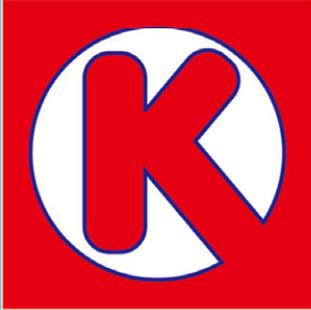




Convenience Retail Asia Limited  
利亞零售有限公司

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



Interim Report 2012



Member of the Li & Fung Group

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# Corporate Information

<b>Executive Directors</b>	Richard YEUNG Lap Bun ( <i>Chief Executive Officer</i> ) PAK Chi Kin ( <i>Chief Operating Officer</i> )
<b>Non-executive Directors</b>	Victor FUNG Kwok King <sup>##</sup> ( <i>Chairman</i> ) William FUNG Kwok Lun Godfrey Ernest SCOTCHBROOK* Jeremy Paul Egerton HOBBSINS* Benedict CHANG Yew Teck ( <i>appointed on 1 July 2012</i> )
<b>Independent Non-executive Directors</b>	Raymond CH' IEN Kuo Fung <sup>##</sup> Malcolm AU Man Chung <sup>##</sup> Anthony LO Kai Yiu <sup>##</sup> ZHANG Hongyi ( <i>appointed on 1 July 2012</i> )
<b>Group Chief Compliance Officer</b>	Srinivasan PARTHASARATHY
<b>Company Secretary</b>	Maria LI Sau Ping
<b>Registered Office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Head Office and Principal Place of Business</b>	5th Floor, LiFung Tower 888 Cheung Sha Wan Road Kowloon Hong Kong
<b>Website</b>	<a href="http://www.cr-asia.com">www.cr-asia.com</a>
<b>Legal Advisers</b>	Mayer Brown JSM (as to Hong Kong Law)  Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)

\* *Audit Committee members*

+ *Remuneration Committee members*

# *Nomination Committee members*

<b>Auditor</b>	PricewaterhouseCoopers <i>Certified Public Accountants</i>
<b>Principal Share Registrar and Transfer Office</b>	Butterfield Fulcrum Group (Cayman) Limited P.O. Box 609 Butterfield House 68 Fort Street Grand Cayman KY1-1107 Cayman Islands
<b>Hong Kong Share Registrar and Transfer Office</b>	Tricor Abacus Limited 26th Floor, Tesbury Centre 28 Queen's Road East Hong Kong
<b>Principal Banker</b>	The Hongkong and Shanghai Banking Corporation Limited
<b>Stock Code</b>	00831

# Highlights

## Interim Results For the six months ended 30 June 2012

	Change	2012 HK\$'000	2011 HK\$'000
Revenue	+7.2%	<b>2,021,931</b>	1,886,668
Profit attributable to shareholders of the Company	+32.9%	<b>103,647</b>	78,018
Basic earnings per share (HK cents)	+32.2%	<b>14.09</b>	10.66
Interim dividend per share (HK cents)	Nil	<b>3.80</b>	3.80
Special dividend per share (HK cents)	N/A	<b>5.20</b>	Nil

## Operation Highlights

- Favourable results across all operations despite challenging economic environment
- Robust comparable store sales growth in the Guangzhou operations
- Tapering of food cost inflation reduced margin pressure on the Saint Honore operations
- Cautious outlook for the second half of 2012 due to increasingly uncertain market conditions
- Strong cash position of HK\$746.9 million without any bank borrowing
- In view of one-off gain from disposal of real estate, the Board resolved to pay a special dividend of 5.2 HK cents per share

## Number of Stores as of 30 June 2012

### Circle K Stores

Hong Kong	331
Guangzhou	61
Shenzhen	1

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<b>Subtotal</b>	<b>393</b>
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### Franchised Circle K Stores

Guangzhou	8
Macau	22
Zhuhai	13

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<b>Subtotal</b>	<b>43</b>
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<b>Total number of Circle K Stores</b>	<b>436</b>
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### Saint Honore Cake Shops

Hong Kong	90
Macau	8
Guangzhou	22
Shenzhen	1

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<b>Total number of Saint Honore Cake Shops</b>	<b>121</b>
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<b>Total number of Stores under Convenience Retail Asia</b>	<b>557</b>
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# Chairman's Statement

## Financial Review

I am pleased to report the unaudited interim results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 June 2012.

During the first six months of 2012, the Group's turnover increased by 7.2% to HK\$2,021.9 million and net profit increased by 8.4% to HK\$65.1 million compared to the same period last year, excluding the gain on the disposal of real estate in 2012 and the one-off gain in gross margin resulting from cigarette inventory after the tobacco tax increase in 2011. Including the one-off gains, the Group recorded a net profit attributable to shareholders of HK\$103.6 million for the first six months, representing an increase of 32.9% over the same period in 2011.

As of 30 June 2012, the Group had a net cash balance of HK\$746.9 million with no bank borrowings.

The Board of Directors has resolved to declare an interim dividend of 3.8 HK cents per share. In view of the one-off gain generated by the disposal of real estate in the second quarter, the Board has further resolved to declare a special dividend of 5.2 HK cents per share.

## Review of the Hong Kong Retail Market

During the first half of 2012, uncertainties in the global economic environment that started in the last quarter of 2011 continued to influence financial markets and consumer sentiment in Hong Kong and China.

Despite the uncertain economic conditions, retail sales continued to perform well, recording continued growth over the first five months of 2012 with an increase of 13.5% in value and 9.1%<sup>1</sup> in volume over the same period a year earlier, reflecting the resilience of local consumption and tourist spending.

However, the growth momentum of retail sales decelerated slightly as the year-on-year increase of visitor arrivals from China slowed to 21.3%<sup>2</sup> for the first five months of 2012, compared to annual growth of 23.9%<sup>3</sup> for 2011. A change in spending pattern was also detected in the negative growth of luxury product categories like jewellery and watches, while categories like consumer durables, commodities in supermarkets and clothing accessories took over as the leading growth categories.

Consumer price inflation receded further to 3.7%<sup>4</sup> in June, representing a broad-based easing of inflation pressures. This figure is expected to come down further in the coming months with the slower expansion of the local economy and a more moderate rise in import prices, especially for food products from the Chinese Mainland.

Notes:

1. Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 3 July 2012.
2. Published by the Hong Kong Tourism Board on 25 June 2012.
3. Published by the Hong Kong Tourism Board on 5 January 2012.
4. Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 23 July 2012.

Prevailing positive hiring sentiment among employers continued to keep the Hong Kong labour market in a state of full employment, with a low 3.2% unemployment rate in March-May and an even lower 1.4%<sup>5</sup> underemployment rate during the same period.

## Company Initiatives in the Hong Kong Operations

The Circle K operations in Hong Kong continued to focus on initiatives to generate sales and traffic with quality customer service, improve store productivity with cost control measures, and enhance brand preference with innovative marketing and promotional campaigns. Over the years, these proven strategies have contributed to stable business growth and profit performance in Hong Kong along with steady improvement in brand preference for Circle K among convenience store users.

With the arrival of warmer weather in May, the Group sought to maximise sales opportunities for summer products by launching a frozen yogurt under the private label “Hokkaido-Yo” as an exclusive Circle K offering, delivered in a packaged form at a constant temperature of -12°C. The superior taste, convenient packaging and health benefits created instant popularity among Circle K customers. If sales continue to increase, there is a good chance that it will become a staple dairy product with the potential to become a signature product for Circle K stores in Hong Kong.

## Review of the Retail Market on the Chinese Mainland

In the past six months the economy of the Chinese Mainland has slowed, and recovery has been soft. Nevertheless, the retail market continued to report remarkable growth, driven by a burgeoning middle class with increasing disposable income as well as a rapid rate of urbanisation.

For the first five months of 2012, total retail sales on the Chinese Mainland increased by 13.8%<sup>6</sup> year on year. Compared to the 17.1%<sup>7</sup> year-on-year growth for 2011, market expansion has cooled noticeably but has not entirely abated. In June the consumer price index increased by just 2.2% year on year, a new low for the year, while overall consumer prices were up 3.3% in the first half of this year over the same period the previous year. Even though the food category is still leading price inflation with a 3.8%<sup>8</sup> increase in June, inflation is generally stabilising. With the consumer confidence index standing at 104.2<sup>9</sup> as of May 2012, general market sentiment is still buoyant.

Notes:

5. Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 18 June 2012.
6. Published by the National Bureau of Statistics of China on 12 June 2012.
7. Published by the National Bureau of Statistics of China on 17 January 2012.
8. Published by the National Bureau of Statistics of China on 9 July 2012.
9. Published by the National Bureau of Statistics of China on 28 June 2012.

## **Review of the Guangzhou Operations**

With the continuous implementation of food service innovations and new marketing programmes, coupled with a consistent effort to maintain a high standard of customer service, Circle K Guangzhou was able to report a robust double-digit increase in comparable store sales.

The star performers contributing to the sales increase were beverage products from the Hot & In food services, which were driven by the growing popularity of the VIP card loyalty programme. The exclusive range of cold summer drinks represents an expansion of the signature product range for the Circle K convenience store chain, supported by effective communications and promotions on the Internet to create awareness and convert new customers.

## **Review of the Saint Honore Cake Shop Operations**

Saint Honore Cake Shop delivered more than satisfactory sales performance across all operations in the first half of the year. Its margin performance was even more encouraging due to the tapering of price inflation, which relieved considerable pressure on food and raw material costs.

The highlight for the Saint Honore operations in Guangzhou was the grand opening of the flagship store at Fortune Plaza in Tianhe district on 29 June 2012. This sizable new store premise is able to accommodate café seating, making it more attractive for customers who are looking to take a break with their friends and enjoy quality cakes and desserts on-premises. Given the new store's prime location and full product range, it is anticipated that it will greatly enhance the image of the Saint Honore brand in the market while serving as an experiment for the cake shop-cum-café store model.

## **Corporate Governance and Sustainability**

The Group devoted considerable resources and effort to raising awareness of sustainability among employees with a comprehensive programme consistently administered by the Sustainability Task Force. Internal communication platforms included making every Tuesday a Green Day; temperature control reminders at all the air-conditioning and lighting switches; green message posters at the offices and the frontlines; and more. Overall the Group was able to reduce carbon emissions by 7.3% in 2011, when energy consumption was expected to grow with increased sales turnover of 7.2%.

Along with other members of the Li & Fung Group, the Group took part in the Earth Hour campaign organised by the World Wide Fund for Nature Hong Kong on 31 March 2012 by turning off non-essential electric lighting and appliances from 8:30 pm to 9:30 pm at the frontline and across all operations.

## **The United Nations Global Compact**

As a member of the Li & Fung Group, Convenience Retail Asia is also committed to supporting and promoting the UN Global Compact principles covering human rights, labour, environment and anti-corruption. In fact, 2012 marks the 10<sup>th</sup> anniversary of the Li & Fung Group's signing on to the Global Compact.

Today, we remain as committed as ever to the UNGC principles and to promoting the Compact wherever we operate. In a world increasingly confronted by climate change, resource scarcity and challenges of sustainable, inclusive development, the Compact serves as innovative platform for collective action and engagement between business, government and civil society.

## **Outlook for 2012**

The Group has conservative expectations for the second half of 2012, largely due to continued economic uncertainty in the Eurozone and tepid recovery in the United States. These are anticipated to affect the local economy, consumer sentiment, and ultimately retail sales for both Hong Kong and the Chinese Mainland.

In Hong Kong, the Group anticipates that maintaining strong comparable store sales growth will be challenging due to the high incremental sales achieved in 2011. The recent performance in Guangzhou, rising domestic consumption on the Chinese Mainland and enhanced margin for Saint Honore Cake Shop due to stabilising price trends could help mitigate some of the negative impacts of the macroeconomic environment and drive results through the second half of the year.

Given the economic environment, the Group will continue to manage expenses carefully and maintain product margin across all our operations. As a people-oriented business in an increasingly competitive employment landscape, the Group is also putting significant focus on retention and career-building for our employees.

While an economic slowdown poses certain challenges to the Group's business, an adjustment could also result in more reasonable rental terms, which would help to achieve the number of store openings set for this year. Market rationalisation could also create potential merger and acquisition opportunities for the Group.

**Victor FUNG Kwok King**

*Chairman*

Hong Kong, 6 August 2012

# Management Discussion and Analysis

## Financial Review

During the first six months of 2012, the Group's turnover increased by 7.2% to HK\$2,021.9 million compared to the same period last year.

The turnover of the Circle K convenience store operation increased by 7.1% year on year to HK\$1,625 million. This was mainly attributable to the opening of new stores and an increase in comparable convenience stores sales (stores in existence throughout 2011 and 2012). Comparable convenience stores sales in Hong Kong and Southern China increased by 3.5% and 16.8% respectively over the same period last year.

Turnover at the Saint Honore Cake Shop operations increased by 6.6% to HK\$429.9 million compared to the first six months of 2011. Comparable store sales in Hong Kong experienced a single digit growth.

Gross margin and other income as a percentage of turnover decreased to 35.8% compared to 37% in the first six months of 2011. The higher gross margin achieved last year was mainly due to the one-off gain as a result of the favourable impact on cigarette margin for a certain amount of inventory after the tobacco tax increase in 2011. Excluding this one-off gain, gross margin as a percentage of turnover maintained a level similar to the same period in 2011.

Operating expenses increased slightly from 32.1% to 32.2% of turnover against the same period in 2011, which was mainly due to escalating rental expenses during the period.

Compared to 2011, net profit – before factoring in the one-off gain on the disposal of real estate in 2012 and the one-off gain on cigarette category margin after the tobacco tax increase in 2011 – increased by 8.4% to HK\$65.1 million for the six months ended 30 June 2012. Including the one-off gains, the Group recorded a net profit of HK\$103.6 million, representing an increase of 32.9% over the corresponding period in 2011. Basic earnings per share increased by 32.2% from 10.66 HK cents to 14.09 HK cents.

The Group continued to maintain a strong financial position with net cash of HK\$746.9 million and no bank borrowings. Most of the Group's cash and bank deposits were in HK dollars as well as Renminbi and deposited with major banks in Hong Kong and the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held in either HK dollars or Renminbi. The Group had limited foreign exchange exposure in Renminbi as a result of its business operations on the Chinese Mainland, except for certain Renminbi bank deposits held in Hong Kong, which are subject to foreign exchange risk. The Group is subject to interest rate risks on the interest income earned from bank deposits. The Group will continue its policy of placing surplus cash in HK dollars or Renminbi bank deposits, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.

In the first six months of 2012 the Group opened a total of 30 new stores and closed 18 stores, taking the total number of company managed stores to 514, an addition of 12 stores.

The Board of Directors has resolved to declare an interim dividend of 3.8 HK cents per share. Due to the one-off gain generated by the disposal of real estate in the second quarter, the Board has further resolved to declare a special dividend of 5.2 HK cents per share.

## Operation Review – Hong Kong

As of 30 June 2012, the Group operated a total of 421 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 in the previous year.

Under the Circle K brand, there were 331 company-owned-and-managed convenience stores in Hong Kong as of 30 June 2012, compared to 324 stores at the beginning of 2012. Since January 2012, Circle K Hong Kong has opened 15 new stores. However, eight stores were closed during the same period, resulting in a net increase of seven new stores for the first half of the year.

The Group operated a total of 90 company-owned-and-managed Saint Honore Cake Shops in Hong Kong as of 30 June 2012, the same number as of 1 January. This was due to the fact that the Group opened four new stores and closed four stores during the first half of the year. The store closure decisions were made due to unacceptable rental renewal terms as well as other circumstances. Despite the anticipated slowdown in the local economy, any tangible adjustment in retail rental has yet to happen.

## Employees

As of 30 June 2012, the Group had a total 6,491 employees, of whom 4,386 were based in Hong Kong and 2,105 were based in Macau, Guangzhou and Shenzhen. Regular part-time staff accounted for 36.2% of the Group's total headcount.

Total staff costs for the six months ended 30 June 2012 were HK\$339.2 million compared with HK\$324.3 million for the same period last year.

The Group offers competitive remuneration schemes to staff, with discretionary bonus and share options granted to eligible staff based on individual and company performance.

## Marketing and Promotion

The Group's continual promotion of innovative marketing activities succeeded in building customer loyalty and sustaining daily store sales. Thematic promotions such as the first Pretz Festival in Hong Kong, the Beer Festival in celebration of Euro 2012, a value meal promotion for private label lunch boxes and a category awareness promotion for convenience services worked effectively towards enhancing the shopping experience at Circle K stores.

The launch in the second quarter of an exclusive product, "Hokkaido-Yo", a packaged soft-frozen (at -12°C) yogurt available in three flavours, was a timely new product introduced just before the start of the hot summer months. Initial customer acceptance of the product was extremely promising. The Group is planning to follow up the successful launch with the introduction of new flavours and multimedia marketing efforts to create awareness and build the product into a destination shopping item for the summer.

At the end of June, a set of popular Japanese licensed characters known as One Piece was introduced in an OK Fun premium promotion. Since Circle K Hong Kong is the first convenience retailer to use these licensed characters as premiums, the consumer appeal and noise level generated by this exclusive promotion was quite favourable.

The Group devoted considerable resources to Internet marketing to communicate consumer promotions with encouraging response. The fan page for Circle K Hong Kong has attracted over 160,000 fans, representing one of the biggest fan groups for a retailing brand in Hong Kong.

The Circle K iLIKE Visa Paywave co-brand credit card launched in partnership with AEON and Visa in the last quarter of 2011 is gradually growing in terms of popularity and usage frequency with attractive bonus point rewards and shopping incentives.

## **Customer Service Excellence**

The Group has conducted a total of more than 200 customer service training courses year-to-date in order to ensure consistently high service standards at the frontline. These cover the use of English and Putonghua, phone card product knowledge, online product knowledge and convenience services as well as bread baking skills and hot food and beverage preparation.

## **Category Management**

The media category faced keen competition from free newspaper titles, newscasts on the Internet and news apps on mobile phone networks. The category management team spent considerable effort compensating for the sales loss by expanding the range of book titles and introducing magazine pre-order services.

A loyalty programme designed to reward repeat purchases of family-pack dairy products proved to be extremely effective in winning over the housewife shoppers, while efforts to enhance the range of wine on offer and timely beer promotions during events such as Euro 2012 all helped increase sales for these respective categories.

The Group had to discontinue the retailing of e-voucher for taodot.com when the decision was made by Taodot to discontinue the product. The financial implication of such a development was quite insignificant to the Group since it only represented fee-based income for service rendered.

## **Supply Chain Management and Logistics**

In the spirit of continuous improvement, various innovations were implemented at the Distribution Centre in Hong Kong. The "Barcode on Picking List" initiative was introduced to speed up the data-input process and improve the accuracy of order picking. Process automation also resulted in enhanced productivity. Handheld terminal devices operating through WiFi networks provided instant access to information databases at the point of work.

## **Operations Review – Guangzhou**

In Guangzhou, management initiatives were focused on building customer traffic and generating store sales with innovative food service offerings and a VIP card loyalty programme. A range of hot and cold beverages with distinctive Hong Kong flavour, including milk tea and the milk tea-cum-coffee mixed drink, were launched at the end of last year and became instant hits. They have continued to grow in popularity and added to the range of signature beverages under the Hot & In house brand. With the coming of summer, variations on the theme such as the Vanilla Float Milk Tea were introduced, and they were welcomed by customers due to their unique taste and premium quality.

In order to draw traffic and stimulate sales, special promotions were designed to promote convenience shopping at different parts of the day, from morning, lunch, and afternoon tea to late-night snacking. One example was a hot chocolate drink specially created to be the perfect late-night beverage before going home.

Due to the high penetration of Internet usage on the Chinese Mainland, an official “weibo” website (the equivalent of a Twitter fan page) was launched by Circle K Guangzhou last year. Through the new website, “<http://weibo.com/circlekchina>”, promotional messages could be communicated efficiently and effectively, with instant feedback from target customers. So far it has proven to be a cost-effective channel for marketing communications and has greatly enhanced the image of the Circle K brand among target customers who are also Internet users.

The Hot & In VIP card loyalty programme is another highlight of Circle K Guangzhou’s marketing activities. Regular bonus point offers and special deals for privileged VIP card holders are communicated by text via mobile phone. Bonus points accumulated through regular purchases could be used to redeem free premium or cash coupons.

## **Operations Review – Saint Honore Cake Shop**

The Saint Honore Cake Shop operations were able to report a favourable increase in turnover with 6.6% growth for the first six months of 2012. Consequently, profitability improved significantly, aided by vigorous control of operating expenses and the launches of new products delivering better margins. The star performer was Saint Honore Cake Shop Guangzhou, whose operations reporting double-digit growth in comparable store sales as well as improvement in gross profit.

The rather robust business performances of various Saint Honore Cake Shop operations were due to a combination of factors: a continuous effort to upgrade product quality and range; improved efficiency in the logistics of product distribution from the manufacturing centres to the cake shops to ensure product availability, freshness and appearance; vigilant pricing review; and most importantly, the tapering-off of food cost inflation.

Saint Honore Cake Shop's Guangzhou operations organised two milestone events at the end of June. The first was a mooncake marketing presentation to wholesalers and distributors from various provinces to introduce the history of the Saint Honore brand and its full credentials as a mooncake manufacturer, and to present its range of mooncakes, the prestigious new packaging for gifting and the competitive pricing structure. The presentation was extremely well received because the targeted trade audience was given the option of selling quality mooncakes under a trusted brand from Hong Kong for the upcoming peak sales season.

The second event was the grand opening of the flagship store in Tianhe district, a new commercial/residential neighbourhood frequented by shoppers with high disposable income. The new store was designed to be the pioneer of the cake shop-cum-café store model, one of the hot trends in the bakery market on the Chinese Mainland. The new store design, with the inclusion of a seating area, a beverage bar and a made-to-order dessert menu, projects a store image that is superior to any other existing Saint Honore Cake Shop. The spacious store interior also allows for a full display of the cake and bread product ranges, hence fulfilling the role of a product showcase while enhancing Saint Honore's brand positioning as a market leader in product innovation.

## **Corporate Social Responsibility**

For the past six years, Circle K Hong Kong has partnered with Heifer International-Hong Kong to sponsor their various charity projects, including its annual fundraising event "Race to Feed", which was actively participated in by the employees of Circle K Hong Kong on a voluntary basis. Over the years the company has won many awards at the race, which has become a tradition attracting more young participants every year.

Valentine's Day celebrations presented another opportunity to fulfil corporate social responsibility, with all Circle K stores in Hong Kong participating in a pre-order service for rose bouquets and knitted glove flowers made by social enterprises.

For the past year, Circle K Hong Kong has also partnered with the World Wide Fund for Nature Hong Kong to conduct various green promotions across the chain to foster environmental consciousness.

## Future Prospects

Even though the Group was pleased to be able to deliver some rather favourable results for the first half of 2012, the second half of 2012 remains challenging. External factors such as the economic uncertainty of the Eurozone and the tepid recovery of the United States market show little sign of improving. In fact, the slowdown in retail market sales growth in Hong Kong and on the Chinese Mainland has already reflected these global developments. It is possible that the impact on consumer sentiment might be more pronounced in the coming months, since some of the contractions in growth trends are just starting to show up in the economic indicators.

In Hong Kong maintaining robust comparable store sales growth will become even more challenging, especially with the enlarged sales base achieved by the significant incremental sales last year. However, there are other market factors that will also affect profitability; namely, the tight labour market and continuously escalating retail rental. Unfortunately, recent economic adjustments have yet to impact labour costs or retail rental. Hence, the pressure on operating expenses will become more severe, especially if comparable store sales grow less favourably compared to last year.

In preparation for any further downturn in economic growth, the Group will exercise extreme caution to control expenses and maintain product margin across all operations. In view of increasingly keen competition in the labour market, employee retention will become another key initiative in the coming months. The Group has just launched an internal programme to boost employee morale, raise the level of engagement and offer a career path instead of just a job proposition. The programme will include company-sponsored recreational activities to help maintain work/life balance, in order to inspire a sense of belonging and enhance job satisfaction.

With the local economy cooling, the Group hopes it will create opportunities to acquire suitable store sites at reasonable rental terms, thus enabling it to press ahead with the store opening programme and move faster towards the target store opening number set for this year.

### **Richard YEUNG Lap Bun**

*Chief Executive Officer*

Hong Kong, 6 August 2012

# Corporate Governance

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.

Corporate governance practices adopted by the Company during the six months ended 30 June 2012 are in line with those practices set out in the Company's 2011 Annual Report, and are also consistent with the principles set out in the former and revised Corporate Governance Code (collectively referred to as the "CG Code", the revised Code came into effect on 1 April 2012) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## The Board

As at 30 June 2012, the Board comprised the Non-executive Chairman, two Executive Directors and six Non-executive Directors (of whom three are independent). With effect from 1 July 2012, two additional Non-executive Directors (of whom one is independent) were appointed to the Board. As at the date of this report, the Board has a total of eleven Directors.

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 Board held three meetings to date in 2012 (with an average attendance rate of directors of about 89%) to discuss the overall strategies, operational and financial performance of the Group.

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

All the committees comprise a majority of Independent Non-executive Directors and are chaired by Non-executive Directors.

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

## 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<sup>+</sup>

Jeremy Paul Egerton HOBBS<sup>+</sup>

\* *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 three times to date in 2012 (with an average attendance rate of about 87%) to consider and review with senior management, the Company's Corporate Governance Division ("CGD") and external auditor various matters as set out in the Committee's terms of reference, which included the following:

- Audit plans, findings and reports of CGD and external auditor;
- Independence of external auditor, their related terms of engagement and fees;
- The Group's accounting policies and practices, compliance with the Listing Rules and statutory requirements, connected transactions, internal controls, corporate governance, risk management and financial reporting matters; 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.

The Audit Committee has reviewed with the management this unaudited interim report for the six months ended 30 June 2012 before recommending it to the Board for approval.

## Remuneration Committee

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

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

Victor FUNG Kwok King+ (*retired as Committee Chairman with effect from 8 March 2012 and remains as a member*)

Raymond CH' IEN Kuo Fung\*

\* *Independent Non-executive Director*

+ *Non-executive Director*

The Remuneration Committee is responsible for reviewing the Group's remuneration and human resources policy and making recommendations to the Board on the 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.

The Remuneration Committee met once to date in 2012 (with an attendance rate of about 67%) to consider and recommend to the Board the change of the chairman of the Remuneration Committee, and to consider the grant of share options to the employees.

## Nomination Committee

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

Victor FUNG Kwok King+ – *Committee Chairman*

Malcolm AU Man Chung\*

Anthony LO Kai Yiu\*

+ *Non-executive Director*

\* *Independent Non-executive Director*

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, assessing the independence of Independent Non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors, and reviewing and monitoring the training and continuous professional development of Directors and senior management.

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

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

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

## **Directors' and Relevant Employees' Securities Transactions**

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific confirmation of compliance has been obtained from each Director for the six months ended 30 June 2012.

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 the Model Code. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2012.

## **Internal Control and Risk Management**

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. Details of the Company's internal control and risk management processes are set out in the Corporate Governance Report on pages 31 to 33 of the Company's 2011 Annual Report.

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.

CGD staff independently review the internal controls and evaluate their adequacy, effectiveness and compliance. The scope of the internal audit review covers material financial, operational and compliance controls, as well as risk management policies and procedures. A summary of the key recommendations is presented at the Audit Committee meetings. The implementation of all agreed recommendations is being followed up on a quarterly basis and the progress of implementation is reported to the Audit Committee at each committee meeting.

Based on the assessments made by senior management and CGD, the Audit Committee considered that for the six months ended 30 June 2012:

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

## **Compliance with the Corporate Governance Code**

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code for the six months ended 30 June 2012.

## **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](http://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.

# Other Information

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

As at 30 June 2012, the Directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and/or the Code for Securities Transactions by Directors and Relevant Employees adopted by the Company:

### Long positions in shares and the underlying shares of the Company

Name of Directors	Number of shares				Total interests	Approximate percentage of interests
	Personal interests	Family interests	Corporate/ Trust interests	Equity derivatives (share options)		
Victor Fung Kwok King	-	-	337,792,000 <i>(Note 1)</i>	-	337,792,000	45.80%
William Fung Kwok Lun	-	-	337,792,000 <i>(Note 1)</i>	-	337,792,000	45.80%
Richard Yeung Lap Bun	19,596,000	-	-	2,800,000 <i>(Note 2)</i>	22,396,000	3.03%
Pak Chi Kin	800,000	-	-	2,600,000 <i>(Note 2)</i>	3,400,000	0.46%
Raymond Ch'ien Kuo Fung	600,000	-	-	-	600,000	0.08%
Jeremy Paul Egerton Hobbins	180,000	-	-	-	180,000	0.02%

#### Notes:

- King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, Fung Retailing Limited ("FRL", formerly known as Li & Fung (Retailing) Limited) (a wholly owned subsidiary of Fung Holdings (1937) Limited ("FH (1937)", formerly known as Li & Fung (1937) Limited)) held 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.
- 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" below.

Save as disclosed above, as at 30 June 2012, none of the Directors, chief executives and their associates had any other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations. Besides, at no time during the year, the Directors and chief executive (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 30 June 2012, other than the interests of the Directors or chief executives of the Company as disclosed above, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

### Long positions in shares of the Company

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	337,792,000	Trustee (Note 1)	45.80%
King Lun Holdings Limited	337,792,000	Corporate interests (Note 1)	45.80%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000	Other	12.55%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000	Other (Note 2)	12.55%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000	Corporate interests (Note 3)	12.55%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	87,790,000	Other (Note 4)	11.90%
JPMorgan Chase & Co.	37,752,000	Corporate interests (Note 5)	5.11%

*Notes:*

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

Save as disclosed above, as at 30 June 2012, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

## **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.

Details of the movement of share options under the abovementioned Share Option Schemes during the six months ended 30 June 2012 are as follows:

(A) *Continuous contract employees*

As at 1 January 2012	Number of share options				As at 30 June 2012	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)					
620,000	-	(406,000)	-	(214,000)	-	3.00	30 March 2007	30 March 2008	29 March 2012
182,000	-	(138,000)	-	(44,000)	-	3.00	30 March 2007	30 March 2009	29 March 2012
1,780,000	-	(1,620,000)	(40,000)	(120,000)	-	3.39	3 May 2007	3 May 2009	2 May 2012
2,080,000	-	(200,000)	(60,000)	-	1,820,000	3.39	3 May 2007	3 May 2010	2 May 2013
2,180,000	-	(120,000)	(60,000)	-	2,000,000	3.39	3 May 2007	3 May 2011	2 May 2014
428,000	-	(86,000)	(10,000)	-	332,000	3.46	19 November 2007	19 November 2009	18 November 2012
600,000	-	(140,000)	(20,000)	-	440,000	3.46	19 November 2007	19 November 2010	18 November 2013
620,000	-	-	(20,000)	-	600,000	3.46	19 November 2007	19 November 2011	18 November 2014
280,000	-	(40,000)	-	-	240,000	2.04	21 December 2009	21 December 2010	20 December 2014
100,000	-	(20,000)	-	-	80,000	2.04	21 December 2009	21 December 2011	20 December 2014
15,125,000	-	-	(400,000)	-	14,725,000	3.22	10 March 2011	1 April 2014	31 March 2017
-	332,000	-	-	-	332,000	3.71	8 March 2012	1 April 2014	31 March 2017
23,995,000	332,000	(2,770,000)	(610,000)	(378,000)	20,569,000				

(B) Directors

	Number of share options					As at 30 June 2012	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	As at 1 January 2012	Granted	Exercised (Note 2)	Lapsed	Expired					
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	300,000	-	(300,000)	-	-	-	3.39	3 May 2007	3 May 2009	2 May 2012
	300,000	-	-	-	-	300,000	3.39	3 May 2007	3 May 2010	2 May 2013
	300,000	-	-	-	-	300,000	3.39	3 May 2007	3 May 2011	2 May 2014
	2,000,000	-	-	-	-	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
	6,100,000	-	(700,000)	-	-	5,400,000				

*Notes:*

1. During the period, share options to subscribe for a total of 332,000 shares were granted on 8 March 2012. The closing price of the shares immediately before the date on which the options were granted was HK\$3.55.
2. Share options to subscribe for 3,470,000 shares were exercised during the period. The weighted average closing market price per share immediately before the dates on which the options were exercised was approximately HK\$4.03.
3. Share options to subscribe for 610,000 shares lapsed during the period following the cessation of employment of certain grantees.
4. Share options to subscribe for 378,000 shares expired during the period following the expiry of the options.
5. The value of the options granted during the period is HK\$187,680 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK\$3.71 at the grant date, exercise price shown above, standard deviation of expected share price returns of 30%, expected life of options of four years, expected dividend paid out rate of 4.4% and annual risk-free interest rate of 0.6%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Save as disclosed above, as at 30 June 2012, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates have been granted any other share options.

## Changes in Directors' Information

Below are the changes of Directors' information since the 2011 Annual Report required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

<b>Name of Directors</b>	<b>Changes</b>
Victor Fung Kwok King	became Non-executive Honorary Chairman of Li & Fung Limited, a company whose shares are listed on the Stock Exchange, on 14 May 2012  appointed as independent non-executive director of China Petrochemical Corporation (a state-owned enterprise in the People's Republic of China) since 1 April 2012  appointed as member of the World Trade Organisation Panel on Defining the Future of Trade since 13 April 2012
William Fung Kwok Lun	became Executive Group Chairman of Li & Fung Limited, a company whose shares are listed on the Stock Exchange, on 14 May 2012
Raymond Ch'ien Kuo Fung	appointed as independent non-executive director of Swiss Re Limited, the securities of which are listed on an overseas securities market
Malcolm Au Man Chung	resigned as director of Eu Yan Sang International, a listed company in Singapore

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Interim Dividend

The Board of Directors has resolved to declare an interim dividend for the six months ended 30 June 2012 of 3.8 HK cents (2011: 3.8 HK cents) per share to the shareholders of the Company.

## **Special Dividend**

Due to the one-off gain generated by the disposal of real estate in Hong Kong during the period, the Board of Directors has further resolved to pay a special dividend of 5.2 HK cents per share to the shareholders of the Company.

## **Closure of Register of Members**

The Register of Members of the Company will be closed from 22 August 2012 to 24 August 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim and special dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 21 August 2012. Dividend warrants will be despatched on 28 August 2012.

# Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2012

		(Unaudited) Six months ended 30 June	
	Note	2012 HK\$'000	2011 HK\$'000
Revenue	3	<b>2,021,931</b>	1,886,668
Cost of sales	4	<b>(1,338,804)</b>	(1,227,386)
Gross profit		<b>683,127</b>	659,282
Other income	3	<b>41,485</b>	39,531
Other gains, net	5	<b>38,257</b>	4,364
Store expenses	4	<b>(520,669)</b>	(485,513)
Distribution costs	4	<b>(49,752)</b>	(44,775)
Administrative expenses	4	<b>(81,183)</b>	(80,294)
Operating profit		<b>111,265</b>	92,595
Interest income	6	<b>5,887</b>	3,432
Profit before income tax		<b>117,152</b>	96,027
Income tax expenses	7	<b>(13,505)</b>	(18,009)
Profit attributable to shareholders of the Company		<b>103,647</b>	78,018
Earnings per share (HK cents)			
Basic	8	<b>14.09</b>	10.66
Diluted	8	<b>14.05</b>	10.65
Dividends	9	<b>66,373</b>	27,874

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Profit attributable to shareholders of the Company	<b>103,647</b>	78,018
Other comprehensive (loss)/income for the period, net of tax		
Exchange differences	<b>(287)</b>	71
Total comprehensive income attributable to shareholders of the Company	<b>103,360</b>	78,089

# Condensed Consolidated Balance Sheet

As at 30 June 2012

	Note	(Unaudited) 30 June 2012 HK\$'000	(Audited) 31 December 2011 HK\$'000
<b>Non-current assets</b>			
Fixed assets	10	<b>320,927</b>	306,645
Investment property		–	35,031
Lease premium for land		<b>31,638</b>	32,252
Intangible assets		<b>357,465</b>	357,465
Available-for-sale financial asset		<b>1,895</b>	1,895
Rental and other long-term deposits		<b>74,093</b>	63,254
Bank deposit	11	<b>18,339</b>	18,534
Deferred tax assets		<b>7,954</b>	7,949
		<b>812,311</b>	823,025
<b>Current assets</b>			
Inventories		<b>158,147</b>	179,426
Rental deposits		<b>33,523</b>	34,120
Trade receivables	12	<b>45,141</b>	46,791
Other receivables, deposits and prepayments		<b>77,011</b>	76,377
Taxation recoverable		–	6
Bank deposits	11	<b>181,034</b>	305,933
Cash and cash equivalents	11	<b>547,482</b>	394,283
		<b>1,042,338</b>	1,036,936
<b>Current liabilities</b>			
Trade payables	13	<b>532,871</b>	536,020
Other payables and accruals		<b>158,050</b>	208,247
Taxation payable		<b>25,868</b>	11,967
Cake coupons		<b>135,588</b>	134,522
		<b>852,377</b>	890,756
<b>Net current assets</b>		<b>189,961</b>	146,180
<b>Total assets less current liabilities</b>		<b>1,002,272</b>	969,205
<b>Financed by:</b>			
Share capital	14	<b>73,738</b>	73,391
Reserves		<b>835,560</b>	785,950
Proposed dividends		<b>66,373</b>	80,731
<b>Shareholders' funds</b>		<b>975,671</b>	940,072
<b>Non-current liabilities</b>			
Long service payment liabilities		<b>16,849</b>	17,699
Deferred tax liabilities		<b>9,752</b>	11,434
		<b>1,002,272</b>	969,205

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	(Unaudited)							
	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 2012	73,391	295,490	177,087	13,433	13,268	9,765	357,638	940,072
Profit attributable to shareholders of the Company	-	-	-	-	-	-	103,647	103,647
Exchange differences	-	-	-	-	-	(287)	-	(287)
Total comprehensive income for the period	-	-	-	-	-	(287)	103,647	103,360
Issue of new shares	347	11,139	-	-	-	-	-	11,486
Employee share option benefit	-	3,029	-	-	(1,763)	-	572	1,838
Dividend	-	-	-	-	-	-	(81,085)	(81,085)
	347	14,168	-	-	(1,763)	-	(80,513)	(67,761)
At 30 June 2012	73,738	309,658	177,087	13,433	11,505	9,478	380,772	975,671
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	-	-	-	-	-	-	78,018	78,018
Exchange differences	-	-	-	-	-	71	-	71
Total comprehensive income for the period	-	-	-	-	-	71	78,018	78,089
Issue of new shares	197	5,637	-	-	-	-	-	5,834
Employee share option benefit	-	1,529	-	-	(1,056)	-	1,044	1,517
Dividend	-	-	-	-	-	-	(62,250)	(62,250)
	197	7,166	-	-	(1,056)	-	(61,206)	(54,899)
At 30 June 2011	73,354	294,106	177,087	13,433	11,838	9,136	293,865	872,819

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Net cash generated from operating activities	<b>69,406</b>	104,912
Net cash generated from/(used in) investing activities	<b>157,490</b>	(115,085)
Net cash used in financing activities	<b>(69,599)</b>	(56,416)
Increase/(decrease) in cash and cash equivalents	<b>157,297</b>	(66,589)
Cash and cash equivalents at 1 January	<b>394,283</b>	454,227
Effect of foreign exchange rate changes	<b>(4,098)</b>	2,388
Cash and cash equivalents at 30 June	<b>547,482</b>	390,026

# Notes to the Condensed Consolidated Interim Financial Information

## 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”).

## 2. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange.

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 6 August 2012.

This condensed consolidated interim financial information should be read in conjunction with the 2011 consolidated financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the consolidated financial statements for the year ended 31 December 2011.

The Group has adopted new and amended standards and interpretations of Hong Kong Financial Reporting Standards which are mandatory for the accounting periods beginning on or after 1 January 2012 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated interim financial information and does not result in substantial changes to the Group’s accounting policies.

### 3. 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 six months ended 30 June 2012 are as follows:

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Revenue		
Merchandise sales revenue	<b>1,625,007</b>	1,516,636
Bakery sales revenue	<b>396,924</b>	370,032
	<b>2,021,931</b>	1,886,668
Other income		
Service items and miscellaneous income	<b>41,485</b>	39,531

#### 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.

The segment information provided to the management for the reportable segments for the six months ended 30 June 2012 and 2011 are as follows:

	(Unaudited)				
	Six months ended 30 June 2012				
	Convenience Store		Bakery		Group
HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000		
Total segment revenue	1,544,262	80,750	414,664	29,906	2,069,582
Inter-segment revenue	(5)	-	(47,553)	(93)	(47,651)
Revenue from external customers	1,544,257	80,750	367,111	29,813	2,021,931
Total segment other income	40,083	852	1,607	107	42,649
Inter-segment other income	-	(27)	(1,137)	-	(1,164)
Other income	40,083	825	470	107	41,485
	<b>1,584,340</b>	<b>81,575</b>	<b>367,581</b>	<b>29,920</b>	<b>2,063,416</b>
Profit/(loss) after tax (after gain on disposal of property)	57,580	(8,932)	55,676	(677)	103,647
Profit/(loss) after tax (before gain on disposal of property)	57,580	(8,932)	17,174	(677)	65,145
Profit/(loss) after tax includes:					
Depreciation	(12,582)	(4,044)	(12,344)	(937)	(29,907)
Amortisation	-	(262)	(292)	-	(554)
Interest income	4,459	642	431	355	5,887
Income tax (expenses)/credit	(12,047)	-	(1,871)	413	(13,505)
Gain on disposal of property	-	-	38,502	-	38,502

	(Unaudited)				
	Six months ended 30 June 2011				
	Convenience Store		Bakery		Group HK\$'000
HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000		
Total segment revenue	1,455,039	61,602	390,792	24,994	1,932,427
Inter-segment revenue	(5)	–	(45,263)	(491)	(45,759)
Revenue from external customers	1,455,034	61,602	345,529	24,503	1,886,668
Total segment other income	38,001	1,145	1,455	76	40,677
Inter-segment other income	–	(13)	(1,133)	–	(1,146)
Other income	38,001	1,132	322	76	39,531
	1,493,035	62,734	345,851	24,579	1,926,199
Profit/(loss) after tax	76,607	(10,267)	12,024	(346)	78,018
Profit/(loss) after tax includes:					
Depreciation	(12,923)	(3,820)	(12,902)	(902)	(30,547)
Amortisation	–	(258)	(292)	–	(550)
Interest income	3,098	28	211	95	3,432
Income tax expenses	(14,795)	–	(3,130)	(84)	(18,009)

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 condensed consolidated profit and loss account. The management assesses the performance of the operating segments based on a measure of profit after tax.

The segment assets and liabilities as at 30 June 2012 and 31 December 2011 are as follows:

(Unaudited)					
As at 30 June 2012					
	Convenience Store		Bakery		Group
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment assets	491,681	118,279	747,555	48,445	1,405,960
Total segment assets include:					
Additions to segment non-current assets	12,237	4,653	18,555	4,651	40,096
Total segment liabilities	550,506	39,329	244,023	9,500	843,358

(Audited)					
As at 31 December 2011					
	Convenience Store		Bakery		Group
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	
Total segment assets	489,369	100,491	790,511	37,447	1,417,818
Total segment assets include:					
Additions to segment non-current assets	26,418	9,355	59,512	3,625	98,910
Total segment liabilities	587,514	32,360	269,371	7,243	896,488

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

Reportable segment assets are reconciled to total assets as follows:

	(Unaudited) 30 June 2012 HK\$'000	(Audited) 31 December 2011 HK\$'000
Segment assets for reportable segments	<b>1,405,960</b>	1,417,818
Unallocated:		
Deferred tax assets	<b>7,954</b>	7,949
Taxation recoverable	–	6
Corporate bank deposits	<b>440,735</b>	434,188
<b>Total assets per condensed consolidated balance sheet</b>	<b>1,854,649</b>	1,859,961

Reportable segment liabilities are reconciled to total liabilities as follows:

	(Unaudited) 30 June 2012 HK\$'000	(Audited) 31 December 2011 HK\$'000
Segment liabilities for reportable segments	<b>843,358</b>	896,488
Unallocated:		
Deferred tax liabilities	<b>9,752</b>	11,434
Taxation payable	<b>25,868</b>	11,967
<b>Total liabilities per condensed consolidated balance sheet</b>	<b>878,978</b>	919,889

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK\$1,863,891,000 (2011: HK\$1,761,318,000) and the total of revenue from external customers from other countries is HK\$158,040,000 (2011: HK\$125,350,000) for the six months ended 30 June 2012.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK\$705,183,000 (as at 31 December 2011: HK\$722,038,000) and the total of these non-current assets located in other countries is HK\$78,940,000 (as at 31 December 2011: HK\$72,609,000) as at 30 June 2012.

#### 4. Expenses by nature

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Amortisation of lease premium for land	<b>554</b>	550
Depreciation of owned fixed assets	<b>29,578</b>	30,547
Depreciation of investment property	<b>329</b>	–
Other expenses	<b>1,959,947</b>	1,806,871
Total cost of sales, store expenses, distribution costs and administrative expenses	<b>1,990,408</b>	1,837,968

#### 5. Other gains, net

For the six months ended 30 June 2012, other gains, net mainly included gain on disposal of a real estate property amounting to HK\$36,788,000 (2011: nil) and net exchange losses amounting to HK\$3,341,000 (2011: net exchange gains of HK\$4,618,000).

#### 6. Interest income

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Interest income on bank deposits	<b>5,887</b>	3,432

## 7. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2012 and 2011. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2012 and 2011 at the rates prevailing in the countries in which the Group operates.

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

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Current income tax		
Hong Kong profits tax	<b>13,400</b>	15,994
Overseas profits tax	<b>1,811</b>	1,502
Deferred income tax	<b>(1,706)</b>	513
	<b>13,505</b>	18,009

## 8. Earnings per share

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

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

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.

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Profit attributable to shareholders of the Company	<b>103,647</b>	78,018
	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares in issue	<b>735,398,173</b>	732,187,698
Adjustment for:		
Share options	<b>2,279,397</b>	399,052
Weighted average number of ordinary shares for diluted earnings per share	<b>737,677,570</b>	732,586,750

## 9. Dividends

	(Unaudited)	
	Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000
Interim dividend, proposed of 3.8 HK cents (2011: 3.8 HK cents) per share	<b>28,024</b>	27,874
Special dividend, proposed of 5.2 HK cents (2011: nil) per share	<b>38,349</b>	–
	<b>66,373</b>	27,874

These proposed dividends have not been reflected as a dividend payable in the condensed consolidated balance sheet.

## 10. Fixed assets

	(Unaudited)	(Unaudited)
	30 June 2012 HK\$'000	30 June 2011 HK\$'000
Opening net book amount	<b>306,645</b>	309,196
Additions	<b>34,234</b>	28,495
Transfer from investment property	<b>34,702</b>	–
Disposals	<b>(24,908)</b>	(1,060)
Depreciation	<b>(29,578)</b>	(30,547)
Exchange differences	<b>(168)</b>	270
Closing net book amount	<b>320,927</b>	306,354

## 11. Cash and cash equivalents

	(Unaudited) 30 June 2012 HK\$'000	(Audited) 31 December 2011 HK\$'000
Total bank balances and cash	746,855	718,750
Non-current bank deposit	(18,339)	(18,534)
Current bank deposits	(181,034)	(305,933)
Cash and cash equivalents	<b>547,482</b>	394,283

## 12. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from suppliers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 30 June 2012, the aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2012 HK\$'000	(Audited) 31 December 2011 HK\$'000
0-30 days	38,003	37,856
31-60 days	1,779	3,606
61-90 days	1,501	1,495
Over 90 days	3,858	3,834
	<b>45,141</b>	46,791

### 13. Trade payables

At 30 June 2012, the aging analysis of the trade payables is as follows:

	(Unaudited) 30 June 2012 HK\$'000	(Audited) 31 December 2011 HK\$'000
0-30 days	302,763	293,215
31-60 days	137,387	145,728
61-90 days	45,871	49,133
Over 90 days	46,850	47,944
	<b>532,871</b>	536,020

### 14. Share capital

	(Unaudited) 30 June 2012 Shares of HK\$0.10 each		(Audited) 31 December 2011 Shares of HK\$0.10 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
At end of the period	2,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid:				
At beginning of the period	733,909,974	73,391	731,567,974	73,157
Issue of shares on exercise of share options (note)	3,470,000	347	2,342,000	234
At end of the period	<b>737,379,974</b>	<b>73,738</b>	733,909,974	73,391

Note:

During the period, 3,470,000 (year ended 31 December 2011: 2,342,000) shares were allotted and issued pursuant to the exercise of share options by the qualifying participants of the Company.

## 15. Capital commitments

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

	<b>(Unaudited)</b> <b>30 June</b> <b>2012</b> <b>HK\$'000</b>	(Audited) 31 December 2011 HK\$'000
Contracted but not provided for	<b>4,870</b>	4,761
Authorised but not contracted for	<b>5,745</b>	2,448
	<b>10,615</b>	7,209

## 16. Related party transactions

Fung Retailing Limited ("FRL", formerly known as Li & Fung (Retailing) Limited) is a substantial shareholder of the Company, which owns 45.8% of the Company's shares. All of the related party transactions of the Group are entered into with Fung Holdings (1937) Limited (formerly known as Li & Fung (1937) Limited, the holding company of FRL), 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 period:

**(a) Related party transactions**

		<b>(Unaudited)</b>	
		<b>Six months ended</b>	
		<b>30 June</b>	
	<i>Note</i>	<b>2012</b>	2011
		<b>HK\$'000</b>	HK\$'000
<b>Income</b>			
Service income and reimbursement of office and administrative expenses	<i>(i)</i>	<b>2,511</b>	3,486
<b>Expenses</b>			
Reimbursement of office and administrative expenses	<i>(ii)</i>	<b>1,757</b>	1,157
Rental payable	<i>(iii)</i>	<b>4,154</b>	4,154
Net purchases	<i>(iv)</i>	<b>4,593</b>	7,095

**(b) Key management personnel compensation**

		<b>(Unaudited)</b>	
		<b>Six months ended</b>	
		<b>30 June</b>	
		<b>2012</b>	2011
		<b>HK\$'000</b>	HK\$'000
Fees		<b>850</b>	802
Discretionary bonuses		<b>6,269</b>	5,688
Salaries, share options and other allowances		<b>6,190</b>	5,940
Pension costs – defined contribution scheme		<b>31</b>	30
		<b>13,340</b>	12,460

**(c) Period-end balances with related parties**

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Amounts due from related parties	<b>483</b>	169
Amounts due to related parties	<b>(3,567)</b>	(5,305)

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

- (d)** The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK\$32,888,000 (2011: HK\$32,888,000). As of 30 June 2012, the banking facilities of the subsidiaries amounting to HK\$1,470,000 (as of 31 December 2011: HK\$1,470,000) 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.