	293,215
31-60 days	142,399	145,728
61-90 days	53,214	49,133
Over 90 days	55,599	47,944
	551,015	536,020

The trade payable balances are mainly denominated in Hong Kong dollars.

26. SHARE CAPITAL

	2012		2011	
	No. of shares	Shares of HK\$0.10 each HK\$'000	No. of shares	Shares of HK\$0.10 each HK\$'000
Authorised:				
At 31 December	2,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid:				
At 1 January	733,909,974	73,391	731,567,974	73,157
Issue of shares on exercises of share options (<i>note</i>)	5,472,000	547	2,342,000	234
At 31 December	739,381,974	73,938	733,909,974	73,391

Note:

During the year, 5,472,000 (2011: 2,342,000) shares were allotted and issued pursuant to the exercise of share options.

Share options*(i) Share Option Scheme**(a) 2001 Share Option Scheme*

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

(b) 2010 Share Option Scheme

On 10 May 2010, the 2010 Share Option Scheme was approved and adopted by the shareholders at the annual general meeting of the Company.

Summary of the major terms of the abovementioned 2001 Share Option Scheme and the 2010 Share Option Scheme is set out in the "Share Options" section of Directors' Report.

26. SHARE CAPITAL (continued)**Share options** (continued)

- (ii) Movements in the number of share options granted, outstanding and their related weighted average exercise prices are as follows:

	2012		2011	
	Number of options	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$
At 1 January	30,095,000	3.26	14,862,000	3.24
Granted	332,000	3.71	19,325,000	3.22
Lapsed	(1,050,000)	3.26	(672,000)	3.26
Expired	(378,000)	3.12	(1,078,000)	2.91
Exercised	(5,472,000)	3.31	(2,342,000)	2.97
At 31 December	23,527,000	3.25	30,095,000	3.26
Exercisable	4,870,000	3.35	10,970,000	3.33

During the year ended 31 December 2012, the weighted average share price at the date of share options exercised was HK\$4.33 (2011: HK\$3.63). The options outstanding at 31 December 2012 and 2011 had a weighted average remaining contractual life of 3.6 years and 3.9 years respectively.

Notes to the Consolidated Financial Statements (continued)

26. SHARE CAPITAL (continued)

Share options (continued)

(iii) Share options outstanding at the year-end have the following expiry dates and exercise prices:

Expiry date	Exercise price HK\$	2012 Number of options	2011 Number of options
30 March 2012	3.00	–	802,000
3 May 2012	3.39	–	2,480,000
3 May 2013	3.39	1,830,000	2,780,000
3 May 2014	3.39	2,040,000	2,880,000
19 November 2012	3.46	–	428,000
19 November 2013	3.46	340,000	600,000
19 November 2014	3.46	480,000	620,000
21 December 2014	2.04	180,000	380,000
1 April 2017	3.22	18,325,000	19,125,000
1 April 2017	3.71	332,000	–
		23,527,000	30,095,000

The fair value of options granted are determined by using the Black-Scholes valuation model. During the year, the weighted average fair value of options granted was HK\$0.57 (2011: HK\$0.59) per option. The significant inputs into the models for the share options granted in 2012 were as follows:

	2012
Expected volatility	30%
Expected life	4 years
Risk free rate	0.6%
Expected dividends	4.4%

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

27. RESERVES**(a) Group**

	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserves HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2011	286,940	177,087	16,472	12,894	9,065	274,014	776,472
Issue of new shares	6,722	-	-	-	-	-	6,722
Employee share option benefit	1,828	-	-	374	-	1,242	3,444
Actuarial gains on post employment benefit							
gross	-	-	-	-	-	3,823	3,823
tax	-	-	-	-	-	(667)	(667)
Exchange differences	-	-	-	-	700	-	700
Profit attributable to shareholders of the Company	-	-	-	-	-	166,320	166,320
Dividends paid	-	-	-	-	-	(90,133)	(90,133)
At 31 December 2011	295,490	177,087	16,472	13,268	9,765	354,599	866,681
Representing:							
Reserves							785,950
Proposed dividend							80,731
							866,681
At 1 January 2012	295,490	177,087	16,472	13,268	9,765	354,599	866,681
Issue of new shares	17,575	-	-	-	-	-	17,575
Employee share option benefit	4,912	-	-	(1,951)	-	675	3,636
Exchange differences	-	-	-	-	945	-	945
Profit attributable to shareholders of the Company	-	-	-	-	-	199,951	199,951
Transfer to capital reserves	-	-	750	-	-	(750)	-
Dividends paid	-	-	-	-	-	(147,545)	(147,545)
At 31 December 2012	317,977	177,087	17,222	11,317	10,710	406,930	941,243
Representing:							
Reserves							845,026
Proposed dividend							96,217
							941,243

Notes to the Consolidated Financial Statements (continued)

27. RESERVES (continued)

(b) Company

	Share premium HK\$'000	Capital reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2011	286,940	12,792	12,894	24,927	337,553
Issue of new shares	6,722	–	–	–	6,722
Employee share option benefit	1,828	–	374	287	2,489
Actuarial loss on post employment benefit					
gross	–	–	–	(760)	(760)
tax	–	–	–	125	125
Profit attributable to shareholders of the Company	–	–	–	108,114	108,114
Dividends paid	–	–	–	(90,133)	(90,133)
At 31 December 2011	295,490	12,792	13,268	42,560	364,110
Representing:					
Reserves					283,379
Proposed dividend					80,731
					364,110
At 1 January 2012	295,490	12,792	13,268	42,560	364,110
Issue of new shares	17,575	–	–	–	17,575
Employee share option benefit	4,912	–	(1,951)	32	2,993
Profit attributable to shareholders of the Company	–	–	–	146,526	146,526
Dividends paid	–	–	–	(147,545)	(147,545)
At 31 December 2012	317,977	12,792	11,317	41,573	383,659
Representing:					
Reserves					287,442
Proposed dividend					96,217
					383,659

28. LONG SERVICE PAYMENT LIABILITIES

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement scheme that is attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

The liability recognised in the consolidated balance sheet is the present value of unfunded obligations and its movements are as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	17,699	20,397	1,095	329
Expenses recognised in the consolidated profit and loss account – as shown below	534	372	18	6
Benefit (paid)/refunded	(1,271)	753	–	–
Actuarial (gains)/losses recognised in other comprehensive income	–	(3,823)	–	760
At 31 December	16,962	17,699	1,113	1,095

The amounts recognised in the consolidated profit and loss account are as follows:

	Group	
	2012 HK\$'000	2011 HK\$'000
Current service cost	276	129
Interest cost	258	243
Total, included in employee benefit expense (note 13)	534	372

Of the total charge, HK\$117,000 (2011: nil), HK\$266,000 (2011: HK\$150,000), HK\$39,000 (2011: HK\$13,000) and HK\$112,000 (2011: HK\$209,000) were included in cost of sales, store expenses, distribution costs and administrative expenses respectively.

Notes to the Consolidated Financial Statements (continued)

28. LONG SERVICE PAYMENT LIABILITIES (continued)

The principal actuarial assumptions used as at 31 December are as follows:

	2012	2011
Discount rate	1.5%	1.5%
Long-term rate of salary increases		
Full time staff	2.5%	2.5%
Part time staff	2.5%	2.5%
Long-term rate of increase of maximum amount of long service payment/wages and minimum mandatory provident fund relevant income	2.5%	2.5%

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	Group	
	2012	2011
	HK\$'000	HK\$'000
Profit for the year	199,951	166,320
Adjustments for:		
Income tax expenses	29,627	35,200
Interest income	(11,585)	(8,575)
Depreciation of owned fixed assets	60,077	60,543
Depreciation of investment property	329	247
Amortisation of lease premium for land	1,107	1,104
Employee share option benefit	3,636	3,444
(Gains)/losses on disposal of fixed assets	(35,975)	1,318
Long service payment costs	534	372
Foreign exchange losses/(gains), net	260	(11,994)
	247,961	247,979
Changes in working capital		
Inventories	(1,488)	(32,145)
Trade receivables, rental deposits, other receivables, deposits and prepayments	(17,729)	(40,199)
Trade payables, other payables and accruals	(9,027)	98,574
Long service payment liabilities	(1,271)	753
Cake coupons	8,033	10,712
	226,479	285,674

30. COMMITMENTS**(a) Capital commitments**

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

	Group	
	2012	2011
	HK\$'000	HK\$'000
Contracted but not provided for	2,651	4,761
Authorised but not contracted for	2,667	2,448
	5,318	7,209

(b) Operating leases commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2012	2011
	HK\$'000	HK\$'000
Not later than one year	333,860	300,594
Later than one year and not later than five years	311,379	304,464
Later than five years	6,052	5,532
	651,291	610,590

Payment obligations in respect of operating lease on properties with rentals vary with gross revenues apart from base rental are not included as future minimum lease payments.

31. RELATED PARTY TRANSACTIONS

Fung Retailing Limited ("FRL", formerly known as Li & Fung (Retailing) Limited) is a substantial shareholder of the Company, which owns 42.16% of the Company's shares. All of the related party transactions of the Group are entered into with Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited, the holding company of FRL and a substantial shareholder of the Company), its subsidiaries and associates.

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

(a) Related party transactions

	Note	2012 HK\$'000	2011 HK\$'000
Income			
Service income and reimbursement of office and administrative expenses	(i)		
Subsidiaries/fellow subsidiaries of a substantial shareholder		4,509	4,892
Associates of a substantial shareholder		645	1,630
Expenses			
Reimbursement of office and administrative expenses	(ii)		
Subsidiaries/fellow subsidiaries of a substantial shareholder		2,742	2,840
Associates of a substantial shareholder		684	1,829
Rental payable	(iii)		
Fellow subsidiaries of a substantial shareholder		8,010	8,010
Associates of a substantial shareholder		429	297
Net purchases	(iv)		
Associates of a substantial shareholder		9,487	13,868

(b) Key management personnel compensation

	2012 HK\$'000	2011 HK\$'000
Fees	1,902	1,588
Discretionary bonuses	10,284	12,195
Salaries and other allowances	12,342	10,893
Share option benefit	1,507	1,245
Pension costs – defined contribution scheme	83	60
	26,118	25,981

31. RELATED PARTY TRANSACTIONS (continued)**(c) Year-end balances with related parties**

	2012	2011
	HK\$'000	HK\$'000
Amounts due from:		
Subsidiaries/fellow subsidiaries of a substantial shareholder	75	71
Associates of a substantial shareholder	12	98
Amounts due to:		
Subsidiaries of a substantial shareholder	(691)	(253)
Associates of a substantial shareholder	(2,889)	(5,052)

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

- (d)** The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK\$32,888,000 (2011: HK\$32,888,000). As of 31 December 2012, the banking facilities of the subsidiaries amounting to HK\$996,000 (2011: HK\$1,470,000) were utilised.

Notes:

- (i) Service income and reimbursements receivable from subsidiaries/fellow subsidiaries/associates of a substantial shareholder in respect of office and administrative expenses incurred are charged on an actual cost recovery basis and in accordance with the terms of agreements.
- (ii) Reimbursements payable to subsidiaries/fellow subsidiaries/associates of a substantial shareholder in respect of office and administrative expenses incurred are charged on an actual cost recovery basis.
- (iii) Rentals are payable to fellow subsidiaries/associates of a substantial shareholder in accordance with the terms of agreements.
- (iv) Purchases from associates of a substantial shareholder were carried out in ordinary course of business and on terms mutually agreed between the Group and the associates.

Five-Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the five years ended 31 December 2012.

	2012	2011	2010	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4,270,318	3,972,615	3,575,238	3,349,326	3,322,665
Profit attributable to shareholders of the Company	199,951	166,320	136,359	90,449	88,873
Total assets	1,924,597	1,859,961	1,659,092	1,524,591	1,518,341
Total liabilities	(909,416)	(919,889)	(809,463)	(742,585)	(760,263)
Non-controlling interests	–	–	–	–	8,256
Shareholders' funds	1,015,181	940,072	849,629	782,006	766,334