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: 00831

Annual Report 2011

利豐

Member of the Li & Fung Group

The Group was officially listed on the Main Board of The Stock Exchange of Hong Kong Limited on 20 June 2011 after its successful transfer from the Growth Enterprise Market.

Contents

Corporate Information

Executive Directors
Richard YEUNG Lap Bun *(Chief Executive Officer)*
PAK Chi Kin *(Chief Operating Officer)*

Non-executive Directors
Victor FUNG Kwok King+ *(Chairman)*
William FUNG Kwok Lun
Godfrey Ernest SCOTCHBROOK*
Jeremy Paul Egerton HOBBINS*

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

Group Chief Compliance Officer
Srinivasan PARTHASARATHY

Company Secretary
Maria LI Sau Ping

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Website
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Legal Advisers
Mayer Brown JSM
(as to Hong Kong Law)

Conyers Dill & Pearman, Cayman
(as to Cayman Islands Law)

Auditor
PricewaterhouseCoopers
Certified Public Accountants

Principal Banker
The Hongkong and Shanghai Banking
Corporation Limited

* *Audit Committee members*
\+ *Remuneration Committee members*

Highlights

Financial Highlights

	Change	**2011 HK$'000**	2010 HK$'000
Revenue	+11.1%	**3,972,615**	3,575,238
Financial gain on disposal of property, net of tax	N/A	**Nil**	16,486
Profit attributable to shareholders of the Company	+22.0%	**166,320**	136,359
Basic earnings per share (HK cents)	+21.5%	**22.69**	18.67
Dividend per share (HK cents)			
Final	+29.4%	**11.00**	8.50
Full year			
Basic	+42.3%	**14.80**	10.40
Special	N/A	**Nil**	2.40

Operation Highlights

- Record sales turnover and profit growth for 2011 despite increased pressure on margin
- Strong comparable store sales growth and improved business performance across all business units
- Challenging outlook for 2012 due to economic uncertainty and continued escalation of operating costs
- Strong cash position of HK$719 million without any bank borrowings

Number of Stores as of 31 December 2011

Circle K Stores	
Hong Kong	324
Guangzhou	59
Shenzhen	1
Subtotal	**384**
Franchised Circle K Stores	
Guangzhou	6
Macau	22
Zhuhai	13
Subtotal	**41**
Total number of Circle K Stores	**425**
Saint Honore Cake Shops	
Hong Kong	90
Macau	8
Guangzhou	19
Shenzhen	1
Total number of Saint Honore Cake Shops	**118**
Total number of Stores under Convenience Retail Asia	**543**

Chairman's Statement

Dr. Victor FUNG Kwok King
Chairman

Financial Overview

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), achieved turnover of HK$3,972.6 million and net profit of HK$166.3 million with a robust sales growth and a net profit increase of 11.1% and 38.7% respectively for 2011 as compared to 2010, before factoring in the gain on the disposal of a real estate property in 2010. Including this one-off gain, the Group recorded a net profit increase of 22% over 2010.

For 2011, basic earnings per share increased by 38.3%, from 16.41 HK cents to 22.69 HK cents before the one-off gain in 2010. Including the one-off gain, basic earnings per share increased by 21.5%, from 18.67 HK cents to 22.69 HK cents.

The financial position of the Group remains strong with cash and bank deposits of HK$719 million, without any bank borrowings.

Review of the Hong Kong Retail Market

For the Group's business operations in Hong Kong, 2011 posed as many challenges as opportunities.

After robust profitability and comparable store sales growth over the first six months of the year, the Group braced for significant operational challenges in the second half. These included the implementation of the new minimum wage legislation in May; escalating retail rental fueled by thriving inbound tourism, and continued price inflation of food and raw materials. Each of these represented a potential threat to the Group's operating margin.

Review of the Hong Kong Retail Market (continued)

Record-breaking tourist arrivals of close to 42 million for the year – out of which 28 million[1] were from the Chinese Mainland – drove an exponential increase in tourist spending. Locally, favourable job and income conditions led to vibrant consumer demand. As a result, retail sales in Hong Kong continued to enjoy strong double-digit monthly growth in the second half of the year, culminating in an impressive annual increase of 24.8% in value and 18.4%[2] in volume for 2011.

Even though the Group's retail operations are not direct beneficiaries of tourist spending since our primary target customers are predominantly local residents, positive consumer sentiment provided an optimum market environment for the Group's operational, marketing and promotional initiatives. Therefore the Group is able to report strong comparable store sales growth during the year.

Company Initiatives in the Hong Kong Operations

Amid an inflationary environment and rising labour cost, the Group dedicated considerable efforts to improving productivity while carefully controlling operational overhead. This was achieved through the prudent allocation of human resources at the frontline, as well as meticulous cost-saving measures including energy conservation and best practices designed to minimise waste and increase efficiency across all operations.

Since the Group has always regarded quality customer service as our most valued competitive edge, a number of quality customer service training programmes were executed throughout the year, with special focus on new employees. For the incumbent store operation team, new and aggressive career development training programmes targeting store managers were introduced. These initiatives have also become increasingly important in retaining employees by offering them long-term career opportunities with the company rather than temporary jobs, thus enhancing their level of engagement.

In addition to improving productivity and customer service, the Group also introduced a series of new innovations throughout the year. These further enhanced the role of Circle K convenience stores not only as retail outlets, but also as convenient destinations for daily chores such as utility bill payment, e-ticketing and e-voucher purchases, and the e-fulfillment service for internet shopping on taobao.com that was introduced more than a year ago.

The Group achieved significant improvement in product margin in 2011, thanks to the consistent effort by the category management team in conducting regular pricing strategy reviews and adopting innovative buying tactics to improve margin performance.

Notes:

1. *Published by the Hong Kong Tourism Board on 5 January 2012.*
2. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 2 February 2012.*

Review of the Retail Market on the Chinese Mainland

In 2011 the momentum of economic growth on the Chinese Mainland slowed somewhat, but the country still reported a rise in GDP of 9.2%[3] year on year, despite a notable drop to 8.9%[3] in the fourth quarter.

Consumer sentiment turned cautious quite perceptibly towards the end of the year as the confidence index fell to 97[4] in November from 100.5[4] in October. However, retail sales still registered double-digit growth of 17.1%[3] year on year for 2011.

The inflationary rate eased to 4.1% in December – its lowest level in the past 15 months – after peaking at 6.5% in July. The overall inflation rate for 2011 was 5.4%[5], the highest in the past four years, well above the official target of 4% and a significant jump from the 3.3%[6] reported in the previous year.

Despite the increase in disposable income as a result of the minimum wage legislation and the official effort to stimulate domestic consumption, there were indications that the sustained growth momentum of retail sales might be slowing down.

Review of the Guangzhou Operations

The Hot & In food service category of the Circle K stores in Guangzhou continued to report healthy sales growth through the constant introduction of new food and beverage items. In selected Circle K stores where the customer profile fits well with the target group of the Hot & In offerings, the service area has been further extended to take up more of the total store space, an allocation that is in line with the growing importance of the food and beverage service offering. The positive momentum of growth in this category also contributed to a double-digit comparable store sales increase as well as healthy growth in operating margin.

Following the same category management strategy as Circle K Hong Kong, the range of convenience services was extended to include e-ticketing for concerts, sports events and movies, utility bill payments, fresh flower orders, UnionPay Credit Card payments and more.

The quality customer service training programme developed in Hong Kong was re-launched in Guangzhou, with every employee from the frontline to the distribution centre participating in an official kick-off ceremony. The programme's objective is to seed and nurture an even more customer-centric service culture.

Notes:

3. *Published by the National Bureau of Statistics of China on 17 January 2012.*

4. *Published by the National Bureau of Statistics of China on 31 December 2011.*

5. *Published by the National Bureau of Statistics of China on 12 January 2012.*

6. *Published by the National Bureau of Statistics of China on 20 January 2011.*

Review of the Guangzhou Operations (continued)

With the successful implementation of these key initiatives, which combined to deliver the core values of our convenience store business model, the Group is able to report strong double-digit growth in sales turnover and healthy profit performance at the store level, setting the stage for the next round of store network expansion.

Review of the Saint Honore Cake Shop Operations

The Saint Honore Cake Shop operations reported significant improvement in business performance by achieving most of the business goals set for 2011, with robust sales turnover growth for the year for both comparable stores and new stores. Due to the impact of the minimum wage and surging food cost, slight erosion in gross profit margin was reported.

The taste, freshness and presentation of Saint Honore's cake and bakery products were further improved over the year with the dedicated effort of the chefs team and continuous service improvements by the supply chain management team to reduce delivery lead time and increase the number of deliveries. Volatile price inflation for food and raw materials was partially mitigated by smart sourcing tactics, including hedge buying and diversification of suppliers and source countries.

Corporate Governance and Sustainability

The Group is constantly reviewing its corporate governance practices under the supervision of the Board, with a total commitment to follow the strictest standards of corporate governance and business ethics. These Board reviews have established that the Group has been in full compliance with all relevant and applicable code provisions, while upholding the principles of transparency, accountability and responsibility in all its operations.

The Group is committed to supporting the 10 principles of the United Nations Global Compact – which cover human rights, labour, environmental protection and anti-corruption – and advancing the cause of sustainability globally.

The Group continued to implement a corporate sustainability strategy that includes incorporating environmental consciousness in our operations and facilities, as well as raising awareness of the importance of changing our daily habits in the office and at home to achieve a greener lifestyle.

Related activities included participating in the Earth Hour event, promoting monthly Green Day in our offices, warehouses and manufacturing centres for internal education, introducing LED lights to replace signage lights in the stores, switching from heavy oil to natural gas at the manufacturing centre, implementing paper saving initiatives company-wide and more.

In 2011 the Group was the proud recipient of the Hong Kong Outstanding Corporate Citizenship Award in the Second Hong Kong Corporate Citizenship Programme co-organised by the Hong Kong Productivity Council and the Committee on the Promotion of Civic Education. Other industry recognition during the year included the 5 Year Plus Caring Company Logo for Circle K and the Caring Company Logo for Saint Honore Cake Shop, both awarded by the Hong Kong Council of Social Services. Circle K Hong Kong was also awarded the 2011 Service Retailer of the Year for the Convenience Stores Category by the Hong Kong Retail Management Association.

Outlook for 2012

The year 2012 started with a high level of uncertainty in the global economic environment, notably the Euro Zone sovereign debt crisis and the slow, fragile economic recovery of the US. Chinese economic growth is expected to decelerate further due to the slowdown in the growth of export trade.

Due to these uncertainties, the Group will exercise even more caution in its business planning for 2012, although it has been encouraged by the satisfactory business growth achieved in 2011. The Group's key objectives for 2012 will be to sustain the growth momentum of the existing operations and to embark on new market expansions in target cities in Southern China.

In the Hong Kong operations, the Group believes that positive consumer sentiment can be sustained as long as inbound tourism from the Chinese Mainland continues to thrive and job and income conditions remain favourable.

The fact that 52.7%[7] of total Mainland arrivals are same-day visitors indicates a prevailing trend of borderless shopping behaviour that could be quite favourable for the Group's store network expansion plans across the border. Our retail brands in Hong Kong are gaining a higher level of awareness among a new target customer group from Southern China: those with high disposable income who are receptive to the Group's retailing models in Hong Kong in the format of Saint Honore Cake shops and Circle K convenience stores. This will pave the way for the opening of more Saint Honore and Circle K outlets in Shenzhen, Guangzhou and other second-tier cities in Southern China.

In Guangzhou, the Group will continue to build on the increasing popularity of the Hot & In food service – not only as our strongest competitive edge against competitive convenience store chains in the market, but also as a major contributor to sales turnover and profit margin. We will also explore opportunities to expand the Circle K and Saint Honore store networks to second-tier cities outside of Guangzhou.

In view of the growing labour shortage and increasingly high staff turnover in the retailing industry in Hong Kong and Guangzhou, the Group plans to focus on a key initiative in 2012, which is to increase the engagement level of our employees with a dedicated staff engagement programme. The objective of the programme is to nurture a sense of belonging, particularly among the newly recruited, to improve our retention rate and induce more part-time employees to work full-time with tangible and achievable career development options.

In anticipation of any possible deterioration in the global economy over the coming months, the Group will ensure a high degree of scalability and agility in all its business operations while diligently working towards the strategic goals set for the three-year period of 2011–2013.

Note:

7. *Published by the Hong Kong Tourism Board on 5 January 2012.*

Outlook for 2012 (continued)

In conclusion, I would like to take this opportunity to express my sincere appreciation to the Board of Directors, who have made significant contributions to the Group's business performance in the past year with their valuable advice and professional guidance.

I would also like to thank the management team and members of the Group in all the markets we operate for their consistent good work and dedicated efforts, which have enabled us to deliver record results for 2011.

Victor FUNG Kwok King
Chairman

Hong Kong, 7 March 2012

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 2011. The Group's turnover for the year increased to HK$3,972.6 million, representing growth of 11.1% when compared to the corresponding period in 2010.

In 2011, the turnover of the convenience store business increased by 9.5% to HK$3,155.5 million compared to 2010. This was mainly attributable to the opening of new stores and an increase in comparable convenience store sales (stores in existence throughout 2010 and 2011). Comparable convenience store sales in Hong Kong and Southern China increased by 6.8% and 15% respectively against 2010. Meanwhile, turnover for the Saint Honore Cake Shop business increased by 17% to HK$885 million year on year. This was primarily due to single-digit comparable store sales growth in Hong Kong and an increase in the number of stores in 2011.

Gross margin and other income increased from 36.5% to 36.9% of turnover for the year against 2010. The slight increase in gross margin percentage was largely attributable to effective pricing strategies and smart categories management. However, some of these gains were offset by rising raw material and labour costs during the same period.

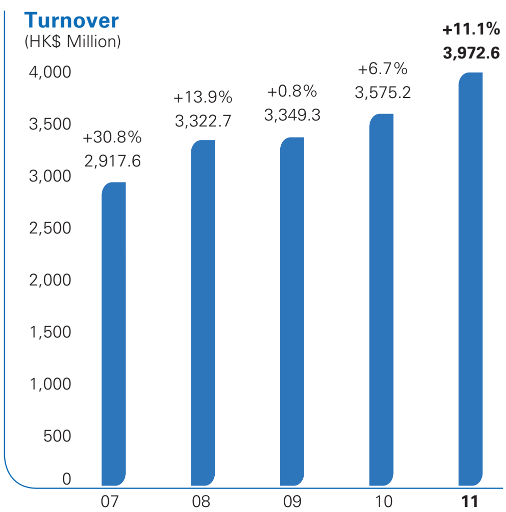
Operating expenses as a percentage of turnover remained at 32.4% for the year. Despite escalating rentals and the impact of minimum wage legislation, these expenses have been managed with the higher sales base resulting from strong comparable stores sales growth during the year.

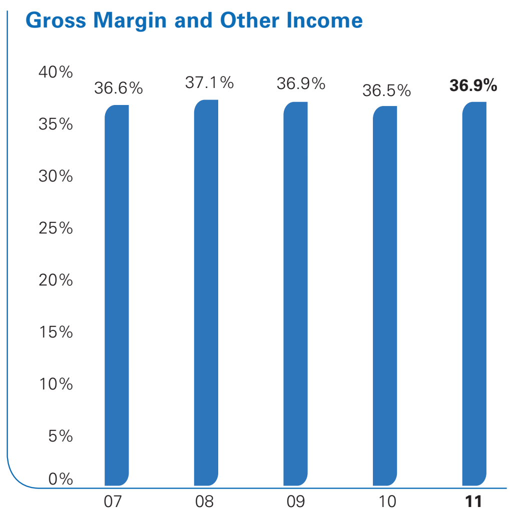
Compared to 2010, net profit attributable to shareholders, before factoring in the gain on the disposal of a real estate property in 2010, increased by 38.7% to HK$166.3 million for the year. Including this one-off gain, the Group recorded year-on-year growth on net profit attributable to shareholders of 22%.

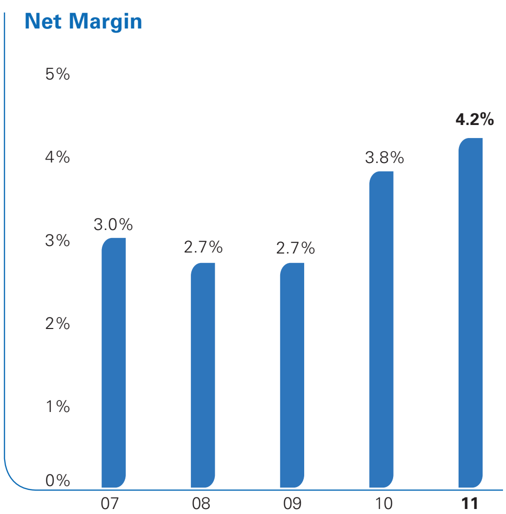
For 2011, basic earnings per share increased by 38.3%, from 16.41 HK cents to 22.69 HK cents, before factoring in the gain on the disposal of the real estate property in 2010. Including the one-off gain, basic earnings per share increased by 21.5%, from 18.67 HK cents to 22.69 HK cents.

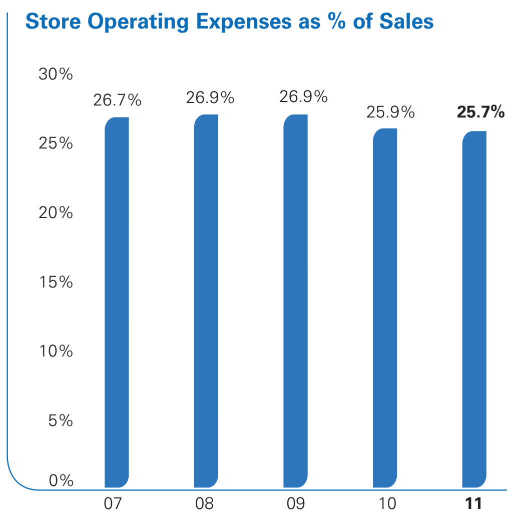
Financial Review (continued)

Most of the Group's cash and bank deposits were in HK dollars as well as Renminbi and deposited with major banks in Hong Kong. The majority of the Group's assets, liabilities, revenues and payments were held in either HK dollars or Renminbi. The Group had limited foreign exchange exposure in Renminbi as a result of its business operations on the Chinese Mainland, except for certain Renminbi bank deposits held in Hong Kong which are subject to foreign exchange risk. The Group is subject to interest rate risks on the interest income earned from bank deposits. The Group will continue its policy of placing surplus cash in HK dollar or Renminbi bank deposits, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.



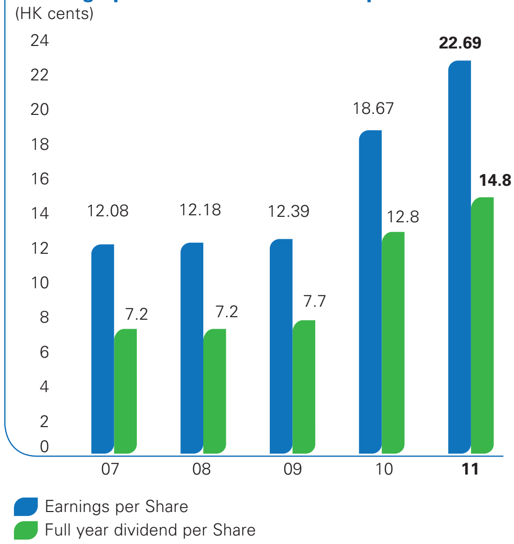




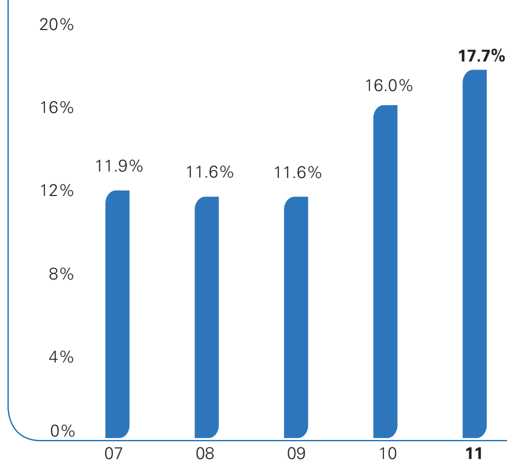


Financial Review (continued)

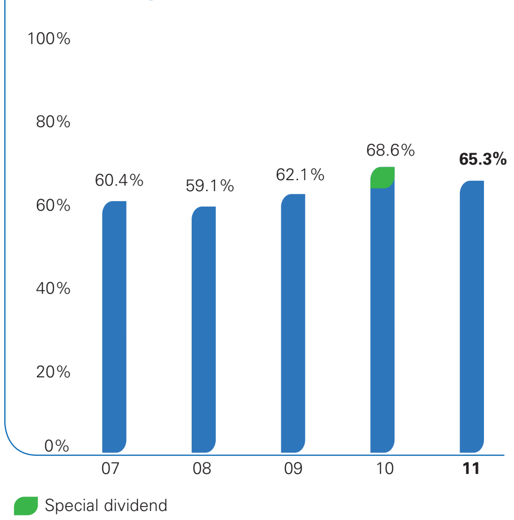
Earnings per Share and Dividend per Share



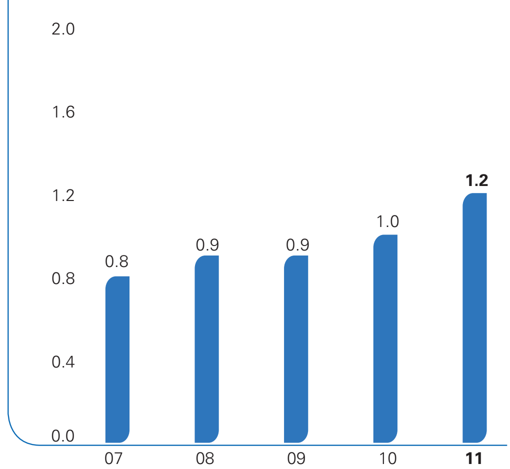
Return on Capital Employed



Dividend Payout



Current Ratio



Operations Review – Hong Kong

As of 31 December 2011, the Group operated a total of 414 company-owned-and-managed stores in Hong Kong under two brands, Circle K Convenience Store and Saint Honore Cake Shop, compared to a total of 407 stores the previous year. The critical mass of the combined number of stores and total sales turnover clearly positioned the Group as one of the leading retailing operators in Hong Kong.

Under the Circle K brand, there were 324 company-owned-and-managed convenience stores in Hong Kong at the end of 2011, compared to 318 stores at the end of 2010. During the past year, 21 new stores were opened and 15 stores were closed, for a net increase of six new stores.

The Group operated a total of 90 company-owned-and-managed shops in Hong Kong under the Saint Honore Cake Shop brand at the end of 2011, compared to 89 shops at the end of 2010. During the past year, six new cake shops were opened and five cake shops were closed.

The number of store closures for the year was a record high due to the overheated retail rental market and excessive, unrealistic demand by landlords for increases during lease renewal negotiations. The store premises relinquished by the Group were usually taken up by operators in very different categories – such as watches, jewelry, cosmetics, apparel or drugstores – whose business growth has been driven by the boom on the Chinese Mainland tourist arrivals and who enjoy profit margins that afford them higher store rentals as a percentage of sales.

In the future, the Group will explore secondary retail areas, regional malls and local transportation hubs to find suitable new store sites that are less likely to have any direct rental competition with tourist-driven categories, while still providing location convenience to our target customers.

Employees

As of 31 December 2011, the Group had a total of 6,039 employees, with 4,114 or 68%, based in Hong Kong and 1,925 or 32%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 33% of total headcount. In 2011 the Group's total staff cost was HK$680.3 million, compared to HK$595.5 million in 2010.

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

Saint Honore Cake Shop Limited was named the "Distinguished Family-Friendly Employer" in the Family-Friendly Employers Award Scheme 2011 organised by the Family Council.

Employees (continued)

The Group's greatest asset is its human resources. Therefore, employee engagement was one of the Group's key management initiatives in 2011. The focus was primarily on how to become the most preferred employer by being a caring company that provides ample career development opportunities and constantly makes efforts to improve workplace relationships.

Other projects to enhance the engagement level of employees included the launch of the Activity Organising Board, Employee Assistance Programme, Birthday Cake Coupon Programme, and Leadership and Career Development Programme.

A new initiative called "Happier Self, Happier Others" was launched to encourage Circle K store managers to assume the part of role model to make sure that their operations colleagues work happily together as a team.

The Group also strived to create an environment that keeps employees highly motivated by encouraging them to maintain a healthy work-life balance. A wide range of family activities was organised for staff and their families to enjoy quality time together. The Group's consistent efforts in these aspects were duly recognised by the newly launched Family-Friendly Employers Award Scheme 2011, organised by the Family Council. Saint Honore Cake Shop Limited was a winner of the "Distinguished Family-Friendly Employers" award, while Circle K Convenience Stores (HK) Limited won the "Family-Friendly Employers" award.

Marketing and Promotion

The Group continued to upgrade and fine-tune the mechanics and execution of its premium promotions, which were conducted at regular intervals during the year to generate incremental sales. These promotions were not only popular among loyal Circle K customers, but effective means to motivate brand-switching among multi-outlet convenience store users.

In September 2011 the Group launched the "iLike" card, the first co-branded convenience store Visa payWave-enabled credit card, devised in partnership with AEON. This contactless credit card payment service is designed specifically for convenience stores to facilitate small value transactions, making it even faster and more convenient to shop at Circle K stores. The card can also be used in other retail outlets where the payWave symbol is displayed at the point of sale. With the installation of the Visa payWave card reader at every Circle K store during the launch, the Group is now able to accept Visa payWave cards at all Circle K stores in Hong Kong.

Circle K Hong Kong is the first convenience store chain in Hong Kong to launch a co-branded contactless credit card in order to provide more shopping convenience.

Marketing and Promotion (continued)

As part of its marketing activities for the year, the Group also experimented with the deployment of digital media for some of its key promotions, such as the "iButterfly" mobile marketing promotion for Halloween. Mobile phone users who managed to catch "phantom" butterflies with their smart phone app could have a chance to win overseas trips and other attractive prizes.

The Circle K Facebook fan page was launched more than a year ago. Since its inception, it has been growing remarkably in terms of popularity. Today the total number of registered fans already exceeds 120,000, making Circle K's one of the largest fan groups for international brands in Hong Kong.

Circle K Hong Kong launched the OK Fun "Aliens & Friends Fun Mug" premium promotion featuring licenced characters from Toy Story 3. The promotion generated incremental daily store sales by encouraging brand switching among multi-outlet convenience store users.

Customer Service Excellence

The Group's dedicated efforts in nurturing quality customer service were duly recognised in a series of industry awards. These included the Hong Kong Retail Management Association's 2011 Service Retailer of the Year Award for the Convenience Stores Category and the Service & Courtesy Award 2011 for the Supervisory Level in the Convenience Stores Category. The store manager of the Circle K store at Hong Kong International Airport (HKIA), Ms. Hung Mui Mui, also won an individual award in HKIA's 10th Customer Service Excellence Programme.

In the last quarter of 2011, a new service training format was introduced that sent zone managers on field trips to coach store managers and provide feedback for further improvements. The Group intensified its product knowledge and job skill training to prepare the operations teams for various new convenience services. A new energy-saving programme was also launched in 2011, raising the level of environmental consciousness considerably among the operations teams.

Circle K Hong Kong was awarded the 2011 Service Retailer of the Year for the Convenience Stores Category by the Hong Kong Retail Management Association.

The store manager of the Circle K store at the Hong Kong International Airport (HKIA), Ms. Hung Mui Mui, won an individual award in the HKIA's 10th Customer Service Excellence Programme.

Customer Service Excellence (continued)

In order to boost morale and support the "Happier Self, Happier Others" concept, the Group set out to raise the level of job satisfaction among the frontline operations team by fostering a caring attitude and congenial working relationships among team members. Part of this included scheduled store visits during major festivals by the management team, who came bearing appreciative gifts and greetings during all hours of the day, even the late night shift.

Category Management

One of the category management team's key challenges in the second half of 2011 was the September launch of more free newspapers, which not only resulted in an oversupply of dailies but also directly affected demand for paid titles. At the same time, it also triggered retaliatory price reductions among certain leading newspapers.

The Group's newspaper sales took an immediate hit as a result of these new market developments. In order to compensate for the loss, the category management team devoted considerable effort to expanding the magazine category and introducing more popular book titles such as travel guides and books on Chinese fortune telling.

One of the highlights for the year was the strong sales performance of the packaged beverage category. This was partly due to the favourable weather conditions during the summer and, more importantly, the closure of Taiwanese bubble tea outlets due to health concerns regarding DEHP. Other categories reported robust sales growth.

As an experimental project to add value and excitement, Circle K Hong Kong partnered with Yamoto Japan to launch a pre-order service for Japanese festive items for Christmas and Chinese New Year. Other new convenience services introduced in the second half of 2011 included the Ta-Q-Bin courier service in 200 selected Circle K stores as well as an e-ticketing service for Ngong Ping 360 and popular exhibitions like the annual book and comic shows.

A broad range of innovative convenience services were introduced by Circle K Hong Kong to enhance its role as a neighbourhood convenience service provider including utility bill payment, e-ticketing, e-voucher and e-fulfillment service for internet shopping on taobao.com.

Supply Chain Management and Logistics

In order to further upgrade its services in all the markets where the Group operates, the supply chain management and logistics team focused on exploring the "go regional" strategy in 2011. This entails aligning the daily practices, operating standards and routing systems of Hong Kong, Guangzhou, Shenzhen and Macau. The initiative is designed to pave the way for the future development of the Group's supply chain management services and better serve the needs of the various operations in these markets.

Operations Review – Guangzhou

In Guangzhou, there are currently about 1,000 convenience stores for a population of about 13 million, indicating that there are about 13,000 people per store versus about 5,000 people per store in Hong Kong. The relatively lower store density of Guangzhou certainly offers more room for the Group's store network expansion.

With about 65 stores, the Group's operations in Guangzhou enjoy a high degree of awareness as one of the top brands in the market, according to a consumer research study commissioned by the Group. This is due to its early market entry more than 10 years ago and very distinctive brand image as the international convenience store brand from Hong Kong with strong differentiation among the competition.

Given the increasing popularity of the Hot & In food services due to their unique Hong Kong-style food offerings, the Circle K operations in Guangzhou were able to generate double-digit comparable store sales growth for 2011, as well as a higher profit margin for the Hot & In food service category.

Circle K Guangzhou launched a fan page on Weibo in November to establish an online communication channel with customers. Also, a recently launched website enables Circle K customers to register as VIP customers for the Hot & In food service and check their bonus point account regularly.

Operations Review – Saint Honore Cake Shop

The Saint Honore operations reported healthy double-digit sales growth for the year. Continuous improvements in quality, taste and presentation, the availability of fresher products due to supply chain management service upgrades, and the constant introduction of new, better-quality products to enhance the range all helped drive these impressive results.

Due to the impacts of the minimum wage legislation, surging food costs and significant rental increases, gross profit suffered a slight decrease of 0.7%. However, overall profit before tax still reported a strong increase due to strong sales performance, vigorous control of operating expenses and the introduction of new products with improved margins.

In order to enhance awareness and advertising effectiveness, the Group engaged the service of Moses Chan, a leading television artist who enjoys a high degree of popularity among housewives, to be the brand's spokesperson. Since the launch of the new thematic television campaign featuring Chan, customer feedback on the advertising message and brand recall has been very encouraging.

Saint Honore Cake Shop new DIY birthday cake was elected one of Hong Kong MTR Shops' Top Ten Chic Products according to an online opinion poll. It was also nominated the "Touch Brand" by East Touch and "Super Brand" for the Bakery Category by TVB Weekly.

In Hong Kong and Macau, the Group finished 2011 with 98 Saint Honore Cake Shops, after opening seven stores and closing five stores during the year. In Guangzhou the Group opened six Saint Honore Cake Shops and closed three, finishing the year with 19 shops for a net increase of three. In 2011 the Group also opened its first Saint Honore Cake Shop in Shenzhen.

Saint Honore Cake Shop received positive customer feedback for the new thematic television campaign featuring popular TV artist Moses Chan, the new spokesperson for the brand.

Saint Honore Cake Shop's "Do-it-yourself" birthday cake was elected one of the Top Ten Chic Products of Hong Kong MTR Shops according to an online opinion poll.

Corporate Social Responsibility

The Group participated in "Santa's Sports Day" on 6 November, an annual charity event of Operation Santa Claus 2011, which was jointly organised by South China Morning Post and Radio Television Hong Kong to raise funds for local charities during the festive season. In August 2011 volunteer workers from the Group also helped restore stilt houses for the elderly in Tai O in a community development project organised by Habitat for Humanity.

For the past five years, Circle K Hong Kong has partnered with Heifer International Hong Kong to sponsor their various charity projects and participate in its annual fundraising event, "Race to Feed". This year, Circle K Hong Kong won three awards for the first runner-up team, the top fundraising team and the top fundraising individual. Colleagues from Circle K, including the management team, and their families all attended the event to show their support for this worthy cause.

Circle K Hong Kong was the winner of the first runner-up, the top fundraising team and the top fundraising individual in the annual fundraising event "Race to Feed 2011" organised by Heifer International Hong Kong.

For Valentine's Day, all the Circle K stores in Hong Kong offered a pre-order service for rose bouquets and knitted glove flowers made by social enterprises. Circle K Hong Kong also contributed to the Helping Hand charity organisation by participating in their Cookie Charity Sale throughout 2011.

In December, Saint Honore Cake Shop donated to Po Leung Kuk's "Eat Less for the Needy" campaign by pledging one dollar for each "like" on its Facebook fan page.

In Guangzhou, Circle K Convenience Store and Saint Honore Cake Shop teamed up to donate 1,000 boxes of Mid-Autumn Festival moon cakes, valued at over RMB200,000, to 1,000 needy families in a small community in the Yue Xiu District during a government-sponsored regional event.

Circle K Convenience Store and Saint Honore Cake Shop in Guangzhou teamed up to donate 1,000 boxes of Mid-Autumn Festival moon cakes to 1,000 needy families in a small community in the Yue Xiu District in Guangzhou.

Future Prospects

The Group is encouraged by the notable improvements made across its business operations last year. Therefore, we will continue implementing the key initiatives that made these results possible in 2012. These include maintaining a high standard of customer service, exercising vigilant control of operating expenses, enhancing category management for margin optimisation, constantly introducing new products and services, and continuously upgrading our house brands as well as the presentation and range of our private labels.

Despite ongoing turbulence in the global economic environment – which will eventually affect consumer confidence in the markets where the Group operates – it is anticipated that the growth of the retail market in Hong Kong might still be sustainable in the short term as long as visitor arrival from the Chinese Mainland continues to rise. In Southern China, consumer sentiment and the impact of any new government policy designed to stimulate domestic consumption might be less predictable. However, the good news is that the Consumer Price Index seemed to have peaked in mid-2011, as a stabilising trend was detected in the fourth quarter of the year.

On the other hand, if external market conditions become unfavourable, we shall prepare our management and operation teams to respond quickly in order to minimise any negative impact on our businesses. Even with price inflation being less of a threat in the coming months, controlling operating costs and protecting margins remain the Group's key challenges for 2012. The increasing labour shortage in the human resource market, the ripple effect of the minimum wage legislation, the spiraling of retail rental and the inevitable increase in energy costs are market realities the Group faces across all operations.

In 2012, the Group will adopt a more aggressive stance in the following aspects: opening new stores, renovating existing stores to build brand image across all markets, and expanding and enhancing the Hot & In food services.

In addition to Guangzhou and its peripheral cities like Huadu, Panyu and Foshan, the Group will also be targeting Shenzhen in order to leverage the "borderless" shopping trend, i.e. the phenomenon of more and more Shenzhen residents doing their shopping in Hong Kong during weekends and long holidays, therefore becoming more familiar with Hong Kong retail brands and their product offerings.

Building on the current strength of the Hot & In food services in Guangzhou, the Group will treat the sourcing of innovative products and the further upgrade of the quality and range of offerings as top priorities for the operations team.

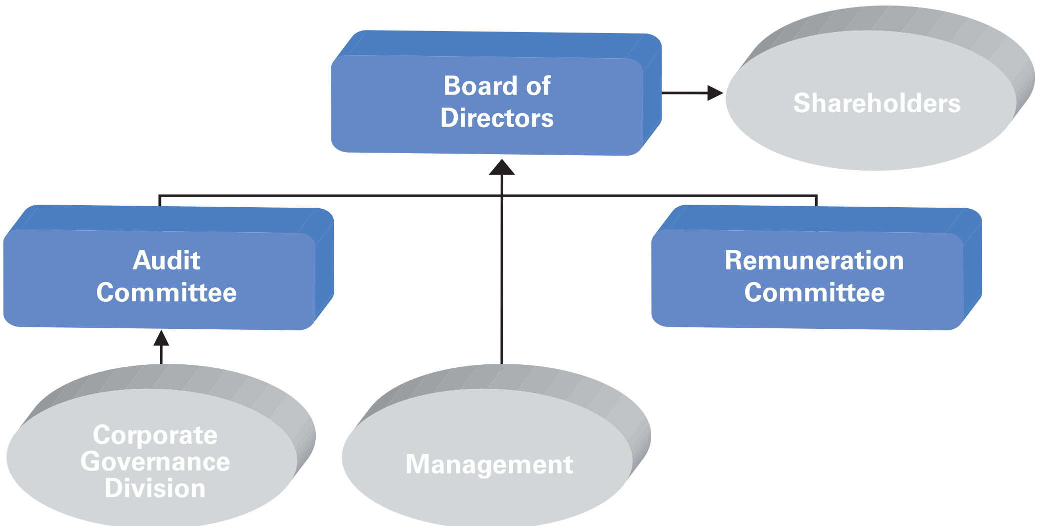
The Group will also continue to be on the lookout for any merger or acquisition opportunities in order to achieve breakthroughs in market presence and economy of scale.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 7 March 2012

Corporate Governance Report

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



The Board

Board Composition

The Board is structured to ensure it is of a high calibre and has a balance of skills, experience and knowledge desirable for effective leadership of the Group. As at 31 December 2011, the Board comprised the Non-executive Chairman, two Executive Directors and six Non-executive Directors (of whom three are independent). Biographical details and relevant relationships of the Board members are set out in the Directors and Senior Management Profile section on pages 36 to 40.

Chairman and Chief Executive Officer

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

The Board (continued)

Roles and Responsibilities of the Board and Delegation to Management

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

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

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

The Board (continued)

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

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

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

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

Board and Committee Meetings

The Board held four meetings in 2011 (with an average attendance rate of directors of about 89%). The Chairman holds at least one meeting annually with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

The dates of the 2011 Board meetings and committee meetings were determined in the third quarter of 2010 to facilitate maximum attendance of Directors. Amendments to this schedule were notified to the Directors within a reasonable time before a regular Board meeting/committee meeting.

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

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

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

The Board (continued)

Board and Committee Meetings (continued)

Details of the attendance at Board and committee meetings held in 2011 are set out in the following table:

	No. of meetings **attended**/held		
	Board	**Audit Committee**	**Remuneration Committee**
Non-executive Directors:			
Victor FUNG Kwok King *(Group Chairman and Chairman of Remuneration Committee)*	**4**/4	–	**1**/1
William FUNG Kwok Lun	**3**/4	–	–
Godfrey Ernest SCOTCHBROOK	**4**/4	**4**/4	–
Jeremy Paul Egerton HOBBINS	**4**/4	**4**/4	–
Louisa WONG Yuk Nor *(Retired on 5 May 2011)*	**2**/2	–	–
Independent Non-executive Directors:			
Raymond CH'IEN Kuo Fung *(Chairman of Audit Committee)*	**3**/4	**4**/4	**1**/1
Malcolm AU Man Chung	**3**/4	**3**/4	**0**/1
Anthony LO Kai Yiu	**3**/4	**3**/4	–
Executive Directors:			
Richard YEUNG Lap Bun *(Chief Executive Officer)*	**4**/4	–	–
PAK Chi Kin *(Chief Operating Officer)* *(Appointed on 10 March 2011)*	**3**/3	–	–
Group Chief Compliance Officer:			
James SIU Kai Lau*	**4**/4+	**4**/4+	**1**/1+
Average Attendance Rate of Directors	about 89%	90%	about 67%
Dates of Meeting	9 March 2011 5 May 2011 27 July 2011 14 December 2011	9 March 2011 5 May 2011 27 July 2011 14 December 2011	9 March 2011

* *Mr. James Siu Kai Lau stepped down from his role as the Group Chief Compliance Officer with effect from 1 January 2012. Mr. Srinivasan Parthasarathy took over the role as from the said date*

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

The Board (continued)

Independence of Non-executive Directors

The Company has received from each Independent Non-executive Director an annual written confirmation of his independence in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors to be independent during the year ended 31 December 2011.

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

Appointment and Re-appointment of Directors

The 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, the new appointee should have appropriate professional knowledge and industry experience, character, integrity, personal skills and expertise and be able to contribute sufficient time and attention to the affairs of the Company for the proper functioning of the Board.

In 2011, the Board reviewed its composition, the nomination of Directors to fill Board vacancies, and the retirement of Directors by rotation. The changes in Board members during the year ended 31 December 2011 were as follows:

- Mr. Pak Chi Kin, the Chief Operating Officer of the Group, was appointed as an Executive Director with effect from 10 March 2011.

- Ms. Louisa Wong Yuk Nor retired by rotation and did not offer herself for re-election as a Non-executive Director at the Annual General Meeting (the "AGM") of the Company held on 5 May 2011.

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 AGM at least once every three years pursuant to the Company's Articles of Association. This is also in accordance with the Code on Corporate Governance Practices contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (the "GEM Listing Rules") and, where appropriate, the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules subsequent to the transfer of listing of the Company's shares from GEM to the Main Board on 20 June 2011 (the "Transfer").

In this report, the "CG Code" refers to Appendix 15 of the GEM Listing Rules for the period from 1 January 2011 to 19 June 2011, and to Appendix 14 of the Listing Rules for the period from 20 June 2011 to 31 December 2011.

The Board (continued)

Potential Conflict of Interest

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

Other Matters Concerning Directors

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

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 2011.

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

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

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

Independent Reporting of Corporate Compliance Function

The Board recognises the importance of independent reporting of the corporate compliance function. The Group Chief Compliance Officer, as appointed by the Board, attended all Board and committee meetings in 2011 to advise on corporate governance matters covering risk management, internal controls and compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

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 CG Code. To further reinforce independence, both committees have been structured to include a majority of Independent Non-executive Directors.

Both committees are provided with sufficient resources to discharge their duties and have access to independent professional advice if considered necessary at the Company's expense.

Audit Committee

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

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

The Audit Committee met four times in 2011 (with an average attendance rate of 90%) to consider and review with senior management, the Company's Corporate Governance Division ("CGD") and external auditor various matters as set out in the Audit Committee's terms of reference, which included the following:

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

Board Committees (continued)

Audit Committee (continued)

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

Under the Group's Whistleblowing Policy, employees can report any concern, including actual or potential misconduct, possible impropriety or fraud in financial reporting, accounting and internal control matters, to either senior management or the Group Chief Compliance Officer. Any shareholders or stakeholders can also report similar concerns by writing in confidence to the Group Chief Compliance Officer at the Company's principal place of business in Hong Kong. No incident of fraud or misconduct that has material effect on the Company's financial statements and overall operations was reported by employees, shareholders or stakeholders in 2011.

External Auditor's Independence

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

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

For the year ended 31 December 2011, the following fees paid or payable to the external auditor have been endorsed by the Audit Committee:

	Fees HK$'000
Audit services	1,920
Non-audit services (including review of interim financial statements and tax services)	682
Total	2,602

Prior to the commencement of the audit of the Company's financial statements for the year ended 31 December 2011, the Audit Committee received written confirmation from the external auditor on their independence as required by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Audit Committee is satisfied with the review of audit fees and scope, effectiveness of the audit process, independence and objectivity of the external auditor, PricewaterhouseCoopers ("PwC"), and has recommended to the Board the re-appointment of PwC as the Company's external auditor for the financial year ending 31 December 2012 at the forthcoming AGM.

Board Committees (continued)

Remuneration Committee

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

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

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

The duties of the Remuneration Committee include:

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

The Remuneration Committee met once in 2011 (with an attendance rate of about 67%) to review the fees to Executive Directors. Written resolutions were also signed by members of the Remuneration Committee during the year in relation to the allotment of shares upon exercise of share options by the employees.

Remuneration Policy for Executive Directors

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

Remuneration Policy for Non-executive Directors

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

Details of Directors' emoluments of the Company are set out in note 14 to the consolidated financial statements on pages 91 to 93.

Code of Conduct and Business Ethics

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

Directors' and Relevant Employees' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules and, where appropriate, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") subsequent to the Transfer. 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 written guidelines on no less exacting terms than those set out in the GEM Listing Rules and, where appropriate, the Model Code subsequent to the Transfer. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2011.

Directors' Interests

Details of Directors' interests in the shares of the Company and its associated corporations are set out in the Directors' Report on pages 51 to 52.

Directors' and Auditor's Responsibilities for Financial Statements

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor to the shareholders are set out on pages 56 and 57 respectively.

Internal Control and Risk Management

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

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

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

Internal Control and Risk Management (continued)

Control Environment

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

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

Financial Risk Management

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

The Group adopts a principle of minimising financial risks. Details of the Group's financial risk management (encompassing foreign exchange risk, credit risk, liquidity risk and interest rate risk) are set out in note 3 to the consolidated financial statements on pages 78 to 80.

Operational Control Management

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

Regulatory Compliance Control Management

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

Internal and External Auditors

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

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

Internal Control and Risk Management (continued)

Internal and External Auditors (continued)

As part of the annual review of the effectiveness of the Group's system of internal controls, CGD independently reviews the Internal Control Self-Assessment Checklist completed by management, and assesses the adequacy and effectiveness of the internal controls implemented. CGD's review also considers the adequacy of resources, 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, PwC, performs independent statutory audit on the Group's financial statements. As part of the audit engagement, PwC also reports to the Audit Committee any significant deficiencies in the Group's internal control system which might come to their attention during the course of audit. PwC noted no significant internal control deficiencies in their audit for the financial year ended 31 December 2011.

Overall Assessment

Based on the respective assessments made by senior management and CGD, and also taking into account the results of the work conducted by the external auditor for the purpose of their audit, the Audit Committee considered that for the year ended 31 December 2011:

- 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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2011.

Shareholders' Rights

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

Shareholders' Rights (continued)

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

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

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

Investor Relations and Communication

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

The Company maintains a corporate website (www.cr-asia.com) as one of the channels to promote effective corporate communication with the investors and the general public. The website is used to disseminate company announcements, shareholder information and other relevant financial and non-financial information in an electronic format on a timely basis. The website is hyperlinked to the Li & Fung Group website for investors' ease of reference and an overview of the Li & Fung Group's business activities.

The Board confirmed that there were no significant changes in the Company's Articles of Association during 2011 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 2011, are set out in the Information for Investors section on page 41.

Annual General Meeting

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

The most recent AGM of the Company was held at the Auditorium, 1st Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong on 5 May 2011 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. A representative of the external auditor (the engagement partner) also attended the AGM to answer any question from the shareholders relating to their audit of the Company's financial statements.

Investor Relations and Communication (continued)

Annual General Meeting (continued)

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

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

Ordinary resolutions passed	Percentage of votes cast
• 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 2010	100%
• To declare a final dividend of 8.5 HK cents per share	100%
• To re-elect Dr. Victor Fung Kwok King, Mr. Malcolm Au Man Chung and Mr. Pak Chi Kin as Directors	99.99% in respect of each individual resolution
• To re-appoint PwC as Auditor and to authorise the Board to fix their remuneration	99.99%
• 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	77.89%
• 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	77.89%

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 (as the Company was then listed on GEM) on the business day following the AGM.

Directors and Senior Management Profile

Executive Directors

Richard YEUNG Lap Bun – *Chief Executive Officer*

Mr. Yeung, aged 55, has over 20 years of experience in general management, food distribution and supply chain management. He was appointed a Director of the Company on 1 November 2000 and is responsible for overseeing the Group's operations, marketing, logistics and supply chain management, and is actively involved in new business development in the Chinese Mainland. Prior to joining the Group in October 1998, he spent about ten years in senior positions at HAVI Food Services Group, managing the supply chain of McDonald's Restaurants in various countries in Asia. Mr. Yeung graduated from the University of Hawaii with a Bachelor of Business Administration degree. Mr. Yeung also holds a Master's degree in Business Administration from the California State University of Los Angeles and is a Certified Public Accountant of the American Institute of Certified Public Accountants. He is also a director of Li & Fung (Retailing) Limited, a substantial shareholder of the Company.

PAK Chi Kin – *Chief Operating Officer*

Mr. Pak, aged 53, has over 20 years of experience in the retailing and food distribution business and was appointed as Director of the Company on 10 March 2011. He is currently the Chief Operating Officer of the Group responsible for overseeing the Circle K operations of Hong Kong and providing strategic guidance, leadership support and advice to the operations of the Group jointly with the Chief Executive Officer. Prior to joining the Group in May 1999, Mr. Pak was the senior manager at HAVI Food Services Group in charge of the distribution of food products and logistics services to McDonald's Restaurants. Mr. Pak graduated from the University of Hong Kong with a Bachelor's degree of Science in Engineering, and also holds a Master's degree of Science in Engineering from the University of Hong Kong. Mr. Pak is a member of the executive committee of the Hong Kong Retail Management Association and also a member of the Retail Industry Training Advisory Committee – Qualifications Framework.

Non-executive Directors

Victor FUNG Kwok King – *Chairman*

Dr. Fung, aged 66, brother of Dr. William Fung Kwok Lun, has been a Non-executive Director of the Company since 3 January 2001. Dr. Fung is Group Chairman of the Li & Fung group of companies including publicly listed Li & Fung Limited, Trinity Limited 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 (Hong Kong) and Baosteel Group Corporation (People's Republic of China). He has also been appointed as independent non-executive director of Koç Holding A.Ş. (Turkey) and Chow Tai Fook Jewellery Group Limited (Hong Kong) since April and November 2011 respectively. Dr. Fung is Founding Chairman of the Fung Global Institute launched in August 2011, an independent and non-profit think-tank that generates and disseminates innovative thinking and business-relevant research on global issues from Asian perspectives. He is also Honorary Chairman of the International Chamber of Commerce following two years (2008 – 2010) as its Chairman. In public service, Dr. Fung is Chairman of the Greater Pearl River Delta Business Council, a member of the Chinese People's Political Consultative Conference, a Vice Chairman of China Centre for International Economic Exchanges and a member of the Commission on Strategic Development of the Hong Kong Government. Dr. Fung was Chairman of the Hong Kong Trade Development Council (1991 – 2000), the Hong Kong representative on the APEC Business Advisory Council (1996 – 2003), Chairman of the Hong Kong Airport Authority (1999 – 2008), Chairman of The Council of The Hong Kong University (2001 – 2009) and Chairman of the Hong Kong – Japan Business Co-operation Committee (2004 – 2010). In 2003 and 2010, the Hong Kong Government awarded Dr. Fung the Gold Bauhinia Star and the Grand Bauhinia Medal respectively for his distinguished service to the community. Dr. Fung resigned as director of Integrated Distribution Services Group Limited (a former listed company) in April 2011.

William FUNG Kwok Lun

Dr. Fung, SBS, OBE, JP, aged 63, brother of Dr. Victor Fung Kwok King, is the Executive Deputy Chairman of Li & Fung Limited and a non-executive director of Trinity Limited, both of the Li & Fung group. Dr. Fung has been a Non-executive Director of the Company since 3 January 2001 and is also a director of the substantial shareholders of the Company, King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Retailing) Limited. He is a director of the Fung Global Institute, an independent and non-profit think-tank that generates and disseminates innovative thinking and business-relevant research on global issues from Asian perspectives. Dr. Fung has held key positions at major trade and business organisations. He is the past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation Council. He has been awarded the Silver Bauhinia Star by the Hong Kong Government in 2008. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and holds a Master's degree in Business Administration from the Harvard Graduate School of Business. He was awarded the degree of Doctor of Business Administration, honoris causa by the Hong Kong University of Science and Technology and by the Hong Kong Polytechnic University. Currently, Dr. Fung is an independent non-executive director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited, and is also an independent director of Singapore Airlines Limited of Singapore. Formerly, Dr. Fung was a director of HSBC Holdings plc of the United Kingdom from May 1998 to May 2010, and a non-executive director of Integrated Distribution Services Group Limited (which was privatised in October 2010) from August 2004 to April 2011.

Non-executive Directors (continued)

Godfrey Ernest SCOTCHBROOK

Mr. Scotchbrook, aged 65, prior to re-designation as Non-executive Director of the Company on 3 August 2005, was an Independent Non-executive Director since November 2002. Mr. Scotchbrook presently serves as an independent director of Del Monte Pacific Limited (a company engaged in the production, marketing and distribution of premium branded food and beverage products) and a non-executive director of Boustead Singapore Limited (a company engaged in engineering services and geo-spatial technology) in Singapore. Mr. Scotchbrook was a founder of Scotchbrook Communications Ltd., a firm specialising in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance. He is a Fellow of the Hong Kong Management Association and also of the British Chartered Institute of Public Relations.

Jeremy Paul Egerton HOBBINS

Mr. Hobbins, aged 64, was appointed a Non-executive Director of the Company on 29 October 2004. Mr. Hobbins is also a director of various companies within the Li & Fung group including Li & Fung (1937) Limited (a substantial shareholder of the Company). He was also a director of Trinity Limited from December 2006 to June 2011 and the formerly listed Integrated Distribution Services Group Limited (which was privatised in October 2010) from October 2003 to April 2011. Mr. 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 has held a number of management positions in a variety of companies including Chief Executive of Inchcape Marketing Services – Asia Pacific, which was listed in Singapore, Chief Executive of Inchcape Buying Services based in Hong Kong, President of the Campbell Soup Company, United Kingdom, and President of Ault Foods, Canada. He has also held a number of senior management positions in Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes where he started his career as a commercial apprentice working in brand management.

Independent Non-executive Directors

Raymond CH'IEN Kuo Fung

Dr. Ch'ien, aged 60, has been an Independent Non-executive Director of the Company since 3 January 2001. Dr. Ch'ien is Chairman of MTR Corporation Limited, Hang Seng Bank Limited and China.com Inc. Dr. Ch'ien also serves on the boards of The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Mercantile Exchange Limited, The Wharf (Holdings) Limited, Swiss Reinsurance Company Limited and China Resources Power Holdings Company Limited. Formerly, Dr. Ch'ien was director of HSBC Holdings plc, VTech Holdings Limited and Inchcape plc, and Chairman of CDC Corporation. In public service, Dr. Ch'ien is past Chairman of the Hong Kong/European Union Business Cooperation Committee (retired on 31 January 2012), an honorary President and past Chairman of the Federation of Hong Kong Industries and a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference since 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 Hong Kong 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.

Independent Non-executive Directors (continued)

Malcolm AU Man Chung

Mr. Au, aged 62, has been an Independent Non-executive Director of the Company since 3 January 2001. Mr. Au holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, the United States of America and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also 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 63, has been an Independent Non-executive Director of the Company since 3 August 2005. Mr. Lo is Chairman of Shanghai Century Capital Limited and has over 30 years of experience in banking, finance and investments. Mr. Lo also serves as an independent non-executive director of Hong Kong listed Playmates Holdings Limited, Tristate Holdings Limited, IDT International Limited and Lam Soon (Hong Kong) Limited. He is also an independent non-executive director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange, and Mecox Lane Limited, a company listed on Nasdaq in October 2010. Mr. Lo was former Chairman and Co-Chief Executive Officer of Shanghai Century Acquisition Corporation (a company formerly listed on the American Stock Exchange). Mr. Lo is qualified as a Chartered Accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants.

Group Chief Compliance Officer

Srinivasan PARTHASARATHY

Mr. Parthasarathy, aged 54, was appointed as the Group Chief Compliance Officer of the Company in January 2012. He is also the Group Chief Compliance Officer of Li & Fung (1937) Limited, a substantial shareholder of the Company and of the Li & Fung group of companies including Li & Fung Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. He has 30 years of experience and has held various financial and commercial positions with the Li & Fung group since 1999, and the Inchcape Group before that, in Hong Kong, Singapore, the United Kingdom and the Middle East. He is a Commerce Graduate of Bombay University and qualified as a Chartered Accountant in India, securing fourth position in the All India Merit Rankings. He is also a Fellow Member of the Chartered Institute of Management Accountants, United Kingdom.

Senior Management

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

Mrs. Chan, aged 49, has over 20 years of experience in the food and beverage and retail chain industry. She is currently responsible for the Saint Honore operations in Hong Kong, Macau and Shenzhen overseeing marketing and category, retail operations, products and site development management. She also took up the advisory role for the Group's cake shop operation in Guangzhou. Mrs. Chan holds a Master degree in Business Administration jointly conferred by the J.L. Kellogg Graduate School of Management, Northwestern University in the United States and the Hong Kong University of Science and Technology. She also holds a Bachelor degree in Administrative Studies from the Trent University in Canada. Mrs. Chan joined Saint Honore group in 1986 and was promoted to the position of Managing Director in 1996.

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

Mr. Kan, aged 60, has over 30 years of experience in manufacturing and logistics management with multinationals and local companies in Hong Kong and Southern China. Previously the General Manager of Convenience Retail Southern China, he was transferred to the position of Managing Director of Saint Honore Food Manufacturing in March 2007 and is currently responsible for managing the manufacturing functions of Saint Honore group including the factories in Hong Kong, Shenzhen, Guangzhou and Macau. Prior to joining the Group in February 2000, he was the General Manager of HAVI Food Services Group and IDS Logistics (HK) Limited, and was responsible for providing supply chain management services to multinational clients of the companies. After joining the Group, he was appointed as General Manager for Southern China and responsible for the Group's expansion into the PRC market. He graduated from the McGill University of Canada with a Bachelor degree in Mechanical Engineering. He also holds a Master degree in Business Administration from the University of East Asia, Macau.

LAI Chun Pang – *Director and General Manager, Convenience Retail Southern China*

Mr. Lai, aged 50, was promoted as Director and General Manager of Convenience Retail Southern China in October 2009, and responsible for the business of Circle K and Saint Honore in Southern China. He has been working for the Group since 1987 and was the General Manager – Operations in Circle K Hong Kong from 2006. He holds a Bachelor degree of Arts with Honours in Business Studies and a Master degree of Arts in International Business Management from the City University of Hong Kong.

Sam HUI Chi Ho – *Group Finance Director*

Mr. Hui, aged 37, has extensive experience in finance and accounting in the retailing industry. Prior to joining the Group in July 2004, he was the manager of PricewaterhouseCoopers, and was responsible for providing assurance and business advisory services to a wide range of well established wholesaling and retailing clients. Mr. Hui graduated from the Hong Kong University of Science and Technology with a Bachelor degree in Business Administration majoring in Accounting and also holds a Master degree in Business Administration from the University of Hong Kong. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants and also a member of CFA Institute.

Information for Investors

Listing Information

Listing	Hong Kong Stock Exchange
Stock code	00831

Key Dates

7 March 2012	Announcement of 2011 Final Results
3 May 2012	Record date for right to attend Annual General Meeting
4 May 2012	Annual General Meeting
10 May to 11 May 2012 (both days inclusive)	Closure of Register of Shareholders for 2011 Final Dividend
17 May 2012	Despatch of 2011 Final Dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2011	733,909,974 shares
Market capitalisation as at 31 December 2011	HK$2,363,190,000
Earnings per share for 2011	
Interim	10.66 HK cents
Full year	22.69 HK cents
Dividend per share for 2011	
Interim	3.8 HK cents
Final	11.0 HK cents
Full year	14.8 HK cents

Share Registrar & Transfer Offices

Principal:
Butterfield Fulcrum Group (Cayman) Limited
P.O. Box 609
Butterfield House
68 Fort Street
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

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Group Finance Director

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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 2011.

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 trademark of Circle K and Saint Honore respectively in Hong Kong, Macau and the Chinese Mainland.

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 58.

The Directors had declared an interim dividend of 3.8 HK cents per share, totaling HK$27,883,000, which was paid on 19 August 2011.

The Directors recommended the payment of a final dividend of 11 HK cents per share, totaling HK$80,731,000.

Reserves

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

Donations

Charitable and other donations made by the Group during the year amounted to HK$140,000.

Fixed Assets

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

Share Capital

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

Distributable Reserves

Distributable reserves of the Company at 31 December 2011 calculated under the Companies Law of the Cayman Islands amounted to HK$364,110,000 (2010: HK$337,553,000).

Pre-emptive Rights

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

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2011 are set out in note 19 to the consolidated financial statements.

Five-Year Financial Summary

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

Purchase, Sale or Redemption of 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

1. 2001 Share Option Scheme

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

2. 2010 Share Option Scheme

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

Share Options (continued)

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

(i) *Purpose of the Share Option Schemes*

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

(ii) *Qualifying participants*

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

(iii) *Maximum number of shares*

The total number of shares which may be issued upon exercise of all options granted/to be granted under the 2001 Share Option Scheme or the 2010 Share Option Scheme must not exceed 10% of the shares in issue as at the date of approval of the respective share option scheme.

The total number of shares available for issue, save for those already granted, under the 2010 Share Option Scheme is 54,066,597, representing approximately 7.37% of the issued share capital of the Company as at the date of this Report.

(iv) *Limit for each participant*

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

(v) *Option period*

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

Share Options (continued)

(vi) Amount payable on application or acceptance

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

(vii) Subscription price

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

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

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

Share Options (continued)

Details of the movements of share options under the Share Option Schemes during the year ended 31 December 2011 are as follows:

(A) Continuous contract employees

Number of share options									
As at 1 January 2011	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)	As at 31 December 2011	Exercise price HK$	Grant date	Exercisable from	Exercisable until
672,000	–	–	–	(672,000)	–	2.905	10 March 2006	10 March 2007	9 March 2011
364,000	–	(66,000)	–	(298,000)	–	2.905	10 March 2006	10 March 2008	9 March 2011
332,000	–	(224,000)	(6,000)	(102,000)	–	2.93	29 August 2006	29 August 2007	28 August 2011
112,000	–	(72,000)	(34,000)	(6,000)	–	2.93	29 August 2006	29 August 2008	28 August 2011
1,076,000	–	(438,000)	(18,000)	–	620,000	3.00	30 March 2007	30 March 2008	29 March 2012
248,000	–	(66,000)	–	–	182,000	3.00	30 March 2007	30 March 2009	29 March 2012
2,260,000	–	(360,000)	(120,000)	–	1,780,000	3.39	3 May 2007	3 May 2009	2 May 2012
2,260,000	–	(260,000)	(120,000)	–	1,880,000	3.39	3 May 2007	3 May 2010	2 May 2013
2,260,000	–	(160,000)	(120,000)	–	1,980,000	3.39	3 May 2007	3 May 2011	2 May 2014
458,000	–	(16,000)	(14,000)	–	428,000	3.46	19 November 2007	19 November 2009	18 November 2012
640,000	–	(20,000)	(20,000)	–	600,000	3.46	19 November 2007	19 November 2010	18 November 2013
620,000	–	–	–	–	620,000	3.46	19 November 2007	19 November 2011	18 November 2014

Share Options (continued)

(A) Continuous contract employees (continued)

Number of share options									
As at 1 January 2011	Granted *(Note 1)*	Exercised *(Note 2)*	Lapsed *(Note 3)*	Expired *(Note 4)*	As at 31 December 2011	Exercise price HK$	Grant date	Exercisable from	Exercisable until
740,000	–	(460,000)	–	–	280,000	2.04	21 December 2009	21 December 2010	20 December 2014
120,000	–	–	(20,000)	–	100,000	2.04	21 December 2009	21 December 2011	20 December 2014
–	14,950,000	–	(200,000)	–	14,750,000	3.22	10 March 2011	1 April 2014	31 March 2017
12,162,000	14,950,000	(2,142,000)	(672,000)	(1,078,000)	23,220,000				

Share Options (continued)

(B) Directors

	Number of share options									
	As at 1 January 2011	Granted *(Note 1)*	Exercised *(Note 2)*	Lapsed	Expired	As at 31 December 2011	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
	–	2,000,000	–	–	–	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
Pak Chi Kin (appointed on 10 March 2011)	300,000	–	–	–	–	300,000	3.39	3 May 2007	3 May 2009	2 May 2012
	300,000	–	–	–	–	300,000	3.39	3 May 2007	3 May 2010	2 May 2013
	300,000	–	–	–	–	300,000	3.39	3 May 2007	3 May 2011	2 May 2014
	–	2,000,000	–	–	–	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
Louisa Wong Yuk Nor *(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
	–	375,000	–	–	–	375,000	3.22	10 March 2011	1 April 2014	31 March 2017
	2,700,000	4,375,000	(200,000)	–	–	6,875,000				

Share Options (continued)

Notes:

1. *During the year, share options to subscribe for a total of 19,325,000 shares were granted on 10 March 2011. The closing price of the shares immediately before the date on which the options were granted was HK$3.02.*

2. *Share options to subscribe for 2,342,000 shares were exercised during the year. The weighted average closing market price per share immediately before the dates on which the options were exercised was approximately HK$3.65.*

3. *Share options to subscribe for 672,000 shares lapsed during the year following the cessation of employment of certain grantees.*

4. *Share options to subscribe for 1,078,000 shares expired during the year following the expiry of the options.*

5. *Ms. Louisa Wong Yuk Nor retired as Director of the Company with effect from 5 May 2011 and continues to be a qualifying participant under the Share Option Schemes.*

6. *The value of the options granted during the year is HK$11,475,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$3.22 at the grant date, exercise price shown above, standard deviation of expected share price returns of 29%, expected life of options of five years, expected dividend paid out rate of 3.9% and annual risk-free interest rate of 2.2%. 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 2011, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates have been granted any other share options.

Directors

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

Non-executive Directors
Victor FUNG Kwok King
William FUNG Kwok Lun
Raymond CH'IEN Kuo Fung*
Malcolm AU Man Chung*
Anthony LO Kai Yiu*
Godfrey Ernest SCOTCHBROOK
Jeremy Paul Egerton HOBBINS
Louisa WONG Yuk Nor *(retired on 5 May 2011)*

Executive Directors
Richard YEUNG Lap Bun
PAK Chi Kin *(appointed on 10 March 2011)*

* *Independent Non-executive Directors*

In accordance with Article 87 of the Company's Articles of Association, Dr. William Fung Kwok Lun, Mr. Anthony Lo Kai Yiu and Mr. Godfrey Ernest Scotchbrook will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

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

Directors' Service Contracts

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

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

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

Directors' Interests in Contracts

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

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

As at 31 December 2011, the Directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Main Board Listing Rules") and/or the code for securities transactions by Directors and relevant employees adopted by the Company:

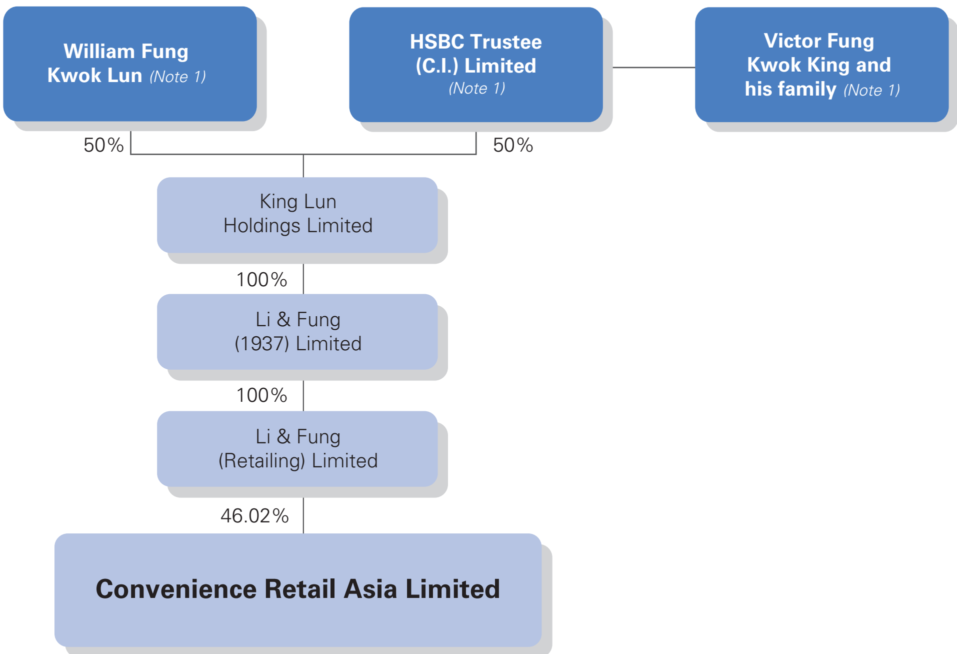
Long positions in shares and the underlying shares of the Company

	Number of shares					
Name of Directors	Personal interests	Family interests	Corporate/ Trust interests	Equity derivatives (share options)	Total interests	Approximate percentage of interests
Victor Fung Kwok King	–	–	337,792,000 *(Note 1)*	–	337,792,000	46.02%
William Fung Kwok Lun	–	–	337,792,000 *(Note 1)*	–	337,792,000	46.02%
Richard Yeung Lap Bun	19,196,000	–	–	3,200,000 *(Note 2)*	22,396,000	3.05%
Pak Chi Kin	800,000	–	–	2,900,000 *(Note 2)*	3,700,000	0.50%
Raymond Ch'ien Kuo Fung	1,000,000	–	–	–	1,000,000	0.13%
Jeremy Paul Egerton Hobbins	180,000	–	–	–	180,000	0.02%

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

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

As at 31 December 2011, the interests of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun in the shares of the Company are summarised in the following chart:



Notes:

1. *King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)")) held 337,792,000 shares in the Company. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, the remaining 50% is owned by Dr. William Fung Kwok Lun. Therefore, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, by virtue of their interests in King Lun, are deemed to have interests in 337,792,000 shares of the Company.*

2. *These interests represented the interests in the share options (being regarded as unlisted physically settled equity derivatives) granted by the Company to these Directors as beneficial owners, the details of which are set out in the section headed "Share Options" above.*

Save as disclosed above, as at 31 December 2011, none of the Directors, chief executives and their associates had any other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations. Besides, at no time during the year, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

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

As at 31 December 2011, other than the interests of the Directors or chief executives of the Company as disclosed above, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares of the Company

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	337,792,000	Trustee *(Note 1)*	46.02%
King Lun Holdings Limited	337,792,000	Corporate interests *(Note 1)*	46.02%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000	Other	12.61%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000	Other *(Note 2)*	12.61%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000	Corporate interests *(Note 3)*	12.61%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	87,790,000	Other *(Note 4)*	11.96%
JPMorgan Chase & Co.	37,752,000	Corporate interests *(Note 5)*	5.14%

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

Long positions in shares of the Company (continued)

Notes:

1. *These shares were held by 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 1 in the above section headed "Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures".*

2. *These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager.*

3. *These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager. Arisaig Partners is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely, through Skye Partners Limited (directly owned as to 33.33% by Mr. Cooper), and in turn Skye Partners Limited wholly owns Arisaig Partners (Holdings) Ltd., which in turn wholly owns Arisaig Partners.*

4. *The Aberdeen Group held the shares on behalf of accounts (under discretionary or segregated mandates) managed by the Aberdeen Group.*

5. *These shares were held by JPMorgan Chase & Co. as investment manager.*

Save as disclosed above, as at 31 December 2011, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

Sufficiency of Public Float

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

Major Customers and Suppliers

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

– the largest supplier	20%
– five largest suppliers combined	43%

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

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

Connected Transactions

During the year, the Group had various transactions with related parties (details are set out in note 31 to the consolidated financial statements on pages 118 and 119). The following transactions are expected to continue on an on-going basis and constitute continuing connected transactions (exempt from independent shareholders' approval requirements) of the Company:

		HK$'000
1.	Purchases of various products (being both food and non-food products) from LF (1937) and its associates *(Note 1)*	13,868
2.	Rentals for the leasing and/or licensing of properties from LF (1937) and its associates *(Note 2)*	8,307

Notes:

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

2. *This refers to the rentals for the leasing and/or licensing of properties by the Group from LF (1937) (the controlling shareholder of the Company) and its associates under a master agreement signed on 18 December 2009 for a term of three years commencing from 1 January 2010 and ending on 31 December 2012 (details of which were disclosed in the announcement dated 18 December 2009).*

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 and Chapter 14A of the Main Board Listing Rules, where appropriate, have been duly complied with by the Company.

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

Contracts with Controlling Shareholders

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

Management Contracts

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

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2011, 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, 7 March 2012

Independent Auditor's Report

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Convenience Retail Asia Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 58 to 119, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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, 7 March 2012

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Consolidated Profit and Loss Account

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Revenue	5	**3,972,615**	3,575,238
Cost of sales	6	**(2,589,639)**	(2,346,370)
Gross profit		**1,382,976**	1,228,868
Other income	5	**84,534**	76,948
Other gains, net	7	**15,789**	15,261
Store expenses	6	**(1,022,760)**	(925,242)
Distribution costs	6	**(94,418)**	(85,622)
Administrative expenses	6	**(173,176)**	(151,075)
Operating profit		**192,945**	159,138
Interest income	8	**8,575**	5,970
Profit before income tax		**201,520**	165,108
Income tax expenses	9	**(35,200)**	(28,749)
Profit attributable to shareholders of the Company	10 & 27	**166,320**	136,359
Earnings per share (HK cents)			
Basic	11	**22.69**	18.67
Diluted	11	**22.68**	18.67
Dividends	12	**108,614**	93,583

The notes on pages 66 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 **HK$'000**	2010 HK$'000
Profit attributable to shareholders of the Company	**166,320**	136,359
Other comprehensive income for the year, net of tax		
Actuarial gains on post employment benefit obligation	**3,156**	–
Exchange differences	**700**	403
Total comprehensive income attributable to shareholders of the Company	**170,176**	136,762

The notes on pages 66 to 119 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Fixed assets	*15*	**306,645**	309,196
Investment property	*16*	**35,031**	–
Lease premium for land	*17*	**32,252**	33,098
Intangible assets	*18*	**357,465**	357,465
Available-for-sale financial asset	*20*	**1,895**	1,895
Rental and other long-term deposits		**63,254**	47,878
Bank deposits	*24*	**18,534**	97,729
Deferred tax assets	*21*	**7,949**	9,449
		823,025	856,710
Current assets			
Inventories	*22*	**179,426**	147,281
Rental deposits		**34,120**	34,654
Trade receivables	*23*	**46,791**	34,170
Other receivables, deposits and prepayments		**76,377**	62,050
Taxation recoverable		**6**	–
Bank deposits	*24*	**305,933**	70,000
Cash and cash equivalents	*24*	**394,283**	454,227
		1,036,936	802,382
Current liabilities			
Trade payables	*25*	**536,020**	468,255
Other payables and accruals		**208,247**	177,438
Taxation payable		**11,967**	8,612
Cake coupons		**134,522**	123,810
		890,756	778,115
Net current assets		**146,180**	24,267
Total assets less current liabilities		**969,205**	880,977

	Note	2011 HK$'000	2010 HK$'000
Financed by:			
Share capital	*26*	**73,391**	73,157
Reserves	*27*	**785,950**	714,275
Proposed dividend	*27*	**80,731**	62,197
Shareholders' funds		**940,072**	849,629
Non-current liabilities			
Long service payment liabilities	*28*	**17,699**	20,397
Deferred tax liabilities	*21*	**11,434**	10,951
		969,205	880,977

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 66 to 119 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Non-current assets			
Investments in subsidiaries	*19*	**654,538**	654,538
Fixed assets	*15*	**4,759**	4,730
Rental and other long-term deposits		**1,999**	34
Bank deposit	*24*	**18,534**	–
		679,830	659,302
Current assets			
Amounts due from subsidiaries	*19*	**246,971**	110,142
Rental deposits		**7**	989
Other receivables, deposits and prepayments		**1,108**	1,368
Bank deposit	*24*	**–**	70,000
Cash and cash equivalents	*24*	**5,486**	38,270
		253,572	220,769
Current liabilities			
Amounts due to subsidiaries	*19*	**478,739**	454,185
Other payables and accruals		**15,875**	14,655
Taxation payable		**192**	192
		494,806	469,032
Net current liabilities		**(241,234)**	(248,263)
Total assets less current liabilities		**438,596**	411,039
Financed by:			
Share capital	*26*	**73,391**	73,157
Reserves	*27*	**283,379**	275,356
Proposed dividend	*27*	**80,731**	62,197
		437,501	410,710
Non-current liabilities			
Long service payment liabilities	*28*	**1,095**	329
		438,596	411,039

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 66 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to shareholders of the Company							
	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$'000	Total equity HK$'000
At 1 January 2010	72,992	281,614	177,087	13,433	13,761	8,662	214,457	782,006
Profit attributable to shareholders of the Company	–	–	–	–	–	–	136,359	136,359
Exchange differences	–	–	–	–	–	403	–	403
Total comprehensive income for the year	–	–	–	–	–	403	136,359	136,762
Issue of new shares	165	4,025	–	–	–	–	–	4,190
Employee share option benefit	–	1,301	–	–	(867)	–	1,418	1,852
Dividends	–	–	–	–	–	–	(75,181)	(75,181)
	165	5,326	–	–	(867)	–	(73,763)	(69,139)
At 31 December 2010	73,157	286,940	177,087	13,433	12,894	9,065	277,053	849,629

The notes on pages 66 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2011

	Attributable to shareholders of the Company							
	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$'000	Total equity HK$'000
At 1 January 2011	73,157	286,940	177,087	13,433	12,894	9,065	277,053	849,629
Profit attributable to shareholders of the Company	–	–	–	–	–	–	166,320	166,320
Actuarial gains on post employment benefit obligation								
gross	–	–	–	–	–	–	3,823	3,823
tax	–	–	–	–	–	–	(667)	(667)
Exchange differences	–	–	–	–	–	700	–	700
Total comprehensive income for the year	–	–	–	–	–	700	169,476	170,176
Issue of new shares	234	6,722	–	–	–	–	–	6,956
Employee share option benefit	–	1,828	–	–	374	–	1,242	3,444
Dividends	–	–	–	–	–	–	(90,133)	(90,133)
	234	8,550	–	–	374	–	(88,891)	(79,733)
At 31 December 2011	73,391	295,490	177,087	13,433	13,268	9,765	357,638	940,072

The notes on pages 66 to 119 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Cash generated from operations	*29*	**285,674**	238,803
Hong Kong profits tax paid		**(26,430)**	(26,045)
Overseas income tax paid		**(4,077)**	(3,271)
Net cash generated from operating activities		**255,167**	209,487
Cash flows from investing activities			
Purchase of fixed assets		**(59,640)**	(76,918)
Purchase of investment property		**(35,278)**	–
Purchase of lease premium for land		**–**	(1,496)
Proceeds from disposal of fixed assets		**900**	38,395
Increase in bank deposits		**(151,154)**	(17,729)
Interest received		**6,984**	5,870
Net cash used in investing activities		**(238,188)**	(51,878)
Cash flows from financing activities			
Proceeds from issuance of shares		**6,956**	4,190
Dividends paid		**(90,133)**	(75,181)
Net cash used in financing activities		**(83,177)**	(70,991)
(Decrease)/increase in cash and cash equivalents		**(66,198)**	86,618
Cash and cash equivalents at 1 January		**454,227**	365,888
Effect of foreign exchange rate changes		**6,254**	1,721
Cash and cash equivalents at 31 December		**394,283**	454,227

The notes on pages 66 to 119 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Convenience Retail Asia Limited (the "Company") and its subsidiaries (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 the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is at 5th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Dealings in the shares on the Main Board commenced on 20 June 2011 pursuant to the approval granted by the Stock Exchange for the transfer of listing of the shares from the Growth Enterprise Market to the Main Board of the Stock Exchange.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 7 March 2012.

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 amended standards and interpretation of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2011 and relevant to its operations:

HKAS 24 (Revised)	Related Party Disclosures
Annual Improvements Project	Improvements to HKFRSs 2010

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The following new and amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2011 but they are not relevant to the Group's operations:

HKFRS 1 Amendment	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 32 Amendment	Classification of Rights Issues
HK(IFRIC)-Int 14 Amendment	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

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 2012. The adoption of such new and amended standards and interpretations will have no material impact on the consolidated financial statements and will not result in substantial changes to the Group's accounting policies.

HKFRS 1 Amendment	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 Amendment	Disclosures – Transfers of Financial Assets
HKFRS 7 Amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 9	Financial Instruments
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 1 Amendment	Presentation of Items of Other Comprehensive Income
HKAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

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

(i) Subsidiaries

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

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

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

Inter-company transactions, balances 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 2h)*. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(ii) Transactions with non-controlling interests

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

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the 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. Exchange differences arising are recognised in equity.

(e) Fixed assets and lease premium for land

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

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

Equipment, furniture and fixtures	10% to $33^1/_3$%
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 and lease premium for land (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 2h)*.

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

(f) Investment property

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

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

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

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

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

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

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

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (continued)

(i) Goodwill (continued)

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.

(h) 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.

(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, certain bank deposits and cash and cash equivalents in the consolidated balance sheet *(note 2k and 2l)*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Classification (continued)

(ii) Available-for-sale financial assets

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

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

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

Recognition and measurement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Impairment

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

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

(j) Inventories

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

(k) Trade and other receivables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

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

(m) Share capital

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

(n) Trade payables

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

(o) Current and deferred income tax

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Current and deferred income tax (continued)

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

(p) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Profit sharing and bonus plans

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iv) Long service payment liabilities

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

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

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

(v) Share-based compensation

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

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition

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

(i) Sales of goods are recognised when a product is sold to the customer. Payments that are related to cake coupons not yet redeemed by the customers are deferred and shown as cake coupons in the consolidated balance sheet. Cake coupons surrendered in exchange for products or upon expiry during the period are recognised as revenue in the consolidated profit and loss account using the weighted average cake coupon sale value.

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

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

(s) Operating leases

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

(t) Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities are primarily denominated in the functional currency of the operations to which they relate, except for certain Renminbi bank deposits held in Hong Kong amounting to HK$286,246,000 (2010: HK$88,651,000) as at 31 December 2011.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Foreign exchange risk (continued)

If Renminbi had been strengthened/weakened by 1% against HK dollar with all other variables held constant, the Group's net profit would have been increased/decreased by HK$2,862,000 (2010: HK$887,000) for the year ended 31 December 2011.

(ii) Credit risk

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

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

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

(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$536,020,000 (2010: HK$468,255,000) and other payables and accruals of HK$208,247,000 (2010: HK$177,438,000) are contractually maturing within one year. On company level, all the balances with subsidiaries are repayable on demand.

(iv) Interest rate risk

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

If the interest rates had been increased/decreased by 0.5% with all other variables held constant, the Group's net profit would have been increased/decreased by HK$2,262,000 (2010: HK$2,216,000) for the year ended 31 December 2011.

3. FINANCIAL RISK MANAGEMENT (continued)

(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.

(c) Fair value estimation

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

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

The Group's assets that are measured at fair value as at 31 December 2011 are as follows:

	2011	2010
	HK$'000	HK$'000
Bank deposits designated as:		
Financial assets at fair value through profit or loss (level 2)	**80,000**	80,000
Available-for-sale financial asset (level 3)	**1,895**	1,895
	81,895	81,895

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of fixed assets

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

(b) Estimated impairment of intangible assets

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

(c) Estimated useful lives of trademarks

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

(d) Employee benefits – share-based payments

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Income taxes

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

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	
	2011	2010
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**3,155,518**	2,881,951
Bakery sales revenue	**817,097**	693,287
	3,972,615	3,575,238
Other income		
Service items and miscellaneous income	**84,534**	76,948

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 2011 and 2010 are as follows:

	2011				
	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	3,023,513	132,015	856,030	61,278	4,072,836
Inter-segment revenue	(10)	–	(99,635)	(576)	(100,221)
Revenue from external customers	3,023,503	132,015	756,395	60,702	3,972,615
Total segment other income	80,434	2,657	3,662	79	86,832
Inter-segment other income	–	(44)	(2,254)	–	(2,298)
Other income	80,434	2,613	1,408	79	84,534
	3,103,937	134,628	757,803	60,781	4,057,149
Profit/(loss) after tax	148,407	(17,724)	35,959	(322)	166,320
Profit/(loss) after tax includes:					
Depreciation	(25,836)	(7,896)	(25,343)	(1,715)	(60,790)
Amortisation	–	(520)	(584)	–	(1,104)
Interest income	6,963	415	768	429	8,575
Income tax (expenses)/credit	(27,645)	–	(7,993)	438	(35,200)

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

Segment information (continued)

	2010				
	Convenience Store		Bakery		
	HK & Others	Chinese Mainland	HK & Others	Chinese Mainland	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment revenue	2,767,805	114,155	734,763	44,194	3,660,917
Inter-segment revenue	(9)	–	(85,352)	(318)	(85,679)
Revenue from external customers	2,767,796	114,155	649,411	43,876	3,575,238
Total segment other income	74,904	1,228	3,138	62	79,332
Inter-segment other income	–	(132)	(2,252)	–	(2,384)
Other income	74,904	1,096	886	62	76,948
	2,842,700	115,251	650,297	43,938	3,652,186
Profit/(loss) after tax	112,371	(23,650)	46,508	1,130	136,359
Profit/(loss) after tax includes:					
Depreciation	(27,975)	(7,555)	(29,674)	(1,246)	(66,450)
Amortisation	–	(500)	(584)	–	(1,084)
Interest income	5,564	40	249	117	5,970
Income tax expenses	(23,441)	–	(5,104)	(204)	(28,749)

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 2011 and 2010 are as follows:

	2011				
	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	**489,369**	**100,491**	**790,511**	**37,447**	**1,417,818**
Total segment assets include:					
Additions to segment non-current assets	**26,418**	**9,355**	**59,512**	**3,625**	**98,910**
Total segment liabilities	**587,514**	**32,360**	**269,371**	**7,243**	**896,488**

	2010				
	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	434,647	60,570	703,897	21,887	1,221,001
Total segment assets include:					
Additions to segment non-current assets	54,731	5,775	21,425	914	82,845
Total segment liabilities	531,748	27,273	225,106	5,773	789,900

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:

	2011 **HK$'000**	2010 HK$'000
Segment assets for reportable segments	**1,417,818**	1,221,001
Unallocated:		
Deferred tax assets	**7,949**	9,449
Taxation recoverable	**6**	–
Corporate bank deposits	**434,188**	428,642
Total assets per consolidated balance sheet	**1,859,961**	1,659,092

Reportable segment liabilities are reconciled to total liabilities as follows:

	2011 **HK$'000**	2010 HK$'000
Segment liabilities for reportable segments	**896,488**	789,900
Unallocated:		
Deferred tax liabilities	**11,434**	10,951
Taxation payable	**11,967**	8,612
Total liabilities per consolidated balance sheet	**919,889**	809,463

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$3,680,713,000 (2010: HK$3,338,918,000), and the total of revenue from external customers from other countries is HK$291,902,000 (2010: HK$236,320,000) for the year ended 31 December 2011.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK$722,038,000 (2010: HK$680,660,000), and the total of these non-current assets located in other countries is HK$72,609,000 (2010: HK$66,977,000) as at 31 December 2011.

6. EXPENSES BY NATURE

	Group 2011 HK$'000	2010 HK$'000
Amortisation of lease premium for land *(note 17)*	**1,104**	1,084
Auditor's remuneration		
Audit services	**1,920**	1,819
Non-audit services	**682**	382
Changes in inventories	**2,421,919**	2,191,674
Depreciation of owned fixed assets *(note 15)*	**60,543**	66,450
Depreciation of investment property *(note 16)*	**247**	–
Employee benefit expense *(note 13)*	**680,283**	595,457
Exchange gains, net	**–**	(2,971)
Fair value gain on financial assets at fair value through profit or loss	**–**	(600)
Operating leases rental for land and buildings		
Minimum lease payment	**357,461**	318,590
Contingent lease payment	**11,279**	8,289
Other expenses	**344,555**	328,135
Total cost of sales, store expenses, distribution costs and administrative expenses	**3,879,993**	3,508,309

7. OTHER GAINS, NET

For the year ended 31 December 2011, other gains, net mainly included net exchange gains amounting to HK$13,815,000 (2010: nil) and net losses on disposal of fixed assets amounting to HK$1,318,000 (2010: net gains of HK$15,261,000).

8. INTEREST INCOME

	Group 2011 HK$'000	2010 HK$'000
Interest income on bank deposits	**8,575**	5,970

9. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2011 and 2010. 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	
	2011	2010
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**29,085**	25,446
Overseas profits tax	**4,742**	3,841
Deferred income tax *(note 21)*	**1,373**	(538)
	35,200	28,749

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

	Group	
	2011	2010
	HK$'000	HK$'000
Profit before income tax	**201,520**	165,108
Calculated at a taxation rate of 16.5%	**33,251**	27,243
Effect of different taxation rates in other jurisdiction	**(2,275)**	(2,261)
Income not subject to taxation	**(3,323)**	(3,787)
Expenses not deductible for tax purposes	**1,925**	2,881
Tax losses not recognised	**5,355**	5,726
Effect of previously unrecognised tax losses	**–**	(1,106)
Effect of previously unrecognised temporary differences	**344**	11
Reversal of previously recognised temporary differences	**–**	(534)
(Over)/under provision in prior year	**(385)**	299
Remeasurement of deferred tax – change in tax rate	**308**	277
	35,200	28,749

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$108,114,000 (2010: HK$73,380,000).

11. EARNINGS PER SHARE

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

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

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

	2011 HK$'000	2010 HK$'000
Profit attributable to shareholders of the Company	**166,320**	136,359
	Number of Shares	Number of Shares
Weighted average number of ordinary shares in issue	**733,016,859**	730,421,437
Adjustments for:		
Share options	**403,630**	125,241
Weighted average number of ordinary shares for diluted earnings per share	**733,420,489**	730,546,678

12. DIVIDENDS

	2011 HK$'000	2010 HK$'000
Interim dividend, paid of 3.8 HK cents (2010: 1.9 HK cents) per share	**27,883**	13,868
Special dividend, paid of nil (2010: 2.4 HK cents) per share	**–**	17,518
Final dividend, proposed of 11 HK cents (2010: 8.5 HK cents) per share	**80,731**	62,197
	108,614	93,583

At a meeting held on 7 March 2012, the Directors proposed a final dividend of 11 HK cents per share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

13. EMPLOYEE BENEFIT EXPENSE

	Group	
	2011 **HK$'000**	2010 HK$'000
Wages and salaries	**652,531**	572,090
Unutilised annual leave	**611**	512
Employee share option benefit	**3,444**	1,852
Pension costs – defined contribution plan *(note b & c)*	**23,325**	20,640
Long service payment costs *(note 28)*	**372**	363
	680,283	595,457

Notes:

(a) The employee benefit expense includes directors' and senior management's emoluments *(note 14)*.

(b) Forfeited contributions totalling HK$1,350,000 (2010: HK$2,718,000) were utilised during the year leaving nil amount available at the year-end to reduce future contributions.

(c) Contributions totalling HK$3,899,000 (2010: HK$3,881,000) were payable to the independently administered fund at the year-end.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2011 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
Victor Fung Kwok King	220	–	–	–	–	220
William Fung Kwok Lun	110	–	–	–	–	110
Jeremy Paul Egerton Hobbins	160	–	–	–	–	160
Richard Yeung Lap Bun	110	3,075	8,445	484	12	12,126
Pak Chi Kin *(note ii)*	90	1,920	1,668	454	12	4,144
Louisa Wong Yuk Nor *(note iii)*	38	–	–	77	–	115
Raymond Ch'ien Kuo Fung	290	–	–	–	–	290
Malcolm Au Man Chung	230	–	–	–	–	230
Godfrey Ernest Scotchbrook	160	–	–	–	–	160
Anthony Lo Kai Yiu	180	–	–	–	–	180
	1,588	4,995	10,113	1,015	24	17,735

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

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2010 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits *(note i)* HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Victor Fung Kwok King	220	–	–	–	–	220
William Fung Kwok Lun	110	–	–	–	–	110
Jeremy Paul Egerton Hobbins	160	–	–	–	–	160
Richard Yeung Lap Bun	110	2,760	6,101	284	12	9,267
Louisa Wong Yuk Nor *(note iii)*	110	–	–	73	–	183
Raymond Ch'ien Kuo Fung	290	–	–	–	–	290
Malcolm Au Man Chung	230	–	–	–	–	230
Godfrey Ernest Scotchbrook	160	–	–	–	–	160
Anthony Lo Kai Yiu	180	–	–	–	–	180
	1,570	2,760	6,101	357	12	10,800

Notes:

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

(ii) Mr. Pak Chi Kin was appointed as an Executive Director of the Company on 10 March 2011.

(iii) Ms. Louisa Wong Yuk Nor retired as Director of the Company with effect from 5 May 2011.

(iv) No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2011 and 2010.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2010: one) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2010: four) individuals during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Salaries, housing allowances, share options, other allowances and benefit in kind	**6,128**	6,737
Discretionary bonuses	**2,082**	2,417
Pension costs – defined contribution scheme	**36**	48
	8,246	9,202

The emoluments of the employees fell within the following bands:

	Number of individuals	
	2011	2010
HK$1,000,001 – HK$2,000,000	**–**	1
HK$2,000,001 – HK$3,000,000	**3**	3

(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.

15. FIXED ASSETS

Group

	Land and properties HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010					
Cost	174,556	228,006	412,591	22,169	837,322
Accumulated depreciation	(26,594)	(180,769)	(312,092)	(17,150)	(536,605)
Net book amount	147,962	47,237	100,499	5,019	300,717
Year ended 31 December 2010					
Opening net book amount	147,962	47,237	100,499	5,019	300,717
Additions	32,665	19,080	23,630	1,543	76,918
Disposals	(1,495)	(326)	(730)	(54)	(2,605)
Depreciation *(note 6)*	(3,767)	(23,118)	(37,744)	(1,821)	(66,450)
Exchange differences	10	235	367	4	616
Closing net book amount	175,375	43,108	86,022	4,691	309,196
At 31 December 2010					
Cost	205,740	233,378	422,558	21,817	883,493
Accumulated depreciation	(30,365)	(190,270)	(336,536)	(17,126)	(574,297)
Net book amount	175,375	43,108	86,022	4,691	309,196
Year ended 31 December 2011					
Opening net book amount	**175,375**	**43,108**	**86,022**	**4,691**	**309,196**
Additions	**–**	**18,752**	**38,493**	**2,395**	**59,640**
Disposals	**–**	**(705)**	**(1,496)**	**(17)**	**(2,218)**
Depreciation *(note 6)*	**(4,786)**	**(18,885)**	**(35,087)**	**(1,785)**	**(60,543)**
Exchange differences	**15**	**242**	**312**	**1**	**570**
Closing net book amount	**170,604**	**42,512**	**88,244**	**5,285**	**306,645**
At 31 December 2011					
Cost	**205,761**	**244,470**	**443,546**	**22,326**	**916,103**
Accumulated depreciation	**(35,157)**	**(201,958)**	**(355,302)**	**(17,041)**	**(609,458)**
Net book amount	**170,604**	**42,512**	**88,244**	**5,285**	**306,645**

15. FIXED ASSETS (continued)

Group (continued)

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

	2011 **HK$'000**	2010 HK$'000
In Hong Kong, held on:		
Leases of 10 to 50 years	**100,494**	72,380
Outside Hong Kong, held on:		
Leases of 10 to 50 years	**11,133**	11,404
	111,627	83,784

As at 31 December 2011 and 2010, freehold land of HK$11,561,000 included in land and properties is located outside Hong Kong.

Depreciation expense of HK$9,296,000 (2010: HK$10,336,000) has been charged in cost of sales, HK$42,611,000 (2010: HK$48,456,000) in store expenses, HK$3,331,000 (2010: HK$3,051,000) in distribution costs and HK$5,305,000 (2010: HK$4,607,000) in administrative expenses.

15. FIXED ASSETS (continued)

Company

	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Total HK$'000
Year ended 31 December 2010			
Additions	3,481	2,536	6,017
Depreciation	(314)	(973)	(1,287)
Closing net book amount	3,167	1,563	4,730
At 31 December 2010			
Cost	3,481	2,536	6,017
Accumulated depreciation	(314)	(973)	(1,287)
Net book amount	3,167	1,563	4,730
Year ended 31 December 2011			
Opening net book amount	**3,167**	**1,563**	**4,730**
Additions	**4**	**1,274**	**1,278**
Disposals/transfer	**–**	**(12)**	**(12)**
Depreciation	**(349)**	**(888)**	**(1,237)**
Closing net book amount	**2,822**	**1,937**	**4,759**
At 31 December 2011			
Cost	**3,485**	**3,782**	**7,267**
Accumulated depreciation	**(663)**	**(1,845)**	**(2,508)**
Net book amount	**2,822**	**1,937**	**4,759**

16. INVESTMENT PROPERTY

	Group HK$'000
Year ended 31 December 2011	
Addition	**35,278**
Depreciation *(note 6)*	**(247)**
Closing net book amount	**35,031**
At 31 December 2011	
Cost	**35,278**
Accumulated depreciation	**(247)**
Net book amount	**35,031**

Depreciation expense of HK$247,000 has been charged in administrative expenses.

The fair value of investment property reflects rental income from current leases and assumptions about rental income from future leases in light of the current market conditions. Based on management's estimation, the fair value of the property approximates its carrying value as at 31 December 2011.

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

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

17. LEASE PREMIUM FOR LAND

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**33,098**	32,517
Addition	**–**	1,496
Amortisation *(note 6)*	**(1,104)**	(1,084)
Exchange differences	**258**	169
Net book value at 31 December	**32,252**	33,098

	Group	
	2011	2010
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Lease of over 50 years	**661**	674
Leases of 10 to 50 years	**31,591**	32,424
	32,252	33,098

18. INTANGIBLE ASSETS

	Goodwill HK$'000	Trademarks HK$'000	Group HK$'000
At 31 December 2011 and 2010			
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)*	8% – 19%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	11%

Notes:

(i) Management determined budgeted revenue growth rate over a five-year budget period by reference to the past performance and its expectations for the market development.

(ii) The long-term growth rate used does not exceed the long-term growth rate for the bakery business in which it operates and is used to extrapolate cash flow beyond the budget period.

(iii) The discount rate used is pre-tax discount rate applied to the cash flow projections which reflects specific risks relating to the relevant segment.

The Group does not have to recognise an impairment loss as at 31 December 2011 based on the impairment assessment performed.

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

18. INTANGIBLE ASSETS (continued)

(b) Impairment test for goodwill

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

The recoverable amount of a CGU is determined based on fair value less costs to sell calculation, which is calculated by using pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year budget period are extrapolated using the estimated long-term growth rate stated below. 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)*	47% – 51%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	11%

Notes:

(i) The budgeted gross margin over the five-year budget period is approximately 47% 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 2011 based on the impairment assessment performed.

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

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	HK$'000	HK$'000
Unlisted shares at cost	**654,538**	654,538

As at 31 December 2011 and 2010, the balances with subsidiaries are unsecured, interest free and repayable on demand.

As at 31 December 2011, the Company has interests in the following subsidiaries:

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

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital/ registered capital	Interest held
Indirectly held: (continued)				
Circle K Convenience Stores PRC (BVI) Limited	British Virgin Islands	Inactive	1 ordinary share of US$1	100%
Circle K Convenience Stores PRC Limited	Hong Kong	Investment holding	2 ordinary shares of HK$1 each	100%
Circle K PRC Properties Limited	Hong Kong	Property holding	2 ordinary shares of HK$1 each	100%
City Producer Limited	Hong Kong	Dormant	10,000 ordinary shares of HK$1 each	100%
Convenience Retail Dongguan Limited 東莞利亞便利店有限公司*	PRC *(note i)*	Inactive	Registered capital of RMB30,000,000	100%
Convenience Retail Shenzhen Limited 深圳利亞便利店有限公司*	PRC *(note i)*	Convenience stores operator and lease-holder	Registered capital of RMB20,000,000	100%
Convenience Retail Southern China Limited	Hong Kong	Dormant	2 ordinary shares of HK$1 each	100%
Convenience Retail Southern China Limited 利亞華南便利店有限公司*	PRC *(note ii)*	Convenience stores operator and lease-holder	Registered capital of RMB128,000,000	99.3%
Easywin Limited	British Virgin Islands	Trademark holder	1 ordinary share of US$1	100%
Eltham Agents Limited	British Virgin Islands	Investment holding	10 ordinary shares of US$1 each	100%
Everfit Agents Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Evergain Consultants Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Gold Tree Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Golden Mindset Company Limited	Hong Kong	Marketing of festive and bakery products	2 ordinary shares of HK$1 each	100%
Great Moment Investment Limited	Hong Kong	Property holding	2 ordinary shares of HK$1 each	100%

19. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital/ registered capital	Interest held
Indirectly held: (continued)				
Green Rich Enterprises Limited	Hong Kong	Property holding	1 ordinary share of HK$1	100%
Kingdom Wise Limited	Hong Kong	Property holding	2 ordinary shares of HK$1 each	100%
Saint Honore Cake Shop Limited	Hong Kong	Bakery chain operator and lease-holder	5 ordinary shares of HK$10 each 345,005 non-voting deferred shares of HK$10 each	100%
Saint Anna Cake Shop (Macau) Limited Pastelarias Santa Ana (Macau), Limitada#	Macau	Bakery chain operator and lease-holder	Quota capital of MOP100,000	100%
Saint Honore Cake Shop (Shenzhen) Investment Limited	Hong Kong	Dormant	2 ordinary shares of HK$1 each	100%
Saint Honore Cake Shop (Shenzhen) Limited 聖安娜餅屋(深圳)有限公司*	PRC *(note i)*	Food factory operator	Registered capital of HK$18,610,000	100%
Silver Wave Agents Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Strong Glory Limited	Hong Kong	Investment holding	2 ordinary shares of HK$1 each	100%
Uni-Leptics Limited	Hong Kong	Property holding	2 ordinary shares of HK$1 each	100%
Web-Logistic (HK) Limited	Hong Kong	Dormant	15,600,000 ordinary shares of HK$1 each	100%
廣州市聖安娜餅屋有限公司* (Formerly known as 夢工場美食(廣州)有限公司*)	PRC *(note i)*	Bakery chain operator and lease-holder	Registered capital of RMB38,345,674	100%

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

Notes:

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

(ii) Registered as sino-foreign cooperative joint ventures under the PRC law.

20. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group	
	2011	2010
	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.

21. DEFERRED TAXATION

Movements on the net deferred tax liabilities are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**1,502**	2,135
Charged/(credited) to the consolidated profit and loss account *(note 9)*	**1,373**	(538)
Charged directly to equity	**667**	–
Exchange difference	**(57)**	(95)
At 31 December	**3,485**	1,502

21. DEFERRED TAXATION (continued)

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

Deferred tax assets	Tax losses		Accelerated tax depreciation		Others		Total	
	Group							
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(4,408)**	(4,863)	**(4,634)**	(4,110)	**(660)**	(982)	**(9,702)**	(9,955)
(Credited)/charged to the consolidated profit and loss account	**(346)**	550	**842**	(524)	**243**	322	**739**	348
Credited directly to equity	**–**	–	**–**	–	**(171)**	–	**(171)**	–
Exchange difference	**(57)**	(95)	**–**	–	**–**	–	**(57)**	(95)
At 31 December	**(4,811)**	(4,408)	**(3,792)**	(4,634)	**(588)**	(660)	**(9,191)**	(9,702)

Deferred tax liabilities	Accelerated tax depreciation		Fair value gain		Others		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**1,528**	1,933	**9,676**	10,154	**–**	3	**11,204**	12,090
Charged/(credited) to the consolidated profit and loss account	**600**	(405)	**34**	(478)	**–**	(3)	**634**	(886)
Charged directly to equity	**–**	–	**–**	–	**838**	–	**838**	–
At 31 December	**2,128**	1,528	**9,710**	9,676	**838**	–	**12,676**	11,204

	Group	
	2011	2010
	HK$'000	HK$'000
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**(7,748)**	(8,758)
Deferred tax assets to be recovered within 12 months	**(1,443)**	(944)
	(9,191)	(9,702)
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	**11,706**	10,879
Deferred tax liabilities to be settled within 12 months	**970**	325
	12,676	11,204

21. DEFERRED TAXATION (continued)

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

	Group	
	2011	2010
	HK$'000	HK$'000
Deferred tax assets	**(7,949)**	(9,449)
Deferred tax liabilities	**11,434**	10,951

The Group did not recognise deferred income tax assets in respect of tax losses amounting to HK$33,167,000 (2010: HK$37,416,000) that can be carried forward against future taxable income. The expiry dates of the unrecognised tax losses are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Less than 1 year	**5,136**	5,653
1-5 years	**28,031**	31,763
	33,167	37,416

22. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
Raw materials and packing materials	**26,940**	19,279
Finished goods	**152,486**	128,002
	179,426	147,281

23. TRADE RECEIVABLES

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from suppliers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 31 December 2011, the aging analysis of trade receivables is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0-30 days	**37,856**	28,265
31-60 days	**3,606**	2,624
61-90 days	**1,495**	1,514
Over 90 days	**3,834**	1,767
	46,791	34,170

As of 31 December 2011, trade receivables of HK$394,000 (2010: HK$852,000) were impaired. The amount of the provision was HK$188,000 as of 31 December 2011 (2010: HK$678,000). 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 2011, trade receivables of HK$8,729,000 (2010: HK$5,731,000) 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	
	2011	2010
	HK$'000	HK$'000
Past due		
1 to 3 months	**5,101**	4,138
Over 3 months	**3,628**	1,593
	8,729	5,731

23. TRADE RECEIVABLES (continued)

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

	Group	
	2011	2010
	HK$'000	HK$'000
HK dollar (HK$)	**36,107**	28,212
Renminbi (RMB)	**8,682**	4,664
Patacas (MOP)	**2,002**	1,294
	46,791	34,170

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

	Group	
	2011	2010
	HK$'000	HK$'000
At 1 January	**678**	1,061
Reversal of receivable impairment	**–**	(146)
Receivables written off	**(490)**	(237)
At 31 December	**188**	678

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

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**199,552**	160,694	**5,486**	8,270
Bank deposits	**519,198**	461,262	**18,534**	100,000
Total bank balances and cash	**718,750**	621,956	**24,020**	108,270
Non-current bank deposits	**(18,534)**	(97,729)	**(18,534)**	–
Current bank deposits	**(305,933)**	(70,000)	**–**	(70,000)
Cash and cash equivalents	**394,283**	454,227	**5,486**	38,270

24. CASH AND CASH EQUIVALENTS (continued)

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$677,438,000 (2010: HK$583,035,000).

Included in the bank deposits, there is a deposit of HK$80,000,000 (2010: HK$80,000,000), which will be matured on 4 August 2012. Such deposit is of 3-years term and bears interest rate of 3.5% per annum for the first year and thereafter at 3-month HIBOR plus 1.3% per annum with an interest rate floor of 2.5% per annum and thus is classified as financial asset at fair value through profit and loss.

The remaining bank deposits of HK$439,198,000 (2010: HK$381,262,000), bear effective interest rate of approximately 1.7% (2010: 1.1%) per annum. These deposits have an average maturity of 29 days (2010: 10 days).

The cash and bank balances are mainly denominated in Hong Kong dollars and Renminbi. As at 31 December 2011, certain cash and bank balances of HK$103,452,000 (2010: HK$49,520,000) are kept in the Chinese Mainland. The remittance of funds out of the Chinese Mainland is subject to rules and regulations of foreign exchange control promulgated by the Chinese Mainland government.

At 31 December 2011, the Group's total bank balances and cash are denominated in the following currencies:

	Group	
	2011	2010
	HK$'000	HK$'000
HK dollar (HK$)	**322,849**	481,098
Renminbi (RMB)	**389,503**	137,631
Patacas (MOP)	**6,398**	3,227
	718,750	621,956

25. TRADE PAYABLES

At 31 December 2011, the aging analysis of the trade payables is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0–30 days	**293,215**	246,858
31–60 days	**145,728**	127,358
61–90 days	**49,133**	46,912
Over 90 days	**47,944**	47,127
	536,020	468,255

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

26. SHARE CAPITAL

	2011 Shares of HK$0.10 each		2010 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	**731,567,974**	**73,157**	729,915,974	72,992
Issue of shares on exercises of share options *(note)*	**2,342,000**	**234**	1,652,000	165
At 31 December	**733,909,974**	**73,391**	731,567,974	73,157

Note:

During the year, 2,342,000 (2010: 1,652,000) 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*

(a) 2001 Share Option Scheme

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

(b) 2010 Share Option Scheme

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

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

26. SHARE CAPITAL (continued)

Share Options (continued)

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

	2011 Number of options	**2011** Weighted average exercise price HK$	2010 Number of options	2010 Weighted average exercise price HK$
At 1 January	**14,862,000**	**3.24**	18,306,000	3.15
Granted	**19,325,000**	**3.22**	–	–
Lapsed	**(672,000)**	**3.26**	(954,000)	3.17
Expired	**(1,078,000)**	**2.91**	(838,000)	2.83
Exercised	**(2,342,000)**	**2.97**	(1,652,000)	2.54
At 31 December	**30,095,000**	**3.26**	14,862,000	3.24
Exercisable	**10,970,000**	**3.33**	10,962,000	3.19

During the year ended 31 December 2011, the weighted average share price at the date of share options exercised was HK$3.63 (2010: HK$3.01). The options outstanding at 31 December 2011 and 2010 had a weighted average remaining contractual life of 3.9 years and 2.2 years respectively.

26. SHARE CAPITAL (continued)

Share Options (continued)

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

Expiry date	Exercise price HK$	**2011 Number of options**	2010 Number of options
10 March 2011	2.905	**–**	1,036,000
29 August 2011	2.93	**–**	444,000
30 March 2012	3.00	**802,000**	1,324,000
3 May 2012	3.39	**2,480,000**	3,160,000
3 May 2013	3.39	**2,780,000**	3,160,000
3 May 2014	3.39	**2,880,000**	3,160,000
19 November 2012	3.46	**428,000**	458,000
19 November 2013	3.46	**600,000**	640,000
19 November 2014	3.46	**620,000**	620,000
21 December 2014	2.04	**380,000**	860,000
1 April 2017	3.22	**19,125,000**	–
		30,095,000	14,862,000

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$0.59 (2010: nil) per option. The significant inputs into the models for the share options granted in 2011 were as follows:

	2011
Expected volatility	**29%**
Expected life	**5 years**
Risk free rate	**2.2%**
Expected dividends	**3.9%**

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

27. RESERVES

(a) Group

	Share premium HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2010	281,614	177,087	13,433	13,761	8,662	214,457	709,014
Issue of new shares	4,025	–	–	–	–	–	4,025
Employee share option benefit	1,301	–	–	(867)	–	1,418	1,852
Exchange differences	–	–	–	–	403	–	403
Profit attributable to shareholders of the Company	–	–	–	–	–	136,359	136,359
Dividends	–	–	–	–	–	(75,181)	(75,181)
At 31 December 2010	286,940	177,087	13,433	12,894	9,065	277,053	776,472
Representing:							
Reserves							714,275
Proposed dividend							62,197
							776,472
At 1 January 2011	**286,940**	**177,087**	**13,433**	**12,894**	**9,065**	**277,053**	**776,472**
Issue of new shares	**6,722**	**–**	**–**	**–**	**–**	**–**	**6,722**
Employee share option benefit	**1,828**	**–**	**–**	**374**	**–**	**1,242**	**3,444**
Actuarial gains on post employment benefit recognised in equity							
gross	**–**	**–**	**–**	**–**	**–**	**3,823**	**3,823**
tax	**–**	**–**	**–**	**–**	**–**	**(667)**	**(667)**
Exchange differences	**–**	**–**	**–**	**–**	**700**	**–**	**700**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**166,320**	**166,320**
Dividends	**–**	**–**	**–**	**–**	**–**	**(90,133)**	**(90,133)**
At 31 December 2011	**295,490**	**177,087**	**13,433**	**13,268**	**9,765**	**357,638**	**866,681**
Representing:							
Reserves							**785,950**
Proposed dividend							**80,731**
							866,681

27. RESERVES (continued)

(b) Company

	Share premium HK$'000	Capital reserve HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2010	281,614	12,792	13,761	26,728	334,895
Issue of new shares	4,025	–	–	–	4,025
Employee share option benefit	1,301	–	(867)	–	434
Profit attributable to shareholders of the Company	–	–	–	73,380	73,380
Dividends	–	–	–	(75,181)	(75,181)
At 31 December 2010	286,940	12,792	12,894	24,927	337,553
Representing:					
Reserves					275,356
Proposed dividend					62,197
					337,553
At 1 January 2011	**286,940**	**12,792**	**12,894**	**24,927**	**337,553**
Issue of new shares	**6,722**	**–**	**–**	**–**	**6,722**
Employee share option benefit	**1,828**	**–**	**374**	**287**	**2,489**
Actuarial loss on post employment benefit recognised in equity					
gross	**–**	**–**	**–**	**(760)**	**(760)**
tax	**–**	**–**	**–**	**125**	**125**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**108,114**	**108,114**
Dividends	**–**	**–**	**–**	**(90,133)**	**(90,133)**
At 31 December 2011	**295,490**	**12,792**	**13,268**	**42,560**	**364,110**
Representing:					
Reserves					**283,379**
Proposed dividend					**80,731**
					364,110

28. LONG SERVICE PAYMENT LIABILITIES

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

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**20,397**	20,993	**329**	–
Expenses recognised in the consolidated profit and loss account – as shown below	**372**	363	**6**	–
Benefit refunded/(paid)	**753**	(1,288)	**–**	–
Actuarial (gains)/losses recognised in equity	**(3,823)**	–	**760**	–
Liabilities transferred from fellow subsidiary	**–**	329	**–**	329
At 31 December	**17,699**	20,397	**1,095**	329

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

	Group	
	2011	2010
	HK$'000	HK$'000
Current service cost	**129**	93
Interest cost	**243**	270
Total, included in employee benefit expense *(note 13)*	**372**	363

Of the total charge, HK$150,000 (2010: HK$144,000), HK$13,000 (2010: HK$13,000) and HK$209,000 (2010: HK$206,000) were included in store expenses, distribution costs and administrative expenses respectively.

28. LONG SERVICE PAYMENT LIABILITIES (continued)

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

	2011	2010
Discount rate	**1.5%**	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%

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	Group	
	2011	2010
	HK$'000	HK$'000
Profit for the year	**166,320**	136,359
Adjustments for:		
Income tax expenses	**35,200**	28,749
Interest income	**(8,575)**	(5,970)
Depreciation of owned fixed assets	**60,543**	66,450
Depreciation of investment property	**247**	–
Amortisation of lease premium for land	**1,104**	1,084
Employee share option benefit	**3,444**	1,852
Losses/(gains) on disposal on fixed assets	**1,318**	(15,261)
Long service payment costs	**372**	363
Fair value gain on financial assets at fair value through profit or loss	**–**	(600)
Foreign exchange gains, net	**(11,994)**	(2,095)
	247,979	210,931
Changes in working capital		
Inventories	**(32,145)**	(19,361)
Trade receivables, rental deposits, other receivables, deposits and prepayments	**(40,199)**	(21,193)
Trade payables, other payables and accruals	**98,574**	69,803
Long service payment liabilities	**753**	(959)
Cake coupons	**10,712**	(418)
	285,674	238,803

30. COMMITMENTS

(a) Capital commitments

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

	Group	
	2011	2010
	HK$'000	HK$'000
Contracted but not provided for	**4,761**	6,995
Authorised but not contracted for	**2,448**	2,320
	7,209	9,315

(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	
	2011	2010
	HK$'000	HK$'000
Not later than one year	**300,594**	263,323
Later than one year and not later than five years	**304,464**	230,802
Later than five years	**5,532**	6,881
	610,590	501,006

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

31. RELATED PARTY TRANSACTIONS

Li & Fung (Retailing) Limited ("LFR") is a substantial shareholder of the Company, which owns 46% of the Company's shares. All of the related party transactions of the Group are entered into with Li & Fung (1937) Limited (the holding company of LFR), its subsidiaries and associates.

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

(a) Related party transactions

	Note	2011 HK$'000	2010 HK$'000
Income			
Service income and reimbursement of office and administrative expenses	*(i)*	**6,522**	7,171
Expenses			
Reimbursement of office and administrative expenses	*(ii)*	**4,669**	2,601
Rental payable	*(iii)*	**8,307**	6,712
Net purchases	*(iv)*	**13,868**	11,859

(b) Key management personnel compensation

	2011 HK$'000	2010 HK$'000
Fees	**1,588**	1,570
Discretionary bonuses	**12,195**	8,518
Salaries, share options and other allowances	**12,138**	9,854
Pension costs – defined contribution scheme	**60**	60
	25,981	20,002

(c) Year-end balances with related parties

	2011 HK$'000	2010 HK$'000
Amounts due from related parties	**169**	347
Amounts due to related parties	**(5,305)**	(4,909)

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

31. RELATED PARTY TRANSACTIONS (continued)

(d) The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK$32,888,000 (2010: HK$32,888,000). As of 31 December 2011, the banking facilities of the subsidiaries amounting to HK$1,470,000 (2010: HK$7,656,000) were utilised.

Notes:

(i) Service income and reimbursements receivable from related parties in respect of office and administrative expenses incurred are charged on an actual cost recovery basis and in accordance with the terms of agreements.

(ii) Reimbursements payable to related parties in respect of office and administrative expenses incurred, are charged on an actual cost recovery basis.

(iii) Rentals are payable to related parties in accordance with the terms of agreements.

(iv) Purchases from related parties were carried out in ordinary course of business and on terms mutually agreed between the Group and related parties.

32. EVENT AFTER THE BALANCE SHEET DATE

On 24 February 2012, the Group has entered into sale and purchase agreements with the Urban Renewal Authority for transferring a Saint Honore property for a total sum of HK$60,791,000. Completion of the transfer is expected to take place in the second quarter of 2012 and a gain, net of tax of approximately HK$38,548,000 will be recognized by the Group.

Five-Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the five years ended 31 December 2011.

	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**3,972,615**	3,575,238	3,349,326	3,322,665	2,917,614
Profit attributable to shareholders of the Company	**166,320**	136,359	90,449	88,873	86,867
Total assets	**1,859,961**	1,659,092	1,524,591	1,518,341	1,487,397
Total liabilities	**(919,889)**	(809,463)	(742,585)	(760,263)	(767,749)
Non-controlling interests	**–**	–	–	8,256	7,954
Shareholders' funds	**940,072**	849,629	782,006	766,334	727,602