Convenience Retail Asia

Convenience Retail Asia Limited
利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 08052

Annual Report 2009

利亞

Member of the Li & Fung Group

The 300th Circle K store in Hong Kong was officially opened at Grand Waterfront Plaza, Ma Tau Kok on 7 January 2010.

Contents

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

Corporate Information

Executive Director
Richard YEUNG Lap Bun *(Chief Executive Officer)*

Non-executive Directors
Dr. Victor FUNG Kwok King+ *(Chairman)*
Dr. William FUNG Kwok Lun
Godfrey Ernest SCOTCHBROOK*
Jeremy Paul Egerton HOBBINS*
Louisa WONG Yuk Nor

Independent non-executive Directors
Dr. Raymond CH'IEN Kuo Fung*+
Malcolm AU Man Chung*+
Anthony LO Kai Yiu*

Group Chief Compliance Officer
James SIU Kai Lau

Company Secretary
Maria LI Sau Ping

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

Head Office and Principal Place of Business
5th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon
Hong Kong

Website
www.cr-asia.com

Legal Advisers
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*

Highlights

Financial Highlights

	Change	**2009 HK$'000**	2008 HK$'000
Revenue	+0.8%	**3,349,326**	3,322,665
Profit attributable to shareholders of the Company	+1.8%	**90,449**	88,873
Basic earnings per share (HK cents)	+1.7%	**12.39**	12.18
Dividend per share (HK cents)			
Final	+9.1%	**6.00**	5.50
Full year	+6.9%	**7.70**	7.20

Operation Highlights

- Overall Circle K and Saint Honore Hong Kong performed above expectations as a result of aggressive promotions and cost-saving initiatives
- Circle K Hong Kong's growth in total turnover decelerated due to the negative impact of the environmental levy implemented in July 2009
- Comparable store sales for Circle K Guangzhou were affected by the discontinuance of cigarette sales in compliance with government regulations
- Restructured organisation in Guangzhou to prepare for next phase of growth
- The Group holds net cash and bank deposits of HK$515.3 million as of 31 December 2009 without any bank borrowings

Number of Stores as of 31 December 2009

Circle K Stores	
Hong Kong	299
Guangzhou	57
Shenzhen	1
Subtotal	357
Franchised Circle K Stores	
Guangzhou	4
Macau	19
Zhuhai	12
Subtotal	35
Total number of Circle K Stores	**392**
Saint Honore Cake Shops	
Hong Kong	82
Macau	7
Guangzhou	12
Total number of Saint Honore Cake Shops	**101**
Total number of Stores under Convenience Retail Asia	**493**

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 continued sales growth and a net profit increase of 0.8% and 1.8% respectively for 2009 as compared to 2008. Basic earnings per share increased by 1.7% from 12.18 HK cents to 12.39 HK cents. The financial position of the Group remains strong with cash and bank deposits of HK$515.3 million without any bank borrowings.

Review of the Hong Kong Retail Market

During the last quarter of 2009, the recovery of the retail market accelerated. Consumer confidence rebounded due to improved job prospects and a more positive perception of personal finances as a result of the buoyant equity market and high-end property market boom. Encouraged by the sentiment that the worst of the global financial recession might be over, consumers resumed spending on discretionary categories that they had cut back on a year ago.

However, the Group's operations were unable to benefit from the retail market rebound. The operating environment for convenience stores in the last quarter of 2009 was just as challenging as in the first three due to the lingering negative impacts of the drastic increase in tobacco tax in February and the plastic bag levy implemented in July.

Since the tobacco tax increase, the proliferation of illicit retail channels for untaxed cigarettes together with duty-free retail channels across the border have created unfair and continual competition in the tobacco category. Consequently, the cigarette sales suffered a substantial drop in sales volume even though sales value was maintained due to the substantially increased unit price.

Review of the Hong Kong Retail Market (continued)

The legally permissible use of free plastic bags by newspaper vendors also disrupted the level playing field, causing serious negative impact on newspaper sales. Sales losses incurred in these two major categories carried more implications than just reductions in sales revenue. Since these were also key drivers for customer traffic, the number of transactions as well as morning purchases also suffered.

Other major categories affected by the plastic bag levy included food services, packaged ice cream, snacks and confectionery. The reduced number of items per transaction resulted in a reduction in transaction value, while the reduced number of customers for each of the affected categories added up to a significant reduction in average daily store transactions.

Company Initiatives in Hong Kong Operations

In order to arrest the decline in average daily transaction value, the Group launched a major initiative in the form of aggressive marketing promotions to stimulate customer spending. Some of these enticed customers with free premiums featuring licensed characters to fulfill the HK$20 minimum purchase requirement per transaction, successfully increasing average daily transaction value.

These fun, innovative and value-adding premium promotions featured popular icons with broad age-group appeal. By bringing new excitement to the shopping experience, they also enhanced the "Always Something New!" consumer proposition.

Other initiatives to support "Always Something New!" were executed in category management, with the introduction of a range of deli sandwiches and wraps as well as new products from the in-store bakery and steam station. These helped upgrade the overall food service offering and reinforce Circle K's positioning as the ideal stop for time-sensitive office workers. Such private label food products are also high-margin performers compared to the branded package goods.

According to a consumer study conducted by the Nielsen Company in November 2009, the Group continued to see improvement in brand preference among convenience store users that far outperforms actual outlet share[1].

Review of the Retail Market on the Chinese Mainland

The overall economy on the Chinese Mainland continued to see robust recovery, enjoying GDP growth of 8.9% at the end of the third quarter. Boosted by the 4 trillion RMB government stimulus package designed to drive local consumption, cumulative retail sales of consumer products grew 15.3%[2] compared to the same period last year.

Regrettably, the Group's Circle K operations in Guangzhou were unable to benefit directly from this buoyant consumer sentiment due to a unique factor: the implementation of the official ban on cigarette retailing. This ban, which only affects foreign-owned retailing channels such as Circle K, virtually deleted the sales revenue of a major category that also happened to be a major customer traffic builder for stores.

Notes:

1 *Source: Telebus Study conducted by the Nielsen Company in November 2009.*

2 *Published by the National Bureau of Statistics of China on 28 December 2009.*

Review of the Guangzhou Operations

In preparation for another phase of store network growth and profit optimisation, the Group embarked on a store-by-store review of its Guangzhou operations during the year. Stores with unsatisfactory sales performance and little prospect of turning around were closed down. Hence, the Group ended the year with a smaller number of stores than at the beginning.

The Group also simultaneously consolidated infrastructure and reduced operating costs to ensure that it established the foundation for renewed growth, with higher operational efficiency as well as increased productivity and capacity for adding more stores, by the end of the year.

The Group is able to report that with the completion of the above initiatives, the operation in Guangzhou has been restructured to become a much leaner retailing enterprise, with enhanced competitiveness and momentum behind it for another phase of renewed business growth.

Review of the Saint Honore Cake Shop Operations

The Group's Saint Honore Cake Shop operations benefited from renewed consumer optimism in the last quarter. The recovering economic environment resulted in improved sentiment, which was reflected in the robust sales growth of pound cakes for birthday parties and social gatherings. With an overall product quality upgrade programme in place since the beginning of the year, Saint Honore Cake Shop was well prepared to leverage the rebound in consumer demand and further stimulated sales by launching a premium range of Belgium chocolate cakes in the middle of the year. The launch of several free premium promotions featuring household items with licensed characters also met with enthusiastic response, primarily from housewives, and significant incremental sales were generated.

Corporate Governance and Sustainability

The Group is committed to maintaining the highest standards of corporate governance and will continue to foster a company culture that upholds the unwavering principles of transparency, accountability and independence.

The Group also recognises the risks posed by climate change and is therefore committed to operating in an environmentally responsible manner in all respects. Specifically, the Group has committed to measure and manage its greenhouse gas emissions, energy consumption and waste reduction in offices, stores and other parts of its supply chain.

In keeping with its role as a responsible retailer, the Group is introducing programmes to raise and encourage greater environmental awareness amongst the public and its consumers, such as its 4R campaign, i.e. Refrain, Reduce, Re-use and Recycle, which is backed by store displays, posters and other media. The Group is in full compliance with various government environmental directives such as the environmental levy on plastic bags implemented in Hong Kong in July 2009, and regularly consults with government and industry groups on environmental initiatives and objectives.

The Group intends to enhance and upgrade its commitment to sustainability through new programmes on these issues in 2010 and beyond.

Outlook for 2010

As of the start of 2010, the global economy seems to be headed toward gradual recovery, led by the speedy rebound of the financial markets. However, the discrepancy between the pace of financial recovery and the real economy indicates that a "return to normalcy" remains a long haul – one that will be beset with uncertainties and possible relapses.

After delivering modest business growth in 2009 despite the challenging operating conditions, the Group is prepared to renew its strategic initiative of network expansion. But with elements of uncertainty in the market, the Group will proceed with extreme caution.

The Group will also continue to optimise the profit performances of its core businesses to ensure shareholder return on investment. These initiatives will be augmented by value-adding projects such as the development of private labels. Also, the consolidation of production facilities that was successfully implemented in 2009 has paved the way for a strategic focus on achieving long-term savings. Resources will be effectively allocated in marketing and promotional campaigns, building the brand, developing people and, most importantly, giving our customers a truly satisfactory shopping experience when they shop at Circle K or Saint Honore.

In conclusion, I would like to take this opportunity to express my deep appreciation to the Board of Directors, who have made considerable efforts to provide valuable guidance and professional counsel in the Group's strategic directions and daily operational issues. I would also like to thank the management and the staff for their hard work and dedication in maintaining a stable business performance amid such a challenging market environment.

Victor FUNG Kwok King
Chairman

Hong Kong, 10 March 2010

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 2009. Despite very tough operating conditions, the Group's turnover for the year and the fourth quarter increased to HK$3,349.3 million and HK$835.8 million respectively, representing growth of 0.8% and 0.7% when compared to the corresponding period in 2008.

In 2009, the turnover of the convenience store business increased by 1.3% to HK$2,702.4 million compared to 2008. These increases were mainly attributable to the opening of new stores, but they were partly offset by a decrease in comparable convenience store sales (stores in existence throughout 2008 and 2009), which decreased by 0.7% and 9.8% in Hong Kong and Southern China respectively against 2008. Meanwhile, the turnover of the cakes and bakery business decreased by 0.2% to HK$701.6 million compared to 2008. This was mainly due to the decrease in the number of stores in 2009, although a slight increase in comparable store sales was achieved.

Gross margin and other income decreased from 37.1% of turnover to 36.8% for the year and from 38.1% of turnover to 37.1% for the fourth quarter when compared to 2008. This was mainly due to losses from sales of newspaper, which is high-margin item, after the launch of the environmental levy in July 2009.

Store expenses as a percentage of turnover were maintained at 26.9% for the year and decreased from 28.3% to 27% for the fourth quarter when compared to 2008. The decrease was mainly because of one-off disposal gain in properties but was partly offset by non-recurring expenses from the closure of stores in Southern China in 2009.

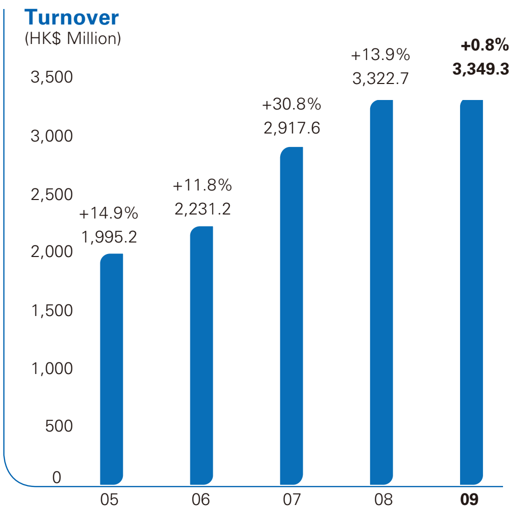
Distribution cost as a percentage of turnover was maintained at 2.5% for both the year and the fourth quarter when compared to 2008.

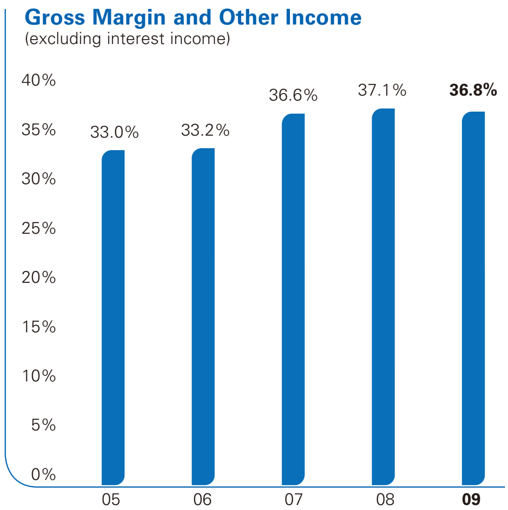
Administrative expenses as a percentage of turnover decreased from 4.3% to 4.2% for the year and increased from 4.3% to 4.6% for the fourth quarter when compared to 2008. The increase was the result of one-off legal and professional fees incurred for feasibility studies of a number of projects.

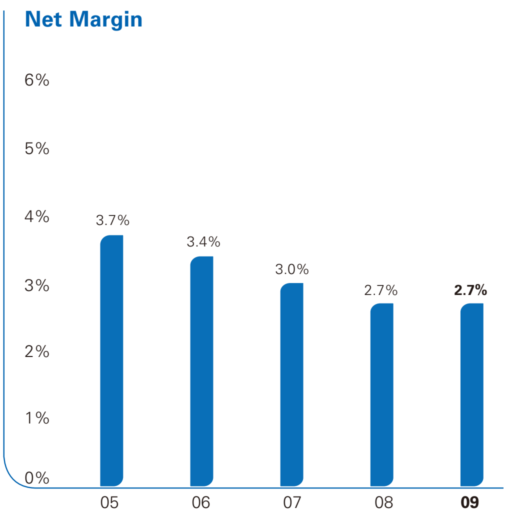
Financial Review (continued)

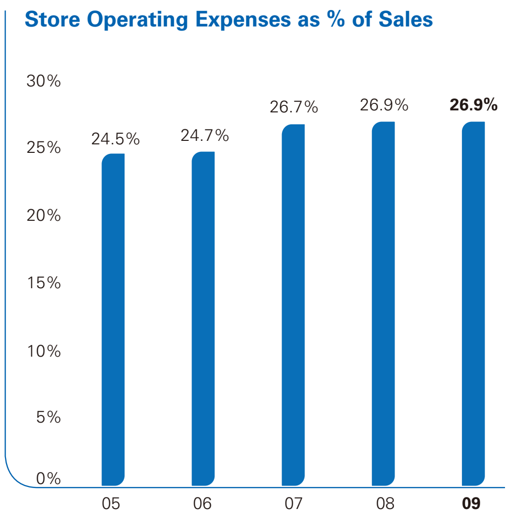
Net profit attributable to shareholders increased by 1.8% and 21.3% to HK$90.4 million and HK$26.2 million for the year and the fourth quarter when compared to 2008. Basic earnings per share increased by 1.7% from 12.18 HK cents to 12.39 HK cents for the year.

Most of the Group's cash and bank deposits were in HK dollars and deposited with major banks in Hong Kong, and 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. 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 dollars or Renminbi bank deposits with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.

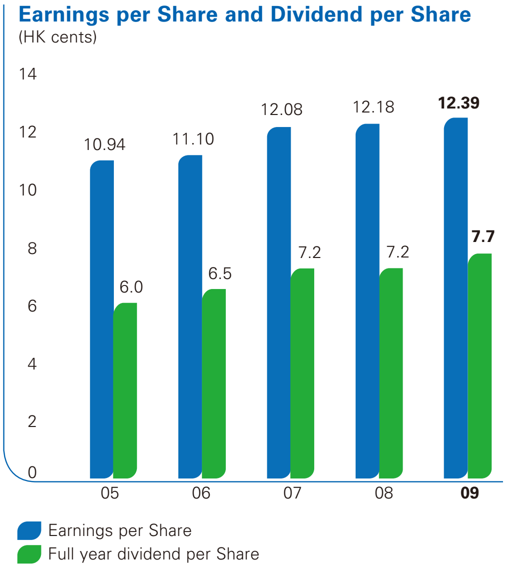


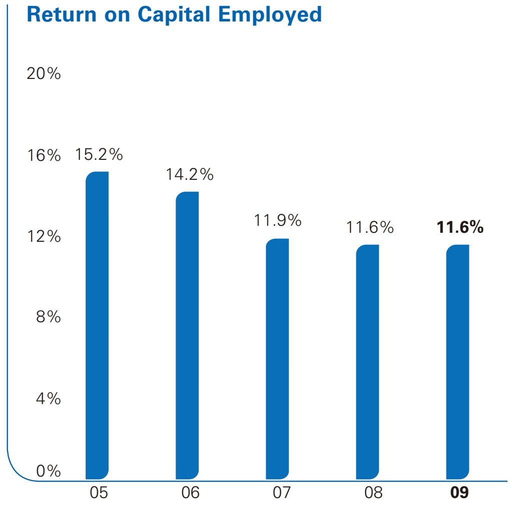


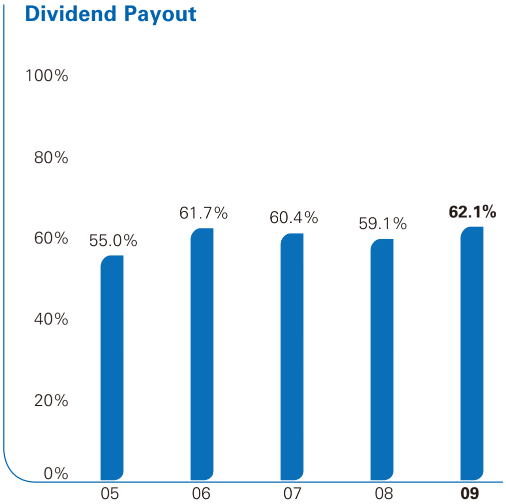


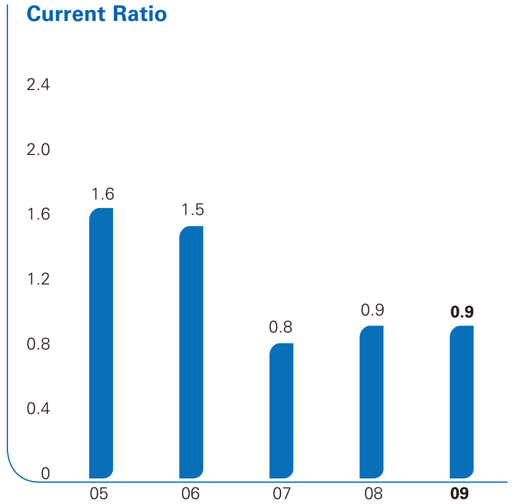


Financial Review (continued)









Operations Review – Hong Kong

As of 31 December 2009, the Group operated a total of 299 company-owned-and-managed Circle K stores in Hong Kong, compared to 284 stores at the end of 2008.

Under the brand of Saint Honore Cake Shop, the Group operated a total of 82 company-owned-and-managed stores in Hong Kong, compared to 84 stores at the end of 2008.

Altogether the Group operated a total of 381 retail outlets under the two retailing brands in Hong Kong at the end of 2009.

Winners of the 2009 Service and Courtesy Award from Circle K Hong Kong photographed at the presentation ceremony organised by the Hong Kong Retail Management Association. The award recognises the achievements of the Group as a quality customer service provider.

Employees

As of 31 December 2009, the Group had a total of 5,702 employees, with 3,729 based in Hong Kong and 1,973 based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for about 30.4% of total headcount. In 2009 the Group continued to increase the part-time ratio in order to lower its fixed staff cost and enjoy more flexibility in human resources management. Total staff costs for 2009 amounted to HK$554.8 million compared to HK$564.9 million for 2008.

The Group offers competitive remunerative schemes to its staff. In addition to salary, discretionary bonuses and share options are granted to eligible staff based on individual and company performance. Other staff incentives include career advancement opportunities, comprehensive management training and quality customer service training programmes.

A notable management training programme was leadership training for Circle K store management staff, which featured a team-building exercise with focus on on-the-job learning as well as how to cope with changes and challenges with a positive mindset.

Industry recognition for the Group as a quality customer service provider came during the 2009 Service and Courtesy Award, organised by the Hong Kong Retail Management Association. A Circle K store manager won the Supervisory Level Award for the Supermarkets/Convenience Stores category, while a Saint Honore Cake Shop frontline Service Leader won the Junior Level Award for the Food Shops category.

Marketing and Promotions

The unique "OK Fun" premium promotion launched by Circle K Hong Kong added extra excitement to the stamp collection mechanics by injecting elements of luck and surprise. This was another marketing initiative to enhance the "Always Something New!" consumer proposition.

In support of the "Always Something New!" market positioning, a series of premium promotions were launched with innovative mechanisms unique to Circle K. These included "OK Fun", which added the excitement of a lucky draw to the stamp collection promotion by featuring random "Fun" points on each stamp, injecting elements of luck and surprise. Customers were pleasantly surprised when they happened to pick "Jumbo Fun" stamps by chance, which entitled them to instant prizes of Jumbo-size plush toys.

Another innovative mechanism was the instant electronic lucky draw, which made use of the electronic point of sale system to conduct a computerised lucky draw for each transaction that fulfilled the minimum purchase requirement. Customers were invited to select a lucky number on the keyboard provided to activate the electronic lucky draw. The interactive mechanism created instant excitement with customer involvement at the frontline, while the high winning ratio was designed to add value to the day-to-day shopping experience.

The instant gratification provided by these innovative promotions proved to be very much appreciated by customers and succeeded in creating a point of differentiation in the convenience store shopping experience. Record sales increases were reported during the promotion periods, together with considerable buzz on the internet when the attractive premiums became hot topics on Facebook among the respective fan groups of the various licensed characters.

Category Management

Despite the strong sales performances generated by premium promotions, the unusually cool weather that occurred earlier than normal in the last quarter, together with the extended weekend holidays during the key festivals, adversely affected overall sales performance.

In support of the various thematic promotions, extensive sourcing of trendy items and confectionery products helped strengthen the visual merchandising of the stores. These extra merchandising efforts not only served to enhance store ambience, but also to generate significant incremental sales by riding on the market awareness of the licensed characters.

The cigarette category continued to be affected by the 50% increase in the tobacco tax implemented in February 2009, as well as subsequent competition from illicit retail channels selling untaxed cigarettes. The duty free outlets across the border also provided another channel for untaxed cigarettes. The shortfall in smoker traffic resulted in a reduction in customer transactions as well as related purchases such as chewing gum, throat lozenges and herbal candies.

Category Management (continued)

Impacts on shopping behaviour due to the environmental levy implemented in July 2009 also negatively affected the sales performance of several major categories, including newspapers, hot food and hot drink – both of which require some form of heat-isolation holder – packaged ice cream (which is too cold to carry by hand), as well as other impulse purchase items.

In order to mitigate these sales losses, the category management team embarked on a series of new product introductions throughout the year, especially in the area of food services as well as private label food and snack products. This managed to generate satisfactory sales, good margin and a promising growth trend.

New product introductions in the food services category plus food and snack products under the Hot & In private label were regular features of the Circle K marketing programme in 2009.

Customer Service Excellence

The Group's credo for quality customer service – "Speed, Tidiness and Friendliness" – has just reached its 10th year milestone since its inception.

During 2009, the Group took this mentality into the next level of excellence with the new concept of "customised service" in order to integrate into local communities even more and better serve neighbourhood customers. It heralded a new phase of quality service culture by embracing the diversity of customer needs.

The Circle K Service Star Programme continues to be an effective morale booster for the frontline staff with new Service Stars being identified and recognised every year.

Progress was also made with the introduction of the "Home" concept. This literally means that frontline staff will attempt to treat every customer like their own family members and provide a feeling of home at every Circle K store. This includes warm, welcoming smiles, a ready-to-help attitude and attention to detail in all touchpoints of customer engagement.

Supply Chain Management and Logistics

Key initiatives in 2009 included the upgrade of the Warehouse Support System, the Warehouse Management System and the launch of the new Store Service System. With the continual roll-out of these dedicated programmes, the Group was able to greatly improve physical distribution logistics and communication efficiency with stores. It is anticipated that with the completion of these programmes, operational capacity and execution accuracy will be greatly enhanced.

In line with the corporate initiative to reduce greenhouse gas emissions and meet energy saving objectives, the Distribution Centre has switched to energy-efficient T5 fluorescent tubes since May 2009. Staff are also being encouraged to form the habit of switching off lights by specific light zones in the operating area.

Operations Review – Guangzhou

During the last quarter the Group went through a restructuring, closing 8 stores as well as reducing headcount by 10%. The combined results of all these initiatives will help reduce fixed overhead and position the Group to renew the expansion of its quality store network again in 2010.

A scratch card promotion offering 60,000 mystery gift packs as grand prizes was launched to celebrate the 8th anniversary of Circle K Guangzhou.

The Group proceeded to outsource all local production facilities in Guangzhou according to plan in 2009 and achieved better operational efficiency, cost effectiveness and improved food quality as a result.

Work improvement teams were formed to introduce a quality culture by improving administrative efficiency in the office, enhancing the working environment and instilling a "green" culture with a communication programme that provides green tips to office staff.

Customer service training programmes were rolled out based on the Hong Kong modules. Incentives for frontline staff in the form of reward and recognition were provided, in addition to career ladder opportunities.

The Saint Honore Operations

The Saint Honore Operations in Hong Kong and Macau maintained stable turnover growth amidst the turbulent economic environment.

This could be attributed to the intensive programme to upgrade product quality as well as the introduction of the "Auto Forecasting and Ordering System", which considerably streamlined the product replenishment process and directly improved taste and quality with products arriving at the stores in a fresher state.

Restructuring and consolidation of the production facilities were the other key initiatives implemented during the year, resulting in better utilisation of management time and manpower resources. Production equipment was better utilised, enabling better support for all markets.

The highlight of the year's new product development programme was the launch of the Belgium 55˚ and 75˚ chocolate cake collection, which has become the number one seller among pound cakes.

Offering premium quality, delicious taste and exquisite designs, the Belgium 55˚ and 75˚ chocolate cake collection has become the number one seller among the pound cakes since its launch in mid-2009.

Corporate Social Responsibility

The Group continued to partner with Heifer International Hong Kong for key charity projects, including the Race to Feed 2009, where it won the major awards for the day. These included Overall Champion and Top Fundraising Team Champion, both for the third consecutive year, together with the Top Fundraising Individual Champion for the second consecutive year. In order to further support this worthy cause, donation boxes for Heifer International were placed at Circle K stores during the months of October and November 2009.

The Group has introduced a series of sustainability programmes targeting customers as well as staff to foster higher environmental consciousness and to reduce the carbon footprint.

The Group also contributed to the Tung Wah Group's Food Bank Project with special redemption arrangements for meal box combos and donations of toy premiums for their Charity Sale.

Among the Group's many sustainability initiatives, Circle K participated in "Earth Hour", organised by the World Wide Fund for Nature (WWF), and switched off all signage lights and non-essential lights inside stores on 28 March from 8:00 pm to 9:00 pm. On 21 June from 8:00 pm to 10:00 pm, Circle K also participated in the "Dim it!" campaign organised by "Friends of the Earth" in the same manner. A sustainability task force was formed to promote, educate and train all the staff on the importance of taking good care of our environment and reducing our carbon footprint.

For the seventh consecutive year, Circle K Hong Kong was awarded the Caring Company nomination by the Hong Kong Council of Social Service in recognition of its community involvement and commitment as a responsible corporate citizen.

Future Prospects

Looking ahead, 2010 appears to be another year of uncertainty and challenges. Even though the economic rebound in the last quarter of 2009 was quite encouraging and took place sooner than anticipated, it would be highly risky to assume that such a trend will continue unabated in 2010.

Due to the volatility of the financial markets and the possibility of a bubble in the high-end property market in Hong Kong, the Group will maintain a cautious yet long-term view for its strategic planning in 2010.

As the plastic bag levy was introduced in July 2009, its unfavourable impact will continue to put pressure on Circle K Hong Kong's comparable store sales during the first half of 2010. We also expect the same pressures for Circle K Guangzhou's comparable store sales during the first six months of 2010 due to the loss of cigarette sales. However, there might be a better chance for the comparable store sales growth to resume its normal growth momentum in the second half of 2010.

Therefore, the Group will continue to create shareholder value by maximising profit opportunities in its core businesses with the well established retail networks in the markets where the Group operates. In fact, with a total of over 380 outlets in Hong Kong, the Group has already achieved a significant market presence on a par with the top retailing operators in the market.

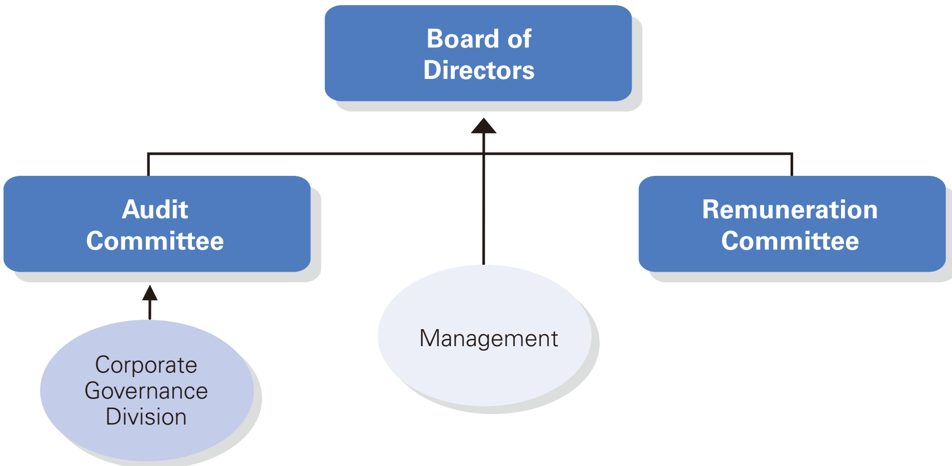
The Group will continue to invest in nurturing the brand equities of the two retailing brands to ensure growing brand preference and market competitiveness.

At the back end, cost-saving initiatives together with continuous upgrades in productivity will be ongoing exercises in the coming year. The Group will also conduct constant reviews of supporting infrastructure, and reviews of individual store performances will also be conducted to enhance business competitiveness.

We forecast that for the convenience store business, the first six months will continue to be challenging, but the second half may show improvement if the economic recovery does not suffer any setbacks. The management team has developed a solid plan to tackle the challenges facing the Group and put emphasis on providing a fun, satisfactory shopping experience for Circle K and Saint Honore customers with cost-effective execution. We are confident that we will finish 2010 with better results than 2009, across all operating units.

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

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 2009, the Board comprised the non-executive Chairman, one executive Director (the Chief Executive Officer) and seven non-executive Directors (of whom three are independent), whose biographical details and relevant relationships are set out in the Directors and Senior Management Profile section on pages 34 to 38.

In order to reinforce their respective independence, accountability and responsibility, the role of the Chairman is separate from that of the Chief Executive Officer. Their respective responsibilities are clearly established and defined by the Board in writing. The 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 businesses, including the implementation of major strategies and initiatives adopted by the Board.

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. The Board has received from each independent non-executive Director an annual written confirmation of his independence in accordance with Rule 5.09 of the GEM Listing Rules and considers that the independent non-executive Directors to be independent.

The Board is responsible for the appointment, re-appointment and removal of Directors. The Chairman, in consultation with other Board members, nominates an individual for a new appointment as the Company's Director, in particular for independent non-executive Director. Under the guidelines on appointment and re-appointment of Directors as endorsed by the Board on 7 March 2007, the new appointee needs to have appropriate professional knowledge and industry experience, personal ethics, integrity, personal skills and be able to contribute sufficient time for the proper functioning of the Board. No new Director was appointed during the year ended 31 December 2009.

The Board (continued)

The Board held four meetings in 2009 (with an average attendance rate of directors of 97%) to discuss the overall strategies, operational and financial performance (including annual budgets, annual, half year and quarterly results), recommendations on Directors' appointment or re-appointment, major investment opportunities, approval of major capital transactions and other significant matters of the Group. In 2009, the Chairman held meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present.

Regular Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The 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 intended date of 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.

All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations.

All members of the Board have separate and independent access to the Company Secretary at all times to obtain relevant information for carrying out their duties as Directors of the Company. 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 2009.

The Board makes decisions on major operational and financial matters as well as investments. The general management and day-to-day decisions and matters (including preparation of annual, half year and quarterly financial statements for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, monitoring of budgets, implementation of adequate system of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations) are delegated to the management team.

The Board also recognises the importance of independent reporting of the corporate compliance function. The Group Chief Compliance Officer, as appointed by the Board, attended all Board and committee meetings in 2009 to advise on corporate governance matters covering risk management and compliance issues relating to mergers and acquisitions, secretarial, accounting and financial reporting.

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 and the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

Each Director ensures that he or she 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, with the identity of the public companies or organisations.

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.

The Board (continued)

Details of the attendance at Board and committee meetings held in 2009 are set out in the following table:

	No. of meetings **attended**/held		
	Board	**Audit Committee**	**Remuneration Committee**
Non-executive Directors:			
Dr. Victor FUNG Kwok King *(Group Chairman and Chairman of Remuneration Committee)*	**4**/4	–	**1**/1
Dr. William FUNG Kwok Lun	**3**/4	–	–
Mr. Godfrey Ernest SCOTCHBROOK	**4**/4	**4**/4	–
Mr. Jeremy Paul Egerton HOBBINS	**4**/4	**4**/4	–
Ms. Louisa WONG Yuk Nor	**4**/4	–	–
Independent non-executive Directors:			
Dr. Raymond CH'IEN Kuo Fung *(Chairman of Audit Committee)*	**4**/4	**4**/4	**1**/1
Mr. Malcolm AU Man Chung	**4**/4	**3**/4	**1**/1
Mr. Anthony LO Kai Yiu	**4**/4	**4**/4	–
Executive Directors:			
Mr. Richard YEUNG Lap Bun *(Chief Executive Officer)*	**4**/4	–	–
Mr. Bruno LI Kwok Ho *(Chief Financial Officer) (Resigned on 4 August 2009)*	**3**/3	**3**/3*	–
Group Chief Compliance Officer:			
Mr. James SIU Kai Lau	**4**/4+	**4**/4+	**1**/1+
Average attendance rate of directors	97%	95%	100%
Dates of meeting	16 March 2009 5 May 2009 4 August 2009 5 November 2009	16 March 2009 5 May 2009 4 August 2009 5 November 2009	5 May 2009

* *Attended committee meetings as a non-member*

\+ *Attended Board and committee meetings as a non-member*

Board Committees

The Board has established the Audit Committee and Remuneration Committee (all chaired by non-executive Directors) with defined terms of reference (available to shareholders upon request), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules. To further reinforce independence, both committees have been structured to include a majority of independent non-executive Directors.

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:

Dr. Raymond CH'IEN Kuo Fung* – *Committee Chairman*
Mr. Malcolm AU Man Chung*
Mr. Anthony LO Kai Yiu*
Mr. Godfrey Ernest SCOTCHBROOK+
Mr. Jeremy Paul Egerton HOBBINS+

* *Independent non-executive Director*
\+ *Non-executive Director*

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

The Audit Committee met four times in 2009 (with an average attendance rate of 95%) to review with senior management and the Company's internal (Corporate Governance Division ("CGD")) and external auditors the Group's significant internal control and financial matters as set out in the Audit Committee's terms of reference.

In 2009, the Committee's review covered the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, connected transactions, internal controls, risk management and financial reporting matters (including the annual, half year and quarterly financial statements before recommending to the Board for approval). The Committee's review also considered the adequacy of resources, qualifications and experience of the staff of the Group's accounting and financial reporting function, and their training programmes and budget.

Under the Group's policy, employees can report any concerns, including actual or potential misconduct, possible impropriety or fraud in financial reporting, accounting practices and internal control matters, to either senior management or the Group Chief Compliance Officer. No incident of fraud or misconduct that has material effect on the Company's financial statements and overall operations was reported by employees in 2009.

Board Committees (continued)

Audit Committee (continued)

External Auditor's Independence

In order to further 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 the 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. The nature and ratio of annual external audit fees and non-audit services fees (including review of half year report and tax services) for 2009 amounted to HK$1,749,000 and HK$336,000 respectively have been endorsed by the Audit Committee.

Prior to the commencement of the audit of the Company's financial statements for the year ended 31 December 2009, the Audit Committee received written confirmation from the external auditor on their independence as required by the Hong Kong Institute of Certified Public Accountants.

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 2010 at the forthcoming annual general meeting.

Remuneration Committee

The Remuneration Committee was established in January 2005 and its current members include:

Dr. Victor FUNG Kwok King+ – *Committee Chairman*
Dr. Raymond CH'IEN Kuo Fung*
Mr. Malcolm AU Man Chung*

\+ *Non-executive Director*
* *Independent non-executive Director*

The Remuneration Committee is responsible for reviewing the Group's remuneration and human resources policy and making recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management, including the allocation of share options to employees under the Company's Share Option Scheme.

The Remuneration Committee met once in 2009 (with a 100% attendance rate) to review the fees to Directors. Written resolutions were also signed by members of the Remuneration Committee during the year in relation to the grant of share options to the employees.

Board Committees (continued)

Remuneration Committee (continued)

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.

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 annual general meeting. 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 13 to the consolidated financial statements on pages 89 to 91.

Code of Conduct and Business Ethics

The Group places great emphasis on staff's ethical standards and integrity in all aspects of its operations. Guidelines of the Group's business ethical practices as endorsed by the Board are set out in the Company's Code of Conduct and Business Ethics. All Directors and staff are expected to share the same responsibilities to comply with the Code at all times. For ease of reference and as a constant reminder to all staff, a copy of the guidelines is posted on the Company's internal electronic bulletin board.

Directors' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation of compliance has been obtained from all Directors. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines which are of no less exacting terms than those set out in the GEM Listing Rules. No incident of non-compliance was noted by the Company in 2009.

Directors' Interests

Details of Directors' interests in the shares of the Company and certain major associated corporations are set out in the Directors' Report on pages 47 to 49.

Directors' and Auditor's Responsibilities for the 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 Board has delegated to executive management the design, implementation and ongoing monitoring of the system of internal controls covering financial, operational and compliance controls and risk management procedures. Qualified personnel throughout the Group maintain and monitor this system of controls on an ongoing basis.

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 the Hong Kong Institute of Certified Public Accountants. 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.

Despite the removal of the requirement for a qualified accountant from the GEM Listing Rules with effect from 1 January 2009, the Group continues to maintain a team of qualified accountants to manage financial reporting and other accounting related issues.

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 76 to 78.

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 businesses.

Internal Control and Risk Management (continued)

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, listing rules compliance, public disclosure requirements and our standards of compliance practices.

Internal and External Auditors

The staff of CGD (Internal Audit) independently review the controls and evaluate their adequacy, effectiveness and compliance. In addition, CGD staff visit the Group's offices, selected stores and factories in Hong Kong and the Chinese Mainland on a regular basis to help embedding the compliance culture in the Group's business practices by performing on-site reviews.

The Audit Committee approved the current Three-Year Internal Audit Plan (2008 to 2010) 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 all material controls including financial, operational and compliance controls, as well as risk management policies and procedures. Summary of the scope of reviews and key recommendations is reported to the Audit Committee on a quarterly basis. The implementation of all agreed recommendations is being followed up on a three-month basis.

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 various business units, and assesses the adequacy and effectiveness of internal controls implemented by management. CGD's review also considers the adequacy of resources, qualifications, experience, training programmes and budget of the staff of the Group's accounting and financial reporting function. The outcome of the review is reported to the Audit Committee.

The external auditor performs independent statutory audit on the Group's financial statements. As part of the audit engagement, the external auditor also reports to the Audit Committee any significant deficiencies in the Group's internal control system which might come to their attention during the course of audit. The external auditor noted no significant internal control deficiencies in their audit for the financial year ended 31 December 2009.

Overall Assessment

Based on the assessments made by senior management, CGD (Internal Audit) and the external auditor for the year ended 31 December 2009, the Audit Committee considered that:

- 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, qualifications, experience, training programmes and budget of the staff of the Group's accounting and financial reporting function were adequate.

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2009.

Shareholders' Rights

Under the Company's Articles of Association, on the written requisition of shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, 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.

Any proposal to be tabled at general meetings of the Company 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. Voting by poll has become mandatory on all resolutions put forward at general meetings starting from 1 January 2009. Notice to shareholders will be sent in the case of annual general meetings 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 investor relations and communication by conducting analyst briefing via email at each results announcement, participating in investor conferences and making corporate presentations during the conferences, arranging company visits and holding regular meetings with institutional shareholders and analysts.

As a channel to further promote effective communication, the Company maintains a website (www.cr-asia.com) to disseminate announcements, shareholder information and other relevant financial and non-financial information electronically on a timely basis.

The Board confirmed that there were no significant changes in the Company's Articles of Association during 2009 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 2009 are set out in the Information for Investors section on page 39.

Investor Relations and Communication (continued)

Annual General Meeting

The 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 answer questions on the business.

The most recent AGM of the Company was held at the Auditorium, 12th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong on 5 May 2009 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 and Remuneration Committee were available to answer questions from shareholders.

At the meeting, voting by way of a poll was demanded by the chairman of the meeting for all the proposed resolutions set out in the notice. 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
• To receive and adopt the audited financial statements and reports of the Directors and the Auditor of the Company and its subsidiaries for the year ended 31 December 2008	100%
• To declare a final dividend of 5.5 HK cents per share	100%
• To re-elect Dr. William Fung Kwok Lun as Director	99.61%
• To re-elect Mr. Godfrey Ernest Scotchbrook, Mr. Malcolm Au Man Chung and Mr. Anthony Lo Kai Yiu as Directors	100% in respect of each individual resolution
• To fix the fees to the Directors	100%
• To re-appoint PwC as Auditor and to authorise the Board to fix their remuneration	100%
• To grant a general mandate to the Directors to allot and issue additional shares not exceeding 20% of the issued share capital of the Company	87.97%
• To grant a general mandate to the Directors to repurchase shares of the Company not exceeding 10% of the issued share capital of the Company	100%
• 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	88.53%

Investor Relations and Communication (continued)

Annual General Meeting (continued)

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

Corporate Communication

Effective communication between management and staff is vital to the Group's success. As part of the Group's entrepreneurial corporate culture and business policy, annual Business Planning Conference and quarterly Store Manager Meetings (with active participation of the Chief Executive Officer and all senior managers) are held to review strategic objectives and business performance, and to create a sense of staff ownership to foster effective communication across the Group.

Monthly management meetings are held for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

A corporate intranet has been established to facilitate easy access by staff to corporate information in relation to policies, codes of practice and other staff communication. A monthly newsletter on customer service is circulated to all staff.

The Group also publishes a regular newsletter to provide staff with reports on the Group's latest development, directives and initiatives, the Group's functions, staff movement and staff recreational activities.

Corporate Social Responsibility and Sustainability

The Group is highly aware of its responsibility towards the society and the environment. While striving to create long term value for its shareholders, the Group also seeks to maintain sustainable relationship with its stakeholders.

The Group has embraced the concept of sustainability as a pillar of its corporate identity. The Group believes that sustainability means behaving in a responsible manner in regard to the environment, to its employees and to the community relations by minimising the negative impacts of doing business.

Human Resources

The Group recognises that human capital is a key asset to its sustained growth and profitability and believes that a strong learning and development culture is a crucial element in attracting the right talent. The Group continued to dedicate considerable efforts into staff training, career development and staff well-being in 2009.

The Group adopts an equal opportunity policy without any form of discrimination on grounds such as race, religion, sex, marital status, age and disability in connection with all human resources matters. This covers selection and recruitment, training and development, appraisal and promotion, transfer, compensation and benefits, redundancy and dismissal, and lastly, retirement.

Corporate Social Responsibility and Sustainability (continued)

Human Resources (continued)

The Group is fully committed to investing in the growth and development of its people, especially in their leadership skills. Leadership training for over 350 Circle K store managers in Hong Kong was held, using team-building programmes to reinforce teamwork, leadership skills and foster a positive mindset to embrace challenges. In 2009, over 2,300 Circle K store operational staff attended a series of regular annual training programmes, the contents of which included customer service, leadership skills and training on different types of products.

The annual store manager meeting for Saint Honore was held in December 2009 and over 150 personnel including frontline staff and staff from head office attended the event. During the meeting, the management of Saint Honore Hong Kong communicated the results and performance of the year as a wrap-up for the whole year. Business goals and actions for 2010 had also been clearly outlined to the attendees.

The Group's human resources development initiatives are designed to nurture staff to their fullest potential to ensure that the Group continues to grow, even in the most challenging business environment. The Group implements a policy of sponsoring its staff to attend job-related training and self-improvement programmes. Management development programmes are also established for senior employees.

In addition to these development initiatives, the Group offers competitive remuneration schemes to its staff. Discretionary bonuses and share options are also granted to eligible staff based on individual and Group performance.

Workplace Safety and Hygiene

Circle K Hong Kong and Saint Honore Hong Kong are signatories of the workplace safety and hygiene charter and are committed to maintaining a hygienic and safe workplace in strict compliance with all the safety and hygienic practices outlined in the charter. In-house safety training programmes were conducted regularly in addition to the safety training courses provided by the Labour Department. The staff also attended in-house hygiene training programmes regularly.

Small work teams comprising staff from different departments were established to reinforce workplace safety concept and to design effective communication tools (for example proper hand washing procedures) for bringing the staff's attention to personal hygiene at office and store levels.

The Work Safety Committee of Saint Honore Hong Kong continued to play its role in educating and training factory staff and logistics staff on work safety and hygiene. In 2009, Saint Honore Hong Kong has successfully passed the mandatory external audit of Workplace Safety required by the government.

Corporate Social Responsibility and Sustainability (continued)

Environmental Protection

The Group strives to be environmentally responsible by adopting good environmental practices in respect of office premises, stores, factories, equipment and consumption of resources, and by supporting practical measures and policies aiming at protecting and preserving the environment of the regions in which it operates.

On 7 July 2009, the new policy of the Government of the Hong Kong Special Administrative Region of imposing an environmental levy for plastic bags came into effect. The Circle K chain in Hong Kong began collecting a 50-cent levy from customers for every plastic bag used. In keeping with the spirit behind this move, which was to discourage the use of plastic bags rather than simply to collect the levy, the Group launched a series of educational in-store communication materials and environmentally-related promotions to remind customers of the four "big Rs" in environmental sustainability: Refrain, Reduce, Re-use and Recycle.

A Corporate Sustainability Task Force (comprising managers from business units under the supervision of Mr. Pak Chi Kin, Managing Director of Circle K operations) had been established in 2009 to collect and share the latest "green" knowledge and to assist in coordinating all business units to devise and implement sustainability policies.

As part of the Group's commitment to be environmentally responsible, Circle K Hong Kong has since 2007 started to reduce electricity consumption at all stores, such as using energy efficient T5 fluorescent tubes for front store and walk-in cooler, using LED lights for shop signage, reducing unnecessary lighting installation at back store, using timer to control the operating hour of bakery display lights, raising air conditioner temperature at front store by 2.5ºC and so forth.

Saint Honore Hong Kong has been conscientiously reducing electricity consumption by using energy saving light bulbs. At the end of 2009, the lighting at the in-store bakery of 40% of Saint Honore stores in Hong Kong had been changed to T5 fluorescent tubes. In addition, by consolidating the routes of delivery points, Saint Honore Hong Kong was able to reduce the total number of deliveries to stores by about 3,000 points per month, resulting in the saving of fuel consumption and reduction of carbon emission.

Saint Honore Hong Kong has been using bio-degradable materials for some parts of its mooncake packaging since 2007. Saint Honore Hong Kong entered into a one-year Voluntary Agreement on Management of Mooncake Packaging in September 2008 with the Environmental Protection Department for reducing the environmental impact of mooncake packaging. In 2009, Saint Honore Hong Kong contained the use of packaging materials per unit weight of mooncake to the 2008's level; adopted packaging materials that were recyclable and with minimum environmental impact on post-consumption management; and supported and facilitated recovery and recycling of used packaging materials.

Corporate Social Responsibility and Sustainability (continued)

Community Involvement

The Group cares about the well-being of the community where it is conducting its businesses. It endorses the participation in community services and acceptance of public offices by senior management. The Group also provides charitable support by direct donation or direct employee involvement in fund-raising activities organised by leading charitable organisations.

Activities in 2009 included:

- Fund-raising for Typhoon Morakot victims in Taiwan. Staff donations were matched dollar for dollar by the Li & Fung (1906) Foundation. All donations were forwarded to Red Cross to support recovery and longer term rehabilitation works in the affected areas in Taiwan.

- Participation in the following activities:

  - Standard Chartered Hong Kong Marathon. Participants from the Li & Fung Group of companies set a new record with over 600 registered runners. Li & Fung Group also won the Most Supportive Group Award.

  - Chinese New Year gift transfer programme organised by People's Food Bank of St. James' Settlement for transferring gifts to needy families and children.

  - "Li & Fung Caring Day for the Elderly" initiated by Li & Fung Retailing Group at The Hong Kong Society for the Aged – Mr. Wong Hwa San Memorial Neighborhood Elderly Centre. The participants played games and distributed gifts to about 100 elderly and helped in cleaning homes for 10 elderly.

  - "Tree Planting Challenge 2009" organised by the Friends of the Earth. The participants used their own specially designed environmental backpack to carry a total of 250 seedlings up to the hillside of the Pak Sin Leng Country Park for planting.

  - "Job Shadowing Day" for secondary school students to simulate a work day in the Group's Hong Kong office, an event hosted by the Li & Fung (1906) Foundation and organised by Junior Achievement Hong Kong.

  - Social Angel Program organised by HKCSS – HSBC Social Enterprise Business Centre. The participants visited a gift shop operated by St. James' Settlement showcasing products from 11 social enterprises and advised on product design, product development, marketing and display arrangement to help the business development of the social enterprises.

  - Charity walk organised by Hong Kong's Chinese General Chamber of Commerce to raise funds for the Community Chest.

  - Blood donation day partnered with Hong Kong Red Cross.

  - Heifer charity projects, Tung Wah Group's Food Bank Project, "Earth Hour" and "Dim it!" campaigns, details of which are set out in the Management Discussion and Analysis section on page 18.

Directors and Senior Management Profile

Executive Director

Richard YEUNG Lap Bun – *Chief Executive Officer*

Mr. Yeung, aged 53, has over 20 years of experience in general management, food distribution and supply chain management. He is responsible for overseeing the Group's operations, marketing, logistics and supply chain management and he is actively involved in new business development in the Chinese Mainland. He is also the Compliance Officer of the Company under Rule 5.19 of the GEM Listing Rules. 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 degree in Business Administration from the California State University of Los Angeles and is a Certified Public Accountant. He is also a director of Li & Fung (Retailing) Limited, a substantial shareholder of the Company.

Non-executive Directors

Dr. Victor FUNG Kwok King – *Chairman*

Dr. Fung, aged 64, brother of Dr. William Fung Kwok Lun, has been a non-executive Director of the Company since January 2001. Dr. Fung is Group Chairman of the Li & Fung group of companies including Hong Kong publicly listed Li & Fung Limited, Integrated Distribution Services Group Limited, Trinity Limited (which was listed on The Stock Exchange of Hong Kong Limited on 3 November 2009) and the Company. He is also a director of King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Retailing) Limited (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. Dr. Fung is an independent non-executive director of BOC Hong Kong (Holdings) Limited in Hong Kong, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China. He retired as independent non-executive director of Orient Overseas (International) Limited and non-executive director of Hup Soon Global Corporation Limited both in April 2009. In public service, Dr. Fung is Chairman of the International Chamber of Commerce, Chairman of the Greater Pearl River Delta Business Council and the Hong Kong-Japan Business Co-operation Committee, a member of the Chinese People's Political Consultative Conference, a member of the Commission on Strategic Development of the Hong Kong Government, and became a vice chairman of China Centre for International Economic Exchanges in March 2009. From 1991 to 2000, Dr. Fung was Chairman of the Hong Kong Trade Development Council, and from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council. He was Chairman of the Hong Kong Airport Authority from June 1999 to May 2008, and Chairman of The Council of The Hong Kong University from September 2001 to November 2009. In 2003, the Hong Kong Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

Non-executive Directors (continued)

Dr. William FUNG Kwok Lun

Dr. Fung, SBS, OBE, JP, aged 61, brother of Dr. Victor Fung Kwok King, is the Group Managing Director of Li & Fung Limited and a non-executive director of publicly listed Integrated Distribution Services Group Limited and Trinity Limited (which was listed on The Stock Exchange of Hong Kong Limited on 3 November 2009) of the Li & Fung group. He is also a director of the substantial shareholders of the Company, King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Retailing) Limited. Dr. Fung is a non-executive Director of the Company since 2001. Dr. Fung has held key positions at major trade organisations. He is 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 Council. He has been awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and holds a Master 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 a non-executive director of HSBC Holdings plc of United Kingdom, and an independent non-executive director of VTech Holdings Limited, Shui On Land Limited and Sun Hung Kai Properties Limited (appointed in February 2010) of Hong Kong. He is also an independent director of Singapore Airlines Limited of Singapore since December 2009.

Godfrey Ernest SCOTCHBROOK

Mr. Scotchbrook, aged 63, prior to re-designation as non-executive Director in August 2005, had been an independent non-executive Director of the Company 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 HOBBINS

Mr. Hobbins, aged 62, is also a director of various companies within the Li & Fung group including Li & Fung (1937) Limited (a substantial shareholder of the Company) and the publicly listed Integrated Distribution Services Group Limited and Trinity Limited (which was listed on The Stock Exchange of Hong Kong Limited on 3 November 2009). He is also the Deputy Chairman of Trinity Limited. Mr. Hobbins joined the Li & Fung group in 1999 and was Group Managing Director of Li & Fung (Retailing) Limited (a substantial shareholder of the Company) and previous Deputy Chairman of Li & Fung (Distribution) Limited. Prior to joining the Li & Fung group, Mr. Hobbins was the Chief Executive of Inchcape Marketing Services-Asia Pacific and was also the Chief Executive Officer of Inchcape Marketing Services Limited which was listed in Singapore, from 1997 to 1998. In addition, he served as a member of the Group Management Board of Inchcape plc and a director of Inchcape NRG, a business machines joint-venture with Ricoh. Previously, he was the Chief Executive Officer of Inchcape Berhad, prior to which he was the Chief Executive Officer of Inchcape Buying Services from 1993 to 1996. Before joining the Inchcape group, he was the President and Chief Executive Officer of the Campbell Soup Company, UK & Ireland, and previously was President of the Dairy Division of Ault Foods, Canada. He had also held senior positions at Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes. Mr. Hobbins completed Advanced Management Programmes at the London Business School, Imede and Insead.

Louisa WONG Yuk Nor

Ms. Wong, aged 60, joined Li & Fung (Retailing) Limited (a substantial shareholder of the Company) in April 1998 as a director responsible for strategic planning, marketing and communication for the Li & Fung Retailing group. Ms. Wong graduated from the University of Hong Kong with a Bachelor of Arts degree and has more than 20 years of professional experience in marketing and advertising. Prior to joining Li & Fung (Retailing) Limited, Ms. Wong was the Managing Director of a leading 4A advertising agency Foote, Cone and Belding Limited for many years.

Independent non-executive Directors

Dr. Raymond CH'IEN Kuo Fung

Dr. Ch'ien, aged 58, is an independent non-executive Director of the Company since January 2001. Dr. Ch'ien is Chairman of CDC Corporation as well as Chairman and a director respectively of its subsidiaries, China.com Inc. and CDC Software Corporation. Additionally, he is Chairman of MTR Corporation Limited and Hang Seng Bank Limited. 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 and Swiss Reinsurance Company Limited. Formerly, Dr. Ch'ien was director of HSBC Holdings plc, VTech Holdings Limited and Inchcape plc. In public service, Dr. Ch'ien is Chairman of the Hong Kong/European Union Business Cooperation Committee, an honorary President and past Chairman of the Federation of Hong Kong Industries and a former Hong Kong member of the APEC Business Advisory Council. He was appointed a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference in January 2008. 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 the Hong Kong Special Administrative Region on 1 July 1997 and served until June 2002. 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 Agricol of France.

Malcolm AU Man Chung

Mr. Au, aged 60, is an independent non-executive Director of the Company since 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, USA and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also a non-executive director of China-Hongkong Photo Products Holdings Limited, a listed company in Hong Kong and Eu Yan Sang International, a listed company in Singapore.

Anthony LO Kai Yiu

Mr. Lo, aged 61, is an independent non-executive Director of the Company since August 2005. Mr. Lo is Chairman of Shanghai Century Capital Limited and has over 29 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 a director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange. Mr. Lo was former Chairman and Co-Chief Executive Officer of Shanghai Century Acquisition Corporation (a company formerly listed on the American Stock Exchange). Since 1998 to May 2006, he was a member of the listing committee of The Stock Exchange of Hong Kong Limited. 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.

Group Chief Compliance Officer

James SIU Kai Lau

Mr. Siu, aged 65, joined the Group in 2005 as Group Chief Compliance Officer. He first joined the Li & Fung Limited group in 1993 as Chief Financial Officer until 1996 when he became its Chief Compliance Officer. He is an executive director of Li & Fung (1937) Limited, a substantial shareholder of the Li & Fung group of companies including publicly listed Li & Fung Limited, Integrated Distribution Services Group Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. Prior to joining Li & Fung group, Mr. Siu was the partner-in-charge (1981 – 1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specialising in advising corporate clients on mergers, acquisitions, finance and on public listings. His community work includes currently serving as member of the Supervisory Board of the Hong Kong Housing Society and former Chairman of its Audit Committee (2001 – 2006) and a member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (2002 – 2006). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group and was the Deputy Chairman of the Corporate Governance Committee of the HKICPA (2007). He is a Fellow of both the Institute of Chartered Accountants in Australia and the HKICPA. He is also a Fellow member of the Hong Kong Institute of Directors. Mr. Siu holds a Bachelor of Economics degree from University of Tasmania, Australia.

Senior Management

PAK Chi Kin – *Managing Director*

Mr. Pak, aged 51, has over 20 years of experience in the retailing and food distribution business. He is currently responsible for overseeing the Circle K operations in Hong Kong and in the Chinese Mainland. Prior to joining the Group in May 1999, Mr. Pak had been the senior manager at HAVI Food Services Group in charge of the distribution of food products and logistics services to McDonald's Restaurants. Graduated from the University of Hong Kong with a Bachelor degree of Science in Engineering, he also holds a Master 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.

Carrina CHAN Wong Man Li – *Managing Director, Saint Honore Cake Shop, Hong Kong and Macau*

Mrs. Chan, aged 47, has over 20 years of experience in the retail chain industry. She is responsible for the Saint Honore Cake Shop retail operations in Hong Kong and Macau. 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.

Senior Management (continued)

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

Mr. Kan, aged 58, has over 27 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 – *General Manager – Convenience Retail Southern China*

Mr. Lai, aged 48, was promoted as 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.

Wallace TSE Yiu Hon – *Project Controller*

Mr. Tse, aged 49, joined the Group in June 1995. He is responsible for the various projects in the Group and supporting the business development in Southern China. He used to be the Divisional Manager of Buying and Marketing for Circle K Hong Kong until his promotion in October 2007 to the position of Assistant General Manager of Convenience Retail Southern China. Mr. Tse has over 20 years of experience in the retailing industry gained from his experience in PARKnSHOP and 7-Eleven. He holds a diploma in Management Studies from the Hong Kong Polytechnic University as well as a Master degree in Marketing Management from the Macquarie University of Australia. He is also an Associate Member of the Hong Kong Institute of Marketing.

Sam HUI Chi Ho – *Group Financial Controller*

Mr. Hui, aged 35, 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 (GEM Board)
Stock code	08052

Key Dates

10 March 2010	Announcement of 2009 Final Results
5 May to 10 May 2010 (both days inclusive)	Closure of Register of Shareholders
10 May 2010	Annual General Meeting
11 May 2010	Despatch of 2009 Final Dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2009	729,915,974 shares
Market capitalisation as at 31 December 2009	HK$1,459,831,948
Earnings per share for 2009	
Interim	4.90 HK cents
Full year	12.39 HK cents
Dividend per share for 2009	
Interim	1.70 HK cents
Final	6.00 HK cents
Full year	7.70 HK cents

Share Registrar & Transfer Offices

Principal:
Butterfield Fulcrum Group (Cayman) Limited
P.O. Box 705
Butterfield House
68 Fort Street
George Town
Grand Cayman KY1-1107
Cayman Islands

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

Enquiries Contact

Mr. Sam HUI Chi Ho
Group Financial Controller

Telephone	2991 6300
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 2009.

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 tradename of Circle K and Saint Honore respectively in Hong Kong 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 1.7 HK cents per share, totaling HK$12,409,000, which was paid on 31 August 2009.

The Directors recommended the payment of a final dividend of 6 HK cents per share, totaling HK$43,795,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$114,000.

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in note 14 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 24 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company at 31 December 2009 calculated under the Companies Law (2009 Revision) of the Cayman Islands, amounted to HK$334,895,000 (2008: HK$356,290,000).

Pre-emptive Rights

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

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2009 are set out in note 17 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 ended 31 December 2009 is set out on page 116.

Purchase, Sale or Redemption of Shares

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

Share Options

On 6 January 2001, a share option scheme (the "Scheme") was approved by a written resolution of the shareholders of the Company. On 24 April 2002, the Scheme was amended to comply with the changes to Chapter 23 of the GEM Listing Rules which came into effect on 1 October 2001 concerning the share option schemes of listed issuers on the Stock Exchange. A summary of the major terms of the Scheme is as follows:

(i) Purpose of the Scheme

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

(ii) Qualifying participants

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

Share Options (continued)

(iii) Maximum number of shares

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the pre-IPO share option plan) must not in aggregate exceed 10% of the shares in issue as at the date of approval of the Scheme. The total number of shares available for issue, save for those already granted, under all the schemes is 19,932,000, representing approximately 2.73% 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.

(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 Stock Exchange's daily quotations sheet on the Commencement Date (ii) the average closing price of the shares for the five business days immediately preceding the Commencement Date on which there were dealings in shares on the Stock Exchange and (iii) the nominal value of a share.

(viii) The remaining life of the Scheme

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

Share Options (continued)

Details of the movement of share options during the year ended 31 December 2009 are as follows:

(A) Continuous contract employees

Number of share options									
As at 1 January 2009	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)	As at 31 December 2009	Exercise price HK$	Grant date	Exercisable from	Exercisable until
294,000	–	–	–	(294,000)	–	2.535	29 March 2004	29 March 2005	28 March 2009
48,000	–	–	–	(48,000)	–	2.535	29 March 2004	29 March 2006	28 March 2009
68,000	–	–	(8,000)	(60,000)	–	2.40	6 August 2004	6 August 2005	5 August 2009
290,000	–	–	(70,000)	(220,000)	–	2.40	6 August 2004	6 August 2006	5 August 2009
436,000	–	–	(18,000)	–	418,000	2.86	4 May 2005	4 May 2006	3 May 2010
332,000	–	–	–	–	332,000	2.86	4 May 2005	4 May 2007	3 May 2010
1,654,000	–	–	(66,000)	–	1,588,000	2.53	14 September 2005	14 September 2006	13 September 2010
140,000	–	–	–	–	140,000	2.53	14 September 2005	14 September 2007	13 September 2010
756,000	–	–	–	–	756,000	2.905	10 March 2006	10 March 2007	9 March 2011
470,000	–	–	(20,000)	–	450,000	2.905	10 March 2006	10 March 2008	9 March 2011
434,000	–	–	(60,000)	–	374,000	2.93	29 August 2006	29 August 2007	28 August 2011
132,000	–	–	(6,000)	–	126,000	2.93	29 August 2006	29 August 2008	28 August 2011

Share Options (continued)

(A) Continuous contract employees (continued)

Number of share options									
As at 1 January 2009	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)	As at 31 December 2009	Exercise price HK$	Grant date	Exercisable from	Exercisable until
1,134,000	–	–	(30,000)	–	1,104,000	3.00	30 March 2007	30 March 2008	29 March 2012
320,000	–	–	(10,000)	–	310,000	3.00	30 March 2007	30 March 2009	29 March 2012
2,640,000	–	–	(120,000)	–	2,520,000	3.39	3 May 2007	3 May 2009	2 May 2012
2,640,000	–	–	(160,000)	–	2,480,000	3.39	3 May 2007	3 May 2010	2 May 2013
2,640,000	–	–	(160,000)	–	2,480,000	3.39	3 May 2007	3 May 2011	2 May 2014
524,000	–	–	(16,000)	–	508,000	3.46	19 November 2007	19 November 2009	18 November 2012
720,000	–	–	(20,000)	–	700,000	3.46	19 November 2007	19 November 2010	18 November 2013
720,000	–	–	(20,000)	–	700,000	3.46	19 November 2007	19 November 2011	18 November 2014
–	740,000	–	–	–	740,000	2.04	21 December 2009	21 December 2010	20 December 2014
–	180,000	–	–	–	180,000	2.04	21 December 2009	21 December 2011	20 December 2014
16,392,000	920,000	–	(784,000)	(622,000)	15,906,000				

Share Options (continued)

(B) Directors

	Number of share options									
	As at 1 January 2009	Granted	Exercised	Lapsed	Expired	As at 31 December 2009	Exercise price HK$	Grant date	Exercisable from	Exercisable until
Richard Yeung Lap Bun	400,000	–	–	–	–	400,000	3.39	3 May 2007	3 May 2009	2 May 2012
	400,000	–	–	–	–	400,000	3.39	3 May 2007	3 May 2010	2 May 2013
	400,000	–	–	–	–	400,000	3.39	3 May 2007	3 May 2011	2 May 2014
Louisa Wong Yuk Nor	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2009	2 May 2012
	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2010	2 May 2013
	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2011	2 May 2014
Bruno Li Kwok Ho *(Note 5)*	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2009	2 May 2012
	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2010	2 May 2013
	200,000	–	–	–	–	200,000	3.39	3 May 2007	3 May 2011	2 May 2014
	2,400,000	–	–	–	–	2,400,000				

Notes:

1. *During the year, share options to subscribe for 920,000 shares were granted on 21 December 2009. The closing price of the shares immediately before the date on which the options were granted was HK$2.05.*

2. *No share option was exercised during the year.*

3. *Share options to subscribe for 784,000 shares lapsed during the year following the cessation of employment of certain grantees.*

4. *Share options to subscribe for 622,000 shares expired during the year following the expiry of the options.*

5. *Mr. Bruno Li Kwok Ho resigned as Director of the Company with effect from 4 August 2009 and continues to be a qualifying participant under the Scheme.*

6. *The value of the options granted during the year is HK$417,000 based on the Black-Scholes valuation model. The significant inputs into the model were share price of HK$2.04 at the grant date, exercise price shown above, standard deviation of expected share price returns of 30%, expected life of options of 4.5 years, expected dividend paid out rate of 2% and annual risk-free interest rate of 1.6%. 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 2009, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted share options under the Scheme.

Directors

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

Non-executive Directors
Dr. Victor FUNG Kwok King
Dr. William FUNG Kwok Lun
Dr. Raymond CH'IEN Kuo Fung*
Mr. Malcolm AU Man Chung*
Mr. Anthony LO Kai Yiu*
Mr. Godfrey Ernest SCOTCHBROOK
Mr. Jeremy Paul Egerton HOBBINS
Ms. Louisa WONG Yuk Nor

Executive Directors
Mr. Richard YEUNG Lap Bun
Mr. Bruno LI Kwok Ho
(resigned on 4 August 2009)

* *Independent non-executive Directors*

In accordance with Article 87 of the Company's Articles of Association, 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 and the Code on Corporate Governance Practices.

Directors' Service Contracts

Each of the executive Directors 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.

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 29 "Related Party Transactions" to the consolidated financial statements.

Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures of the Company and Certain Major Associated Corporations

As at 31 December 2009, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations (Note 1) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

The Company

Long positions in shares and the underlying shares of equity derivatives

	Number of shares					
Name of Directors	Personal interests	Family interests	Corporate/ Trust interests	Number of underlying shares (share options)	Total interests	Approximate percentage of interests
Dr. Victor Fung Kwok King	–	–	373,692,000 *(Note 2)*	–	373,692,000	51.19%
Dr. William Fung Kwok Lun	–	–	373,692,000 *(Note 2)*	–	373,692,000	51.19%
Mr. Richard Yeung Lap Bun	19,196,000	–	–	1,200,000 *(Note 3)*	20,396,000	2.79%
Ms. Louisa Wong Yuk Nor	1,588,000	–	–	600,000 *(Note 4)*	2,188,000	0.30%
Dr. Raymond Ch'ien Kuo Fung	1,000,000	–	–	–	1,000,000	0.14%
Mr. Jeremy Paul Egerton Hobbins	180,000	–	–	–	180,000	0.02%

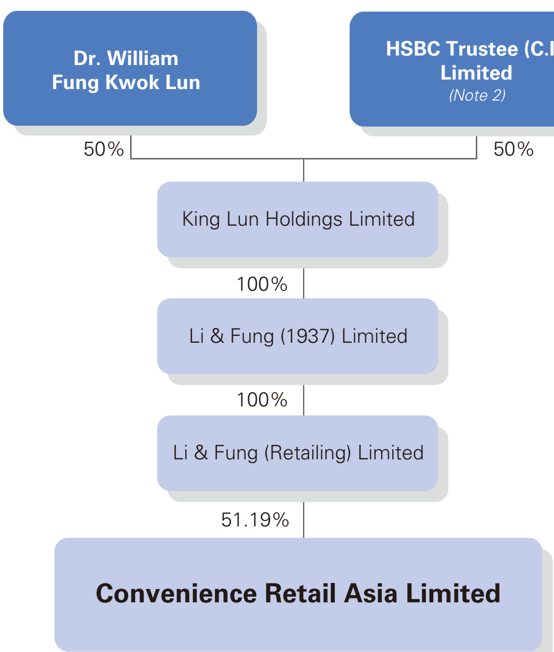
Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures of the Company and Certain Major Associated Corporations (continued)

Major associated corporations

Long positions in shares and the underlying shares of equity derivatives

Name of Directors	Name of associated corporations	Class of shares	Number of (i) shares	Number of (ii) underlying shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Dr. Victor Fung Kwok King	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	*(Note 5)*	100%
	LiFung Trinity Limited	Ordinary share	1	–	*(Note 6)*	100%
Dr. William Fung Kwok Lun	Li & Fung (Distribution) Limited	Full voting ordinary shares	13,800,000	–	Corporate interests *(Note 5)*	100%
	LiFung Trinity Limited	Ordinary share	1	–	Corporate interests *(Note 6)*	100%

As at 31 December 2009, 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:



Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures of the Company and Certain Major Associated Corporations (continued)

Notes:

1. *Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance of Rule 18.15 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 20 January 2010. Accordingly, the companies under the section headed "Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

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

3. *On 3 May 2007, Mr. Richard Yeung Lap Bun was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 1,200,000 shares at an exercise price of HK$3.39 per share. The options are to be vested in Mr. Richard Yeung Lap Bun in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Upon confirmation of vesting, the options in relation to the performance year 2007 became exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.*

4. *On 3 May 2007, Ms. Louisa Wong Yuk Nor was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK$3.39 per share. The options are to be vested in Ms. Louisa Wong Yuk Nor in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Upon confirmation of vesting, the options in relation to the performance year 2007 became exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.*

5. *King Lun through its wholly owned subsidiary, LF (1937) held 13,800,000 shares in Li & Fung (Distribution) Limited. Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun are deemed to have interests in these shares through their respective interests in King Lun and LF (1937) as set out in Note 2 above.*

6. *King Lun through its indirect wholly owned subsidiary, LFR (a wholly owned subsidiary of LF (1937)) held 1 share in LiFung Trinity Limited. Dr. Victor Fung Kwok King and Dr. William. Fung Kwok Lun are deemed to have interests in the share through their respective interests in King Lun and LF (1937) and indirect interests in LFR as set out in Note 2 above.*

Save as disclosed above, as at 31 December 2009, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

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

As at 31 December 2009, the interests and short positions of shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

Long positions in shares

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	373,692,000	Trustee *(Note 1)*	51.19%
King Lun Holdings Limited	373,692,000	Corporate interests *(Note 1)*	51.19%
Commonwealth Bank of Australia	58,314,000	Corporate interests *(Note 2)*	7.99%
Aberdeen Asset Management Plc and its subsidiaries	51,132,000	Other *(Note 3)*	7.00%
Arisaig Greater China Fund Limited ("Arisaig China")	89,346,000	Other	12.24%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	89,346,000	Other *(Note 4)*	12.24%
Cooper Lindsay William Ernest ("Mr. Cooper")	89,346,000	Corporate interests *(Note 5)*	12.24%

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

Long positions in shares (continued)

Notes:

1. *These shares were held by LFR. King Lun indirectly owns 100% interests in LFR through its wholly owned subsidiary, LF (1937). All of HSBC Trustee (C.I.) Limited, King Lun, LF (1937) and LFR are taken to be interested in the shares pursuant to SFO. Please refer to Note 2 in the above section headed "Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations".*

2. *These shares were indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies.*

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

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

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

Save as disclosed above, as at 31 December 2009, the Company had not been notified of any other shareholders' interests or short positions as recorded in the register required to be kept under section 336 of SFO.

Sufficiency of Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float as required under the GEM Listing Rules during the year and up to the date of this Report.

Directors' Benefits from Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Share Options" above, at no time during the year was the Company, its holding companies or its subsidiaries a party to any arrangements to enable the Directors of the Company (including their spouses and children under 18 years of age), to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Major Customers and Suppliers

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

– the largest supplier	18%
– 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 29 to the consolidated financial statements on pages 114 and 115). The following transactions are expected to continue on an on-going basis and will constitute continuing connected transactions (exempt from independent shareholders' approval requirements) of the Company:

		HK$'000
1.	Net purchases of products from IDS (Hong Kong) Limited ("IDS (HK)") *(Note 1)*	11,036
2.	The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") lease *(Note 2)*	2,564
3.	The Circle K (HK) licence *(Note 3)*	202

Notes:

1. *This refers to the net purchases of various products (being food and non-food products) by Circle K (HK) from IDS (HK), an associate of the Company's controlling shareholder, on its standard terms of business pursuant to the agreement dated 6 December 2007 (details of which were disclosed in the announcement dated 6 December 2007).*

2. *This refers to the lease payment from Circle K (HK) to IDS (HK) under a lease agreement dated 30 March 2007 (details of which were disclosed in the announcement dated 30 March 2007) for the 5th Floor of LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong. Such premises are used as an office-cum-workshop. The lease will expire on 25 March 2010.*

3. *This refers to the licence fee payment from Circle K (HK) to IDS (HK) under a licence agreement dated 30 March 2007 (details of which were disclosed in the announcement dated 30 March 2007) for the right to use the loading bay and unloading bay, staging area and one car parking space on the Ground Floor of LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong. The licence will expire on 25 March 2010.*

Connected Transactions (continued)

On 18 December 2009, the Company signed a master agreement with Li & Fung (1937) Limited ("LF (1937)"), the controlling shareholder of the Company, regarding the leasing and/or licensing of properties by the Group from LF (1937) and its associates for a term commencing from 1 January 2010 and ending on 31 December 2012 (details of which were disclosed in the announcement dated 18 December 2009). Such agreement constituted continuing connected transaction of the Company (exempt from independent shareholders' approval requirements).

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 20 of the GEM Listing Rules have been duly complied with by the Company.

In accordance with paragraph 20.38 of the GEM Listing Rules, the Board engaged the auditor of the Company to perform certain agreed-upon procedures on the continuing connected transactions mentioned in items 1 to 3 above in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor confirmed that the continuing connected transactions:

(a) have been approved by the Board of Directors of the Company;

(b) have been entered into in accordance with the relevant agreements governing the transactions; and

(c) have not exceeded the relevant caps as disclosed in previous announcements.

Contracts with Controlling Shareholders

Save as disclosed under "Connected Transactions" above and note 29 "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' Interest in Competing Business

During the year, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group.

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 2009, 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, 10 March 2010

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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 115, which comprise the consolidated and company balance sheets as at 31 December 2009, 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 notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 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 the Group as at 31 December 2009 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, 10 March 2010

Consolidated Profit and Loss Account

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Revenue	*5*	**3,349,326**	3,322,665
Cost of sales	*6*	**(2,348,306)**	(2,315,890)
Gross profit		**1,001,020**	1,006,775
Other income	*5*	**233,162**	224,379
Store expenses	*6*	**(899,488)**	(895,185)
Distribution costs	*6*	**(83,376)**	(82,934)
Administrative expenses	*6*	**(145,129)**	(144,012)
Operating profit		**106,189**	109,023
Interest income	*7*	**3,354**	5,083
Profit before income tax		**109,543**	114,106
Income tax expenses	*8*	**(19,094)**	(25,233)
Profit attributable to shareholders of the Company	*9 & 25*	**90,449**	88,873
Dividends	*10*	**56,204**	52,554
Earnings per share			
Basic (HK cents)	*11*	**12.39**	12.18
Diluted (HK cents)	*11*	**12.39**	12.18

The notes on pages 64 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit attributable to shareholders of the Company	**90,449**	88,873
Other comprehensive income/(loss) for the year, net of tax		
Actuarial losses on post employment benefit obligation	**–**	(7,991)
Exchange differences	**(16)**	4,100
Total comprehensive income for the year	**90,433**	84,982
Attributable to:		
Shareholders of the Company	**90,433**	85,284
Minority interests	**–**	(302)
	90,433	84,982

The notes on pages 64 to 115 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Fixed assets	*14*	**213,963**	248,632
Lease premium for land	*15*	**119,271**	174,874
Intangible assets	*16*	**357,465**	357,465
Available-for-sale financial asset	*18*	**1,895**	1,895
Rental and other long-term deposits		**43,597**	59,584
Bank deposits	*22*	**149,400**	–
Deferred tax assets	*19*	**9,754**	8,280
		895,345	850,730
Current assets			
Inventories		**127,920**	118,255
Rental deposits		**28,178**	21,068
Trade receivables	*20*	**29,531**	35,066
Other receivables, deposits and prepayments		**56,153**	74,650
Taxation recoverable		**1,039**	82
Asset held for sale	*21*	**20,537**	–
Cash and cash equivalents	*22*	**365,888**	418,490
		629,246	667,611
Current liabilities			
Trade payables	*23*	**432,696**	438,442
Other payables and accruals		**143,194**	143,400
Taxation payable		**9,585**	12,848
Cake coupons		**124,228**	125,398
		709,703	720,088
Net current liabilities		**(80,457)**	(52,477)
Total assets less current liabilities		**814,888**	798,253

	Note	2009 HK$'000	2008 HK$'000
Financed by:			
Share capital	*24*	**72,992**	72,992
Reserves	*25*	**665,219**	653,197
Proposed dividend	*25*	**43,795**	40,145
Shareholders' funds		**782,006**	766,334
Minority interests		**–**	(8,256)
		782,006	758,078
Non-current liabilities			
Long service payment liabilities	*26*	**20,993**	22,533
Deferred tax liabilities	*19*	**11,889**	17,642
		814,888	798,253

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 64 to 115 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Non-current assets			
Investments in and loan to subsidiaries	*17*	**672,838**	673,538
Bank deposits	*22*	**70,000**	–
		742,838	673,538
Current assets			
Amounts due from subsidiaries	*17*	**94,286**	109,000
Other receivables, deposits and prepayments		**1,004**	2,859
Cash and cash equivalents	*22*	**182,875**	212,492
		278,165	324,351
Current liabilities			
Amounts due to subsidiaries	*17*	**608,555**	565,579
Other payables and accruals		**4,369**	2,836
Taxation payable		**192**	192
		613,116	568,607
Net current liabilities		**(334,951)**	(244,256)
Total assets less current liabilities		**407,887**	429,282
Financed by:			
Share capital	*24*	**72,992**	72,992
Reserves	*25*	**291,100**	316,145
Proposed dividend	*25*	**43,795**	40,145
		407,887	429,282

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 64 to 115 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	HK$'000	HK$'000
At 1 January 2008	72,907	280,035	177,087	13,433	7,652	4,276	172,212	(7,954)	719,648
Profit attributable to shareholders of the Company	–	–	–	–	–	–	88,873	–	88,873
Actuarial losses on post employment benefit obligation									
gross	–	–	–	–	–	–	(9,561)	–	(9,561)
tax	–	–	–	–	–	–	1,570	–	1,570
Exchange differences	–	–	–	–	–	4,402	–	(302)	4,100
Total comprehensive income for the year	–	–	–	–	–	4,402	80,882	(302)	84,982
Issue of new shares	85	1,397	–	–	–	–	–	–	1,482
Employee share option benefit	–	182	–	–	4,077	–	259	–	4,518
Dividends	–	–	–	–	–	–	(52,552)	–	(52,552)
	85	1,579	–	–	4,077	–	(52,293)	–	(46,552)
At 31 December 2008	72,992	281,614	177,087	13,433	11,729	8,678	200,801	(8,256)	758,078

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2009

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	HK$'000	HK$'000
At 1 January 2009	72,992	281,614	177,087	13,433	11,729	8,678	200,801	(8,256)	758,078
Profit attributable to shareholders of the Company	–	–	–	–	–	–	90,449	–	90,449
Exchange differences	–	–	–	–	–	(16)	–	–	(16)
Total comprehensive income for the year	–	–	–	–	–	(16)	90,449	–	90,433
Employee share option benefit	–	–	–	–	2,032	–	1,004	–	3,036
Dividends	–	–	–	–	–	–	(52,554)	–	(52,554)
Acquisition of additional interest in subsidiary *(note 17)*	–	–	–	–	–	–	(25,243)	8,256	(16,987)
	–	–	–	–	2,032	–	(76,793)	8,256	(66,505)
At 31 December 2009	72,992	281,614	177,087	13,433	13,761	8,662	214,457	–	782,006

The notes on pages 64 to 115 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Cash generated from operations	*27*	**187,685**	124,242
Hong Kong profits tax paid		**(27,235)**	(25,208)
Overseas income tax paid		**(3,308)**	(475)
Net cash generated from operating activities		**157,142**	98,559
Cash flows from investing activities			
Purchase of fixed assets		**(59,080)**	(85,131)
Proceeds from disposal of fixed assets and lease premium for land		**48,496**	6,903
(Increase)/decrease in non-current bank deposits		**(150,000)**	50,000
Interest received		**3,354**	5,083
Net cash used in investing activities		**(157,230)**	(23,145)
Cash flows from financing activities			
Proceeds from issuance of shares		**–**	1,482
Dividends paid		**(52,554)**	(52,552)
Net cash used in financing activities		**(52,554)**	(51,070)
(Decrease)/increase in cash and cash equivalents		**(52,642)**	24,344
Cash and cash equivalents at 1 January		**418,490**	392,844
Effect of foreign exchange rate changes		**40**	1,302
Cash and cash equivalents at 31 December		**365,888**	418,490

The notes on pages 64 to 115 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 (collectively the "Group") are principally engaged in the operation of chains of convenience stores and bakeries under the trademark of Circle K and Saint Honore respectively in Hong Kong, Macau and the Chinese Mainland.

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company has its primary listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000). These consolidated financial statements have been approved for issue by the Board of Directors on 10 March 2010.

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 estimates and judgements are significant to the consolidated financial statements, are disclosed in note 4.

The Group has adopted the following new and amended standards and interpretations of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2009 and relevant to its operations:

HKAS 1 (Revised)	Presentation of Financial Statements
HKFRS 1 and HKAS 27 Amendments	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 Amendment	Vesting Conditions and Cancellations
HKFRS 7 Amendment	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 13	Customer Loyalty Programmes
Annual Improvements Project	Improvements to HKFRSs

The adoption of such new and amended standards and interpretations does not have material impact on the consolidated financial statements and does not result in substantial changes to the Group's accounting policies except certain changes on the presentation of the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

HKAS 1 (Revised), "Presentation of Financial Statements", requires all non-owner changes in equity to be shown in a performance statement, but entities can choose whether to present one performance statement (a statement of comprehensive income) or two statements (a profit and loss account and a statement of comprehensive income). The Group has elected to present two statements: the consolidated profit and loss account and the consolidated statement of comprehensive income.

HKFRS 7 Amendment, "Improving Disclosures about Financial Instruments", requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures.

HKFRS 8, "Operating Segments", requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the board of directors that makes strategic decisions. Goodwill is allocated by management to groups of cash-generating units on a segment level. Goodwill relating to a previous acquisition within Hong Kong bakery segment remains in that segment. There has been no further impact on the measurement of the Group's assets and liabilities.

The following new and amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Group's operations:

HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

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 2010. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Classification of Rights Issues
HKAS 39 Amendment	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRS
HKFRS 1 Amendment	Additional Exemptions for First-time Adopters
HKFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised) and HKAS 27 (Revised)	Business Combinations and Consolidated and Separate Financial Statements
HKFRS 9	Financial Instruments
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Embedded Derivatives
HK(IFRIC)-Int 14 Amendment	Prepayment of Minimum Funding Requirements
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK(IFRIC)-Int 18	Transfer of Assets from Customers
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project	Improvements to HKFRSs 2009

(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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill *(note 2f)*. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses *(note 2g)*. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority 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 board of 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 remeasured. 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 as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

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.

(e) Fixed assets

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. Properties are depreciated on a straight-line basis over the unexpired term of the leases of 25 years to 43 years. Leasehold improvements are depreciated on a straight-line basis over the leases of 3 years to 6 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 $33^1/_3$%
Motor vehicles	$16^2/_3$% to 25%

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets (continued)

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 2g)*.

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) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share 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 is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 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.

(g) Impairment of investments in subsidiaries and 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)

(h) Asset held for sale

A property is classified as asset held for sale when its carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. It is stated at the lower of carrying amount and fair value less costs to sell if its carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

(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 investments 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 maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

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 carried at amortised cost using the effective interest method.

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 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. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Impairment (continued)

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.

(j) Inventories

Inventories comprising merchandises 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 substantially 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(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.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not 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) Supplier rebate and promotion fees are recognised when the rights to receive payments are established in accordance with the terms of agreements with the vendors.

(iii) Sales of services are recognised in the accounting period in which the services are rendered.

(iv) Interest income is recognised on a time proportion basis using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Credit risk (continued)

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.

(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$432,696,000 (2008: HK$438,442,000) and other payables and accruals of HK$143,194,000 (2008: HK$143,400,000) are contractually maturing within one year. On company level, all the balances with subsidiaries are repayable on demand except loan of HK$18,300,000 (2008: HK$19,000,000) is contractually matured over one year.

(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 50 basis-point and all other variables were held constant, the Group's net profit would have been increased/decreased by HK$1,768,000 (2008: HK$1,729,000) for the year ended 31 December 2009.

(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

Effective 1 January 2009, 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 2009 are as follows:

	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Bank deposits designated as:			
Financial assets at fair value through profit or loss	79,400	–	79,400
Available-for-sale financial asset	–	1,895	1,895
	79,400	1,895	81,295

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 2f. 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 16)*.

(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 24. 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 audit 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.

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	
	2009	2008
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**2,702,403**	2,667,513
Bakery sales revenue	**646,923**	655,152
	3,349,326	3,322,665
Other income		
Supplier rebate and promotion fees	**179,261**	168,410
Service items and miscellaneous income	**53,901**	55,969
	233,162	224,379

Segment information

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

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

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 2009 and 2008 are as follows:

	2009				
	Convenience Store		Bakery		
	HK & Others HK$'000	Chinese Mainland HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	Group HK$'000
Total segment revenue	2,568,163	134,249	672,614	43,645	3,418,671
Inter-segment revenue	(9)	–	(67,450)	(1,886)	(69,345)
Revenue from external customers	2,568,154	134,249	605,164	41,759	3,349,326
Total segment other income	222,980	11,491	2,950	20	237,441
Inter-segment other income	(1,692)	(91)	(2,496)	–	(4,279)
Other income	221,288	11,400	454	20	233,162
	2,789,442	145,649	605,618	41,779	3,582,488
Profit/(loss) after tax	102,948	(41,689)	31,184	(1,994)	90,449
Profit/(loss) after tax includes:					
Depreciation	(30,095)	(11,319)	(30,181)	(2,427)	(74,022)
Amortisation	–	(447)	(3,667)	–	(4,114)
Interest income	3,179	26	123	26	3,354
Income tax (expenses)/credit	(21,886)	–	2,131	661	(19,094)

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

Segment information (continued)

	2008				
	Convenience Store		Bakery		
	HK & Others HK$'000	Chinese Mainland HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	Group HK$'000
Total segment revenue	2,499,601	167,912	677,259	38,928	3,383,700
Inter-segment revenue	–	–	(60,631)	(404)	(61,035)
Revenue from external customers	2,499,601	167,912	616,628	38,524	3,322,665
Total segment other income	212,260	12,038	1,377	34	225,709
Inter-segment other income	(1,330)	–	–	–	(1,330)
Other income	210,930	12,038	1,377	34	224,379
	2,710,531	179,950	618,005	38,558	3,547,044
Profit/(loss) after tax	110,361	(41,241)	21,567	(1,814)	88,873
Profit/(loss) after tax includes:					
Depreciation	(28,363)	(13,335)	(28,562)	(2,352)	(72,612)
Amortisation	–	(439)	(3,731)	–	(4,170)
Interest income	4,530	102	392	59	5,083
Income tax (expenses)/credit	(22,732)	–	(3,154)	653	(25,233)

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

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

Segment information (continued)

The segment assets and liabilities as at 31 December 2009 and 2008 are as follows:

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

	As at 31 December 2008				
	Convenience Store		Bakery		
	HK & Others HK$'000	Chinese Mainland HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	Group HK$'000
Total segment assets	382,967	93,092	772,971	30,349	1,279,379
Total segment assets include:					
Additions to segment non-current assets	39,879	14,775	47,373	5,444	107,471
Total segment liabilities	477,936	36,713	209,076	6,048	729,773

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:

	2009 **HK$'000**	2008 HK$'000
Segment assets for reportable segments	**1,231,127**	1,279,379
Unallocated:		
Deferred tax assets	**9,754**	8,280
Taxation recoverable	**1,039**	82
Corporate bank deposits	**282,671**	230,600
Total assets per consolidated balance sheet	**1,524,591**	1,518,341

Reportable segment liabilities are reconciled to total liabilities as follows:

	2009 **HK$'000**	2008 HK$'000
Segment liabilities for reportable segments	**721,111**	729,773
Unallocated:		
Deferred tax liabilities	**11,889**	17,642
Taxation payable	**9,585**	12,848
Total liabilities per consolidated balance sheet	**742,585**	760,263

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$3,106,979,000 (2008: HK$3,053,866,000), and the total of revenue from external customers from other countries is HK$242,347,000 (2008: HK$268,799,000) for the year ended 31 December 2009.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK$664,270,000 (2008: HK$746,796,000), and the total of these non-current assets located in other countries is HK$70,026,000 (2008: HK$93,759,000) as at 31 December 2009.

6. EXPENSES BY NATURE

	Group	
	2009	2008
	HK$'000	HK$'000
Amortisation of lease premium for land *(note 15)*	**4,114**	4,170
Auditor's remuneration		
Charge for the year	**1,749**	1,842
Over provision in prior year	**(17)**	–
Changes in inventories	**2,250,498**	2,221,812
Depreciation of owned fixed assets *(note 14)*	**74,022**	72,612
Employee benefit expense *(note 12)*	**554,803**	564,903
Fair value loss on financial assets at fair value through profit or loss	**600**	–
Loss on disposal of fixed assets and lease premium for land *(note)*	**2,177**	2,703
Operating leases rental for land and buildings		
Minimum lease payment	**305,672**	292,543
Contingent lease payment	**5,369**	4,162
Other expenses	**277,312**	273,274
Total cost of sales, store expenses, distribution costs and administrative expenses	**3,476,299**	3,438,021

Note:

Loss on disposal of fixed assets and lease premium for land includes gain on disposal of properties amounting to HK$8,918,000 (2008: HK$2,202,000).

7. INTEREST INCOME

	Group	
	2009	2008
	HK$'000	HK$'000
Interest income on bank deposits	**3,354**	5,083

8. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2009 and 2008. 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 charged/(credited) to the consolidated profit and loss account represents:

	Group	
	2009	2008
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**23,113**	27,114
Overseas profits tax	**3,205**	2,583
Deferred income tax *(note 19)*	**(7,224)**	(4,464)
	19,094	25,233

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 Company as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Profit before income tax	**109,543**	114,106
Calculated at a taxation rate of 16.5%	**18,075**	18,827
Effect of different taxation rates in other jurisdiction	**(3,988)**	(3,788)
Income not subject to taxation	**(2,180)**	(1,848)
Expenses not deductible for tax purposes	**2,405**	2,262
Tax losses not recognised	**10,382**	10,307
Effect of previously unrecognised tax losses	**(602)**	–
Effect of previously unrecognised temporary differences	**317**	(3)
Reversal of previously recognised temporary differences	**(5,382)**	–
Over provision in prior year	**(265)**	(213)
Remeasurement of deferred tax – change in tax rate	**332**	(311)
	19,094	25,233

9. 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$28,927,000 (2008: HK$51,769,000).

10. DIVIDENDS

	2009 HK$'000	2008 HK$'000
Interim dividend, paid of 1.7 HK cents (2008: 1.7 HK cents) per share	**12,409**	12,409
Dividend, proposed of 6 HK cents (2008: 5.5 HK cents) per share	**43,795**	40,145
	56,204	52,554

At a meeting held on 10 March 2010, the Directors proposed a dividend of 6 HK cents per share. This proposed dividend is not reflected as a dividend payable in these financial statements.

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 of HK$90,449,000 (2008: HK$88,873,000).

The basic earnings per share is based on the weighted average number of 729,915,974 (2008: 729,748,411) shares in issue during the 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.

11. EARNINGS PER SHARE (continued)

	2009 HK$'000	2008 HK$'000
Profit attributable to shareholders of the Company	**90,449**	88,873

	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**729,915,974**	729,748,411
Adjustments for:		
Share options	**–**	11,564
Weighted average number of ordinary shares for diluted earnings per share	**729,915,974**	729,759,975

Diluted earnings per share for the year ended 31 December 2009 and 2008 equal to the basic earnings per share as the potential ordinary shares outstanding during the respective year has an anti-dilutive effect on the basic earnings per share for the corresponding year.

12. EMPLOYEE BENEFIT EXPENSE

	Group	
	2009 HK$'000	2008 HK$'000
Wages and salaries	**529,498**	539,352
Unutilised annual leave	**(61)**	(568)
Employee share option benefit	**3,036**	4,518
Pension costs – defined contribution plan *(note b & c)*	**20,456**	20,856
Long service payment costs *(note 26)*	**1,874**	745
	554,803	564,903

Notes:

(a) The employee benefit expense includes directors' and senior management's emoluments *(note 13)*.

(b) Forfeited contributions totalling HK$4,770,000 (2008: HK$1,573,000) were utilised during the year leaving nil amount available at the year-end to reduce future contributions.

(c) Contributions totalling HK$3,696,000 (2008: HK$4,062,000) were payable to the independently administered fund at the year-end.

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2009 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
Dr. Victor Fung Kwok King	90	–	–	65	–	155
Dr. William Fung Kwok Lun	50	–	–	30	–	80
Mr. Jeremy Paul Egerton Hobbins	70	–	–	45	–	115
Mr. Richard Yeung Lap Bun	50	2,760	4,275	370	12	7,467
Mr. Bruno Li Kwok Ho *(note ii)*	30	300	–	119	6	455
Ms. Louisa Wong Yuk Nor	50	–	–	131	–	181
Dr. Raymond Ch'ien Kuo Fung	110	–	–	90	–	200
Mr. Malcolm Au Man Chung	90	–	–	70	–	160
Mr. Godfrey Ernest Scotchbrook	70	–	–	45	–	115
Mr. Anthony Lo Kai Yiu	70	–	–	55	–	125
	680	3,060	4,275	1,020	18	9,053

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

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2008 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits *(note i)*	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Dr. Victor Fung Kwok King	90	–	–	–	–	90
Dr. William Fung Kwok Lun	50	–	–	–	–	50
Mr. Jeremy Paul Egerton Hobbins	70	–	–	–	–	70
Mr. Richard Yeung Lap Bun	50	2,400	4,171	365	12	6,998
Mr. Bruno Li Kwok Ho	50	600	–	101	12	763
Ms. Louisa Wong Yuk Nor	50	–	–	101	–	151
Dr. Raymond Ch'ien Kuo Fung	110	–	–	–	–	110
Mr. Malcolm Au Man Chung	90	–	–	–	–	90
Mr. Godfrey Ernest Scotchbrook	70	–	–	–	–	70
Mr. Anthony Lo Kai Yiu	70	–	–	–	–	70
	700	3,000	4,171	567	24	8,462

Notes:

(i) Other benefits include leave pay, share options, insurance premium and club membership.

(ii) Mr. Bruno Li Kwok Ho resigned as an executive Director of the Company on 4 August 2009.

In addition to the Directors' emoluments disclosed above, certain Director of the Company had emoluments receivable from fellow subsidiary, which total HK$2,287,000 (2008: HK$2,259,000), part of which is in respect of the services to the Company and its subsidiaries. No apportionment has been made as the Directors consider that it is impracticable to apportion this amount between the services to the Group and the services to the fellow subsidiary.

No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2009 and 2008.

13. 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 one (2008: one) Director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2008: four) individuals during the year are as follows:

	2009 HK$'000	2008 HK$'000
Salaries, housing allowances, share options, other allowances and benefit in kind	**6,349**	6,225
Discretionary bonuses	**1,721**	1,996
Pension costs – defined contribution scheme	**48**	48
	8,118	8,269

The emoluments of the employees fell within the following bands:

	Number of individuals	
	2009	2008
HK$1,000,001 – HK$2,000,000	**2**	2
HK$2,000,001 – HK$3,000,000	**2**	2

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

14. FIXED ASSETS

Group

	Freehold 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 2008					
Cost	87,706	204,340	370,564	22,405	685,015
Accumulated depreciation	(14,261)	(157,257)	(257,308)	(14,834)	(443,660)
Net book amount	73,445	47,083	113,256	7,571	241,355
Year ended 31 December 2008					
Opening net book amount	73,445	47,083	113,256	7,571	241,355
Additions	–	38,950	43,835	2,346	85,131
Disposals	(81)	(3,143)	(4,116)	(315)	(7,655)
Depreciation *(note 6)*	(1,657)	(27,466)	(40,717)	(2,772)	(72,612)
Exchange differences	(68)	1,063	1,341	77	2,413
Closing net book amount	71,639	56,487	113,599	6,907	248,632
At 31 December 2008					
Cost	87,622	233,917	403,407	22,316	747,262
Accumulated depreciation	(15,983)	(177,430)	(289,808)	(15,409)	(498,630)
Net book amount	71,639	56,487	113,599	6,907	248,632
Year ended 31 December 2009					
Opening net book amount	71,639	56,487	113,599	6,907	248,632
Additions	–	26,412	32,098	570	59,080
Disposals/write off	(1,482)	(6,460)	(4,831)	(83)	(12,856)
Depreciation *(note 6)*	(2,057)	(29,211)	(40,379)	(2,375)	(74,022)
Exchange differences	–	9	12	–	21
Transferred to asset held for sale *(note 21)*	(6,892)	–	–	–	(6,892)
Closing net book amount	61,208	47,237	100,499	5,019	213,963
At 31 December 2009					
Cost	73,738	228,006	412,591	22,169	736,504
Accumulated depreciation	(12,530)	(180,769)	(312,092)	(17,150)	(522,541)
Net book amount	61,208	47,237	100,499	5,019	213,963

14. FIXED ASSETS (continued)

As at 31 December 2009 and 2008, freehold land of HK$11,561,000 is located outside Hong Kong.

Depreciation expense of HK$9,890,000 (2008: HK$8,618,000) has been charged in cost of sales, HK$54,479,000 (2008: HK$53,884,000) in store expenses, HK$3,540,000 (2008: HK$3,291,000) in distribution costs and HK$6,113,000 (2008: HK$6,819,000) in administrative expenses.

15. 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	
	2009	2008
	HK$'000	HK$'000
Net book value at 1 January	**174,874**	180,680
Disposals	**(37,849)**	(1,984)
Amortisation *(note 6)*	**(4,114)**	(4,170)
Exchange differences	**5**	348
Transferred to asset held for sale *(note 21)*	**(13,645)**	–
Net book value at 31 December	**119,271**	174,874
In Hong Kong, held on:		
Leases of over 50 years	**–**	36,955
Leases of 10 to 50 years	**80,441**	97,049
Outside Hong Kong, held on:		
Leases of over 50 years	**687**	700
Leases of 10 to 50 years	**38,143**	40,170
	119,271	174,874

16. INTANGIBLE ASSETS

	Goodwill HK$'000	Trademarks HK$'000	Group HK$'000
At 31 December 2009 and 2008			
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 indefinite useful lives 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 *(note i)*	5% – 9%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	11%

Notes:

(i) Management determined budgeted revenue growth rate over a three-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 2009 based on the impairment assessment performed.

If the annual revenue has no growth over the three-year budget period or the discount rate applied in the valuation increased by 100 basis-point, the trademarks' recoverable amount would still be greater than its carrying value and no impairment would be noted.

16. INTANGIBLE ASSETS (continued)

(b) Impairment test for goodwill

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

The recoverable amount of a CGU is determined based on fair value less costs to sell calculation, which is calculated by using post-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year budget period are extrapolated using the estimated long-term growth rate stated below. The growth rate does not exceed the long-term average growth rate for the bakery business in which the CGU operates.

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

Gross margin *(note i)*	49% – 51%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	11%

Notes:

(i) The budgeted gross margin over the three-year budget period is approximately 49% to 51% 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 2009 based on the impairment assessment performed.

If the gross margin maintained at 49% during the three-year budget period or the discount rate applied in the fair value less costs to sell calculation had increased by 100 basis-point, the goodwill's recoverable amount would still be greater than its carrying value and no impairment would be noted.

17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Investment at cost:		
Unlisted shares	**654,538**	654,538
Loan to subsidiary	**18,300**	19,000
	672,838	673,538

Loan to subsidiary represents loan of HK$18,300,000 (2008: HK$19,000,000) which is interest bearing at 2% (2008: 2%) per annum and repayable on 18 August 2011.

As at 31 December 2009 and 2008, the balances with subsidiaries are unsecured, interest free and repayable on demand except for the balance of HK$18,300,000 which is interest bearing at 2% per annum as at 31 December 2008.

The following is a list of the subsidiaries of the Company as at 31 December 2009:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Directly held:				
Convenience Retail Asia (BVI) Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	10,000 ordinary shares of US$1 each	100%
Saint Honore Holdings Limited	Bermuda, limited liability company	Investment holding in Hong Kong	1,000,000 ordinary shares of HK$0.1 each	100%
Circle K (China) Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
Indirectly held:				
Bliset Investment Limited	Hong Kong, limited liability company	Property holding in Hong Kong	100 ordinary shares of HK$1 each 102 non-voting deferred shares of HK$1 each	100%

17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Indirectly held: (continued)				
Bodega Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Bread Boutique Limited	Hong Kong, limited liability company	Property holding in Hong Kong	3,000,000 ordinary shares of HK$1 each	100%
Circle K Convenience Stores (Greater China) Limited	Hong Kong, limited liability company	Dormant	10,000 ordinary shares of HK$100 each	100%
Circle K Convenience Stores (HK) Limited	Hong Kong, limited liability company	Convenience stores operator and lease-holder in Hong Kong	183,756 ordinary shares of HK$1,000 each	100%
Circle K Convenience Stores Limited	Hong Kong, limited liability company	Lease-holder in Hong Kong	10,000 ordinary shares of HK$10 each	100%
Circle K Convenience Stores PRC (BVI) Limited	British Virgin Islands, limited liability company	Inactive	1 ordinary share of US$1	100%
Circle K Convenience Stores PRC Limited	Hong Kong, limited liability company	Investment holding in PRC	2 ordinary shares of HK$1 each	100%
Circle K PRC Properties Limited	Hong Kong, limited liability company	Property holding in PRC	2 ordinary shares of HK$1 each	100%
City Producer Limited	Hong Kong, limited liability company	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, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB30,000,000	100%
Convenience Retail Shenzhen Limited 深圳利亞便利店有限公司*	PRC, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB20,000,000	100%

17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Indirectly held: (continued)				
Convenience Retail Southern China Limited	Hong Kong, limited liability company	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, limited liability company	Convenience stores operator and lease-holder in PRC	Registered capital of RMB60,000,000 *(note)*	98.5%
Easywin Limited	British Virgin Islands, limited liability company	Trademark holder in Hong Kong	1 ordinary share of US$1	100%
Eltham Agents Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	10 ordinary share of US$1 each	100%
Everfit Agents Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Evergain Consultants Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Gold Tree Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Golden Mindset Company Limited	Hong Kong, limited liability company	Marketing of festive and bakery products in Hong Kong	2 ordinary shares of HK$1 each	100%
Great Moment Investment Limited	Hong Kong, limited liability company	Property holding in Hong Kong	2 ordinary shares of HK$1 each	100%
Green Rich Enterprises Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1	100%
Kingdom Wise Limited	Hong Kong, limited liability company	Property holding in Hong Kong	2 ordinary shares of HK$1 each	100%

17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held
Indirectly held: (continued)				
Saint Honore Cake Shop Limited	Hong Kong, limited liability company	Bakery chain operator and lease-holder in Hong Kong	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, limited liability company	Bakery chain operator and lease-holder in Macau	Quota capital of MOP100,000	100%
Saint Honore Cake Shop (Shenzhen) Investment Limited	Hong Kong, limited liability company	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, limited liability company	Operating food factory in PRC	Registered capital of HK$18,610,000	100%
Silver Wave Agents Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1	100%
Strong Glory Limited	Hong Kong, limited liability company	Investment holding in PRC	2 ordinary shares of HK$1 each	100%
Uni-Leptics Limited	Hong Kong, limited liability company	Property holding in Hong Kong	2 ordinary shares of HK$1 each	100%
Web-Logistic (HK) Limited	Hong Kong, limited liability company	Dormant	15,600,000 ordinary shares of HK$1 each	100%
夢工場美食(廣州)有限公司*	PRC, limited liability company	Bakery chain operator and lease-holder in PRC	Registered capital of RMB100,000,000	100%
廣州市亞業地產置業有限公司*	PRC, limited liability company	Property holding in PRC	Registered capital of RMB20,000,000	100%

* *The legal name of the company is in Chinese.*
\# *The legal name of the company is in Portuguese.*

17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES (continued)

Note:

During the year, the acquisition of an additional 25% of equity interest in Convenience Retail Southern China Limited from a minority shareholder (with a net purchase consideration of RMB15,000,000) has been completed following the obtainment of all the approvals and authorisations in accordance with the laws of the People's Republic of China as announced on 17 December 2008. The difference between the consideration paid and the share of net assets acquired of HK$25,243,000 has been debited to retained earnings.

18. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group	
	2009	2008
	HK$'000	HK$'000
Unlisted investment in Macau	**1,895**	1,895

Note:

The investment represents 19.5% equity interest in Circle K Amazens Retalhistas Macau, Limited 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.

19. DEFERRED TAXATION

Movements on the deferred tax liabilities are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**9,362**	15,396
Credited to the consolidated profit and loss account *(note 8)*	**(7,224)**	(4,464)
Credited directly to equity *(note 25a)*	**–**	(1,570)
Exchange difference	**(3)**	–
At 31 December	**2,135**	9,362

19. 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:

	Group							
Deferred tax assets	**Tax losses**		**Accelerated tax depreciation**		**Others**		**Total**	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(3,339)**	(1,051)	**(2,735)**	(2,225)	**(2,305)**	(504)	**(8,379)**	(3,780)
(Credited)/charged to the consolidated profit and loss account	**(1,521)**	(2,288)	**(1,375)**	(510)	**1,323**	(231)	**(1,573)**	(3,029)
Credited directly to equity	**–**	–	**–**	–	**–**	(1,570)	**–**	(1,570)
Exchange difference	**(3)**	–	**–**	–	**–**	–	**(3)**	–
At 31 December	**(4,863)**	(3,339)	**(4,110)**	(2,735)	**(982)**	(2,305)	**(9,955)**	(8,379)

Deferred tax liabilities	**Accelerated tax depreciation**		**Fair value gain**		**Others**		**Total**	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**2,178**	2,705	**15,536**	16,417	**27**	54	**17,741**	19,176
Credited to the consolidated profit and loss account	**(245)**	(527)	**(5,382)**	(881)	**(24)**	(27)	**(5,651)**	(1,435)
At 31 December	**1,933**	2,178	**10,154**	15,536	**3**	27	**12,090**	17,741

19. DEFERRED TAXATION (continued)

	Group	
	2009	2008
	HK$'000	HK$'000
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**(8,650)**	(6,212)
Deferred tax assets to be recovered within 12 months	**(1,305)**	(2,167)
	(9,955)	(8,379)
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	**10,956**	17,075
Deferred tax liabilities to be settled within 12 months	**1,134**	666
	12,090	17,741

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	
	2009	2008
	HK$'000	HK$'000
Deferred tax assets	**(9,754)**	(8,280)
Deferred tax liabilities	**11,889**	17,642

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of subsidiaries in the PRC amounting to HK$38,821,000 (2008: HK$33,466,000) in respect of losses amounting to HK$155,366,000 (2008: HK$133,942,000), which can be carried forward against future taxable income. The tax losses can be carried forward for five years immediately after the respective accounting year.

20. 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 2009, the aging analysis of trade receivables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0-30 days	**24,102**	27,179
31-60 days	**2,676**	4,112
61-90 days	**1,431**	1,510
Over 90 days	**1,322**	2,265
	29,531	35,066

As of 31 December 2009, trade receivables of HK$1,196,000 (2008: HK$510,000) were impaired. The amount of the provision was HK$1,061,000 as of 31 December 2009 (2008: HK$469,000). 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 2009, trade receivables of HK$5,294,000 (2008: HK$7,846,000) 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	
	2009	2008
	HK$'000	HK$'000
Past due		
1 to 3 months	**4,109**	5,622
Over 3 months	**1,185**	2,224
	5,294	7,846

20. TRADE RECEIVABLES (continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
HK dollar (HK$)	**26,267**	29,351
Renminbi (RMB)	**2,190**	4,716
Patacas (MOP)	**1,074**	999
	29,531	35,066

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**469**	490
Provision for receivable impairment	**778**	123
Receivables written off	**(186)**	(144)
At 31 December	**1,061**	469

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.

21. ASSET HELD FOR SALE

	Group
	2009
	HK$'000
Property	6,892
Lease premium for land	13,645
	20,537

A factory used by Saint Honore Group in Hong Kong has been presented as held for sale following the approval of disposal by the management in December 2009. The transaction was completed on 26 February 2010 with a disposal gain of approximately HK$17,634,000.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**208,506**	181,604	**49,604**	21,892
Bank deposits	**306,782**	236,886	**203,271**	190,600
Total bank balances and cash	**515,288**	418,490	**252,875**	212,492
Non-current bank deposits	**(149,400)**	–	**(70,000)**	–
Cash and cash equivalents	**365,888**	418,490	**182,875**	212,492

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$482,028,000 (2008: HK$388,708,000).

The effective interest rate on short-term bank deposits of HK$365,888,000 (2008: HK$418,490,000) was 0.5% (2008: 1.3%) per annum, and these deposits have an average maturity of 43 days (2008: 44 days).

Non-current bank deposits represent structured deposits held at banks with over one year to maturity, of which HK$79,400,000 to be matured on 4 August 2012 is classified as financial assets at fair value through profit and loss and HK$70,000,000 to be matured on 29 October 2011 is classified as loans and receivables.

The cash and bank balances are mainly denominated in Hong Kong dollars, except for certain balances of HK$52,378,000 (2008: HK$48,619,000) which 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.

23. TRADE PAYABLES

At 31 December 2009, the aging analysis of the trade payables is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0-30 days	**209,726**	227,519
31-60 days	**120,347**	122,619
61-90 days	**58,894**	53,761
Over 90 days	**43,729**	34,543
	432,696	438,442

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

24. SHARE CAPITAL

	2009		2008	
	Shares of HK$0.10 each		Shares of HK$0.10 each	
	No. of shares	**HK$'000**	No. of shares	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	**729,915,974**	**72,992**	729,071,974	72,907
Issue of shares on exercises of share options *(note)*	**–**	**–**	844,000	85
At 31 December	**729,915,974**	**72,992**	729,915,974	72,992

Note:

During the year ended 31 December 2008, 844,000 shares (the "Shares") were allotted and issued pursuant to the exercise of share options by the qualifying participants of the Company.

Share options

(i) *Share Option Scheme*

Pursuant to the Share Option Scheme (the "Scheme") adopted by the Company on 6 January 2001, and as amended on 24 April 2002, the board of Directors may, at its discretion, grant options to any qualifying participants (including but not limited to any employee, whether full time or part time employees including any executive or non-executive Directors, of the Company or any affiliate as defined in the Scheme) entitling to subscribe for Shares representing up to a maximum of 10% of the Shares in issue as at 6 January 2001 being 65,560,000 Shares.

24. SHARE CAPITAL (continued)

Share options (continued)

(ii) Share options which are granted after 7 November 2002 and had not yet been vested on 1 January 2005 to Directors and qualifying participants in accordance with the terms of the Share Option Scheme are accounted for under HKFRS 2. Movements in the number of such share options granted, outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Number of options	**Weighted average exercise price HK$**	Number of options	Weighted average exercise price HK$
At 1 January	**18,792,000**	**3.18**	19,586,000	3.15
Granted	**920,000**	**2.04**	–	–
Lapsed	**(784,000)**	**3.14**	(388,000)	2.98
Expired	**(622,000)**	**2.47**	(78,000)	2.06
Exercised	**–**	**–**	(328,000)	1.83
At 31 December	**18,306,000**	**3.15**	18,792,000	3.18
Exercisable	**9,426,000**	**3.05**	6,188,000	2.76

During the year ended 31 December 2008, the weighted average share price at the date of share options exercised was HK$2.79. The options outstanding at 31 December 2009 and 2008 had a weighted average remaining contractual life of 2.84 years and 3.61 years respectively.

24. 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$	**2009 Number of options**	2008 Number of options
29 March 2009	2.535	**–**	342,000
6 August 2009	2.40	**–**	358,000
4 May 2010	2.86	**750,000**	768,000
14 September 2010	2.53	**1,728,000**	1,794,000
10 March 2011	2.905	**1,206,000**	1,226,000
29 August 2011	2.93	**500,000**	566,000
30 March 2012	3.00	**1,414,000**	1,454,000
3 May 2012	3.39	**3,320,000**	3,440,000
3 May 2013	3.39	**3,280,000**	3,440,000
3 May 2014	3.39	**3,280,000**	3,440,000
19 November 2012	3.46	**508,000**	524,000
19 November 2013	3.46	**700,000**	720,000
19 November 2014	3.46	**700,000**	720,000
21 December 2014	2.04	**920,000**	–
		18,306,000	18,792,000

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$0.45 (2008: nil) per option. The significant inputs into the models for the share options granted were as follows:

	2009
Expected volatility	30%
Expected life	4.5 years
Risk free rate	1.6%
Expected dividends	2%

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

25. RESERVES

(a) Group

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2008	280,035	177,087	13,433	7,652	4,276	172,212	654,695
Issue of new shares	1,397	–	–	–	–	–	1,397
Employee share option benefit	182	–	–	4,077	–	259	4,518
Actuarial losses on post employment benefit obligation							
gross	–	–	–	–	–	(9,561)	(9,561)
tax	–	–	–	–	–	1,570	1,570
Exchange differences	–	–	–	–	4,402	–	4,402
Profit attributable to shareholders of the Company	–	–	–	–	–	88,873	88,873
Dividends	–	–	–	–	–	(52,552)	(52,552)
At 31 December 2008	281,614	177,087	13,433	11,729	8,678	200,801	693,342
Representing:							
Reserves							653,197
Proposed dividend							40,145
							693,342
At 1 January 2009	281,614	177,087	13,433	11,729	8,678	200,801	693,342
Employee share option benefit	–	–	–	2,032	–	1,004	3,036
Exchange differences	–	–	–	–	(16)	–	(16)
Acquisition of additional interest in subsidiary *(note 17)*	–	–	–	–	–	(25,243)	(25,243)
Profit attributable to shareholders of the Company	–	–	–	–	–	90,449	90,449
Dividends	–	–	–	–	–	(52,554)	(52,554)
At 31 December 2009	281,614	177,087	13,433	13,761	8,662	214,457	709,014
Representing:							
Reserves							665,219
Proposed dividend							43,795
							709,014

25. 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 2008	280,035	12,792	7,652	50,938	351,417
Issue of new shares	1,397	–	–	–	1,397
Employee share option benefit	182	–	4,077	–	4,259
Profit attributable to shareholders of the Company	–	–	–	51,769	51,769
Dividends	–	–	–	(52,552)	(52,552)
At 31 December 2008	281,614	12,792	11,729	50,155	356,290
Representing:					
Reserves					316,145
Proposed dividend					40,145
					356,290
At 1 January 2009	281,614	12,792	11,729	50,155	356,290
Employee share option benefit	–	–	2,032	200	2,232
Profit attributable to shareholders of the Company	–	–	–	28,927	28,927
Dividends	–	–	–	(52,554)	(52,554)
At 31 December 2009	281,614	12,792	13,761	26,728	334,895
Representing:					
Reserves					291,100
Proposed dividend					43,795
					334,895

26. 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	
	2009	2008
	HK$'000	HK$'000
At 1 January	**22,533**	14,180
Expenses recognised in the consolidated profit and loss account		
– as shown below	**1,874**	745
Benefit paid	**(3,414)**	(1,953)
Actuarial losses recognised in equity	**–**	9,561
At 31 December	**20,993**	22,533

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

	Group	
	2009	2008
	HK$'000	HK$'000
Current service cost	**93**	190
Interest cost	**269**	555
Settlement	**1,512**	–
Total, included in employee benefit expense *(note 12)*	**1,874**	745

Of the total charge, HK$1,328,000 (2008: HK$7,000), HK$286,000 (2008: HK$317,000), HK$35,000 (2008: HK$24,000) and HK$225,000 (2008: HK$397,000) were included in cost of sales, store expenses, distribution costs and administrative expenses respectively.

26. LONG SERVICE PAYMENT LIABILITIES (continued)

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

	2009	2008
Discount rate	**1.2%**	1.2%
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%

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	Group	
	2009	2008
	HK$'000	HK$'000
Profit for the year	**90,449**	88,873
Adjustments for		
Income tax expenses	**19,094**	25,233
Interest income	**(3,354)**	(5,083)
Depreciation of owned fixed assets	**74,022**	72,612
Employee share option benefit	**3,036**	4,518
Amortisation of lease premium for land	**4,114**	4,170
Loss on disposal on fixed assets and lease premium for land	**2,177**	2,703
Long service payment costs	**1,874**	745
Fair value loss on financial assets at fair value through profit or loss	**600**	–
Foreign exchange gain on operating activities	**(48)**	(22)
	191,964	193,749
Changes in working capital		
Inventories	**(9,665)**	(7,805)
Trade receivables, rental deposits, other receivables, deposits and prepayments *(note)*	**15,922**	(43,591)
Amount due from immediate holding company	**–**	227
Trade payables, other payables and accruals	**(5,952)**	(14,170)
Long service payment liabilities	**(3,414)**	(1,953)
Cake coupons	**(1,170)**	(2,215)
	187,685	124,242

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

Cash generated from operations (continued)

Note:

In 2008, the acquisition of additional interest in subsidiary was subjected to the approval from the relevant regulatory body in the Chinese Mainland and the net purchase consideration of RMB15,000,000 (approximately HK$16,987,000) has been paid to and kept by Guangzhou Enterprise Mergers and Acquisitions Services until the completion of the transaction. Such amount was included in deposits and prepayments as at 31 December 2008. During the year, the transaction has been completed and the consideration was settled by the deposits paid.

28. COMMITMENTS

(a) Capital commitments

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

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted but not provided for	**1,609**	7,109
Authorised but not contracted for	**2,241**	12,761
	3,850	19,870

(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	
	2009	2008
	HK$'000	HK$'000
Not later than one year	**247,743**	265,360
Later than one year and not later than five years	**199,318**	282,505
Later than five years	**6,351**	11,442
	453,412	559,307

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.

29. RELATED PARTY TRANSACTIONS

The Group is controlled by Li & Fung (Retailing) Limited (incorporated in Hong Kong), which owns 51.2% of the Company's shares. The remaining 48.8% of the shares are widely held.

The 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) Immediate holding company

	Note	2009 HK$'000	2008 HK$'000
Management fee and reimbursement of office and administrative expenses	*(i)*	**–**	3,521
Rental payable	*(ii)*	**–**	287

(b) Fellow subsidiaries

	Note	2009 HK$'000	2008 HK$'000
Management fee and reimbursement of office and administrative expenses	*(i)*	**21,042**	17,597
Rental payable	*(ii)*	**5,621**	5,966
Net purchases	*(iii)*	**12,019**	8,795

(c) Key management personnel compensation

	2009 HK$'000	2008 HK$'000
Fees	**680**	700
Discretionary bonuses	**5,996**	6,167
Salaries, share options and other allowances	**10,429**	9,792
Pension costs – defined contribution scheme	**66**	72
	17,171	16,731

29. RELATED PARTY TRANSACTIONS (continued)

(d) Year-end balances with related parties

	2009 HK$'000	2008 HK$'000
Amounts due to fellow subsidiaries	**(5,082)**	(3,556)

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

(e) The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK$32,888,000 (2008: HK$25,888,000). As of 31 December 2009, the banking facilities of the subsidiaries amounting to HK$8,256,000 (2008: HK$1,817,000) were utilised.

Notes:

(i) Management fee and reimbursements payable to the immediate holding company and fellow subsidiary in respect of office and administrative expenses incurred, including certain Directors' emolument paid by the immediate holding company and the fellow subsidiary, are charged on an actual cost recovery basis.

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

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

30. ULTIMATE HOLDING COMPANY

The Directors regard King Lun Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

Five-Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the five years ended 31 December 2009.

	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**3,349,326**	3,322,665	2,917,614	2,231,217	1,995,206
Profit attributable to shareholders of the Company	**90,449**	88,873	86,867	75,054	73,578
Total assets	**1,524,591**	1,518,341	1,487,397	978,279	879,449
Total liabilities	**(742,585)**	(760,263)	(767,749)	(457,422)	(397,864)
Minority interests	**–**	8,256	7,954	8,173	2,912
Shareholders' funds	**782,006**	766,334	727,602	529,030	484,497