Convenience Retail Asia

Convenience Retail Asia Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00831

Circle K

聖安娜餅屋

SAINT HONORE CAKE SHOP LTD.

Annual Report 2013

馮氏

A Fung Retailing Company

Circle K Hong Kong was named "Service Retailer of the Year" for the fourth consecutive year in the Convenience Store Category by the Hong Kong Retail Management Association.

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Corporate Information

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

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

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

Group Chief Compliance Officer
Srinivasan PARTHASARATHY

Company Secretary
Maria LI Sau Ping

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Cayman Islands

Head Office and Principal Place of Business
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Kowloon
Hong Kong

Website
www.cr-asia.com

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

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

Auditor
PricewaterhouseCoopers
Certified Public Accountants

Principal Banker
The Hongkong and Shanghai Banking
Corporation Limited

Nomination Committee members
+ *Remuneration Committee members*
* *Audit Committee members*

Highlights

Financial Highlights

	Change	**2013 HK$'000**	2012 HK$'000
Revenue	+5.9%	**4,521,289**	4,270,318
Profit attributable to shareholders of the Company (before gain on disposal of property, net of tax)	-6.9%	**150,353**	161,449
Gain on disposal of property, net of tax	N/A	**Nil**	38,502
Profit attributable to shareholders of the Company	-24.8%	**150,353**	199,951
Basic earnings per share (HK cents)	-25.3%	**20.27**	27.13
Dividend per share (HK cents)			
Final	Nil	**13.00**	13.00
Full year			
Basic	Nil	**16.80**	16.80
Special – paid	+669.2%	**40.00**	5.20

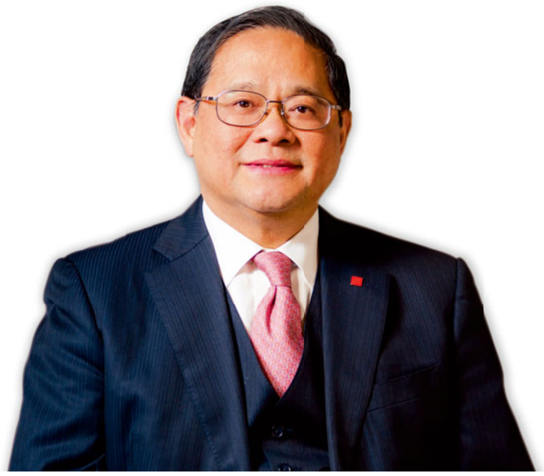
Operation Highlights

- Slight decrease in operating profit due to higher number of non-comparable new stores in Southern China and investment in FingerShopping.com
- Continued escalation in rental and labour costs place pressure on operating results across all markets
- Neutral store network growth due to unfavourable leasing environment and store closures upon lease renewal
- Comparable store sales growth, enhanced category management both key contributors to operating profit
- Group maintains a strong financial position with net cash of HK$483 million without any bank borrowings

Number of Stores as of 31 December 2013

Circle K Stores	
Hong Kong	335
Guangzhou	68
Shenzhen	1
Subtotal	**404**
Franchised Circle K Stores	
Guangzhou	11
Macau	25
Zhuhai	11
Subtotal	**47**
Total number of Circle K Stores	**451**
Saint Honore Cake Shops	
Hong Kong	89
Macau	8
Guangzhou	41
Shenzhen	3
Total number of Saint Honore Cake Shops	**141**
Total number of Stores under Convenience Retail Asia	**592**

Chairman's Statement



Dr. Victor FUNG Kwok King
Chairman

Financial Overview

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), achieved turnover of HK$4,521 million and net profit of HK$150 million for 2013. This represents satisfactory sales growth but a net profit drop of 5.9% and 6.9% respectively compared to 2012, excluding the one-off gain from the disposal of real estate property in 2012.

For 2013, basic earnings per share decreased by 7.5%, from 21.91 HK cents to 20.27 HK cents, excluding the one-off gain in 2012.

As at 31 December 2013, the Group had a net cash balance of HK$483 million with no bank borrowings.

Review of the Hong Kong Retail Market

For 2013 as a whole, total retail sales increased by 11.0% in value and 10.6% [1] in volume over the same period in 2012. This growth was possible because of positive consumer sentiment, stable employment and income conditions, and a higher number of inbound visitor arrivals.

Note:

1. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 4 February 2014.*

Review of the Hong Kong Retail Market (continued)

According to the Hong Kong Tourism Board, same-day visitors from the Chinese Mainland have increased significantly over the past ten years, from 2 million[2] in 2002 to 19.8 million[3] in 2012, outpacing overnight visitors and resulting in a dramatic change in overall spending patterns. For example, Chinese visitors are making more purchases of daily consumables like fast-moving packaged goods than big-ticket luxury items. The Group is keeping track of these changes to maximise sales opportunities in the short and long terms.

The consumer confidence index for the third quarter in 2013 was 106[4]. This represents a year-on-year increase of 17 points but is one point lower than the previous quarter. The modest decrease in the consumer confidence index resulted from economic uncertainty surrounding the United States' monetary policy of quantitative easing, as well as a stagnant local property market in Hong Kong. But overall, consumers still feel reasonably positive about discretionary spending.

A state of virtual full employment caused labour costs to escalate and together with the high retail rental; place pressure on the Group's operating profit.

Company Initiatives in the Hong Kong Operations

The Group's most valuable asset is its people, which is why it launched the HEARTS employee engagement initiative during the year under review. This comprehensive programme aims to improve staff retention, recruitment and job satisfaction in view of the severe labour shortage in the retail sector. It also marks our intention to enhance the Group's reputation as a caring company and preferred employer, whose staff are happy, engaged, passionate and professional.

In 2013 the Group also formed an Environmental, Social and Governance (ESG) Steering Committee to define its environmental policy, set objectives and targets, and implement and oversee sustainability and corporate social responsibility initiatives. Two key projects included carbon footprint reduction in our store operations, and fundraising activities for Heifer International – Hong Kong, a nonprofit organisation dedicated to ending world hunger by providing animals and training to help impoverished families around the globe, to improve the living quality of rural villages in the Chinese Mainland.

The Group also launched FingerShopping.com to gauge the potential of e-commerce in Hong Kong and pave the way for future omni-channel sales and marketing. FingerShopping.com is a new e-tailing platform operated by subsidiary FingerShopping Limited that features an innovative "clicks & bricks" model, supported by the Circle K store network for easy pick-up and payment. It gives customers the ability to make safe, efficient, convenient purchases online.

It is worth noting that Circle K Hong Kong was named "Service Retailer of the Year" in the Convenience Stores Category by the Hong Kong Retail Management Association for the fourth consecutive year. The award was given in recognition of the chain's excellent customer service.

Notes:

2. *Published by the Hong Kong Tourism Board on 24 January 2003.*
3. *Published by the Hong Kong Tourism Board on 28 January 2013.*
4. *Published by the Nielsen Company on 7 November 2013.*

Review of the Retail Market on the Chinese Mainland

In 2013 total retail sales on the Chinese Mainland grew by 13.1% [5] compared to the previous year. The Group also saw stable growth in retail sales in Guangdong for the year, with an increase of 12.2% [6] compared to 2012.

Online retailing transactions reached 1.85 [7] trillion Renminbi in 2013, accounting for over 10% of total retail sales and providing a strong strategic motivation for bricks-and-mortar retailers to go online.

The Chinese Mainland's consumer confidence index was at 110 [8] in the third quarter, up from 106 [9] in the third quarter of 2012. This modest improvement reflects a steady rebound in the Chinese economy, with the gross domestic product (GDP) expanded 7.7% [10] year-on-year compared to 2012.

Review of the Circle K Guangzhou Operations

The Circle K operations in Guangzhou reported healthy comparable sales growth in the second half of 2013. This was mainly due to incremental sales generated by the Hot & In food services, which accounted for over 40% of the sales mix because of the popularity and effectiveness of the Hot & In loyalty programme.

Over the years the Group has put substantial effort into expanding its store network, increasing comparable store sales and controlling operating expenses. However, revenue and profit growth were unable to overcome the significant increase in operating expenses, impacting the bottom line.

A survey conducted by an independent agency revealed that the Circle K Guangzhou operations achieve a high level of employee engagement, validating the HEARTS programme and the company's well recognised status as a preferred employer.

Notes:

5. *Published by the National Bureau of Statistics of China on 20 January 2014.*
6. *Published by the Statistics Bureau of Guangdong Province on 22 January 2014.*
7. *Published by iResearch on 14 January 2014.*
8. *Published by the Nielsen Company on 30 October 2013.*
9. *Published by the Nielsen Company on 30 October 2012.*
10. *Published by the National Bureau of Statistics of China on 20 January 2014.*

Review of the Saint Honore Cake Shop Operations

During the year under review, Saint Honore was able to maintain mid-single-digit comparable store sales growth in Hong Kong. Operating profit decreased due to heavy pressure from payroll increments across the markets, rental increases, the appreciation of the Renminbi, market expansion in Guangzhou and start-up costs in Shenzhen.

Although the Group maintained the same overall number of stores across all markets, the average size of lease-renewed stores and the number of new stores opened both decreased during the year. For this reason, the Group had a reduced amount of total store space and selling area.

In 2013 Saint Honore was proud to participate in the "Family-Friendly Employers Award Scheme", where it was named "Distinguished Family-Friendly Employer".

Corporate Governance and Sustainability

As a member of the Fung Group, the Group remains highly committed to the principles of the United Nations Global Compact, which cover human rights, labour standards, environmental protection and anti-corruption as well as the principles of sustainability.

The Group conducts regular reviews of its manufacturing procedures, as well as the quantity and content of the greenhouse gas emissions from all of Saint Honore's production activities across markets so as to comply with local government regulations. The Group makes every effort to optimise its use of energy and resources to reduce its carbon footprint.

Over the years, the Group has introduced various practices to prevent or minimise the impact of waste produced by its operations on the environment. Starting from the second quarter of 2013, waste generated by Saint Honore factories is sorted, measured and recycled as much as possible.

Also in 2013, Circle K and Saint Honore Cake Shop operations in Hong Kong collaborated with Foodlink Foundation Limited through a programme to provide bread for breakfast to charity organisations.

Outlook for 2014

The engine driving the global economic recovery will be emerging economies. However, with export trade growth softening due to the slower pace of recovery in the US and Europe, the path to full recovery is marked with risks and uncertainties.

The retail market is transforming with the arrival of the e-commerce era. Leading bricks-and-mortar retailers are determining how to best operate in a multi-channel shopping environment, how to leverage Big Data, and how to defend and reinvent brand value in the context of these challenges.

Operating expenses such as rent and labour are not anticipated to decrease in the coming financial year, and could rise even more. As a result, the Group is expecting a challenging operating environment for 2014.

To achieve medium- to long-term business growth, the Group will keep abreast the latest retail developments and customise its current business models to further build on its customer base. We will accomplish this through innovative service concepts, the continued introduction of quality products and a competitive value proposition.

In closing, I would like to express my sincere appreciation to the Board of Directors for their wise and invaluable counsel and thank Management and staff for their dedication, hard work and innovation. I also would like to express my appreciation to you, our shareholders, business partners and customers for your continued support.

Victor FUNG Kwok King
Chairman

Hong Kong, 27 February 2014

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 2013. The Group's turnover for the year increased to HK$4,521 million, representing growth of 5.9% when compared to 2012.

In 2013 the turnover of the convenience store business was HK$3,578 million, an increase of 5.6% compared to 2012. This was mainly attributable to increase in comparable convenience store sales (stores in existence throughout 2013 and 2012). Comparable convenience store sales in Hong Kong and Southern China increased by 4.6% and 13.3% respectively against 2012. At the same time, turnover for the Saint Honore Cake Shop business increased by 7.0% to HK$1,016 million year on year. This was primarily due to mid single-digit comparable store sales growth in Hong Kong and an increase in festive products sales in 2013.

Gross margin and other income increased from 36.4% to 36.8% of turnover compared to 2012. This was mainly because of category management improvements in the convenience store business, although the Group did experience pressure from rising raw material prices and factory labour costs.

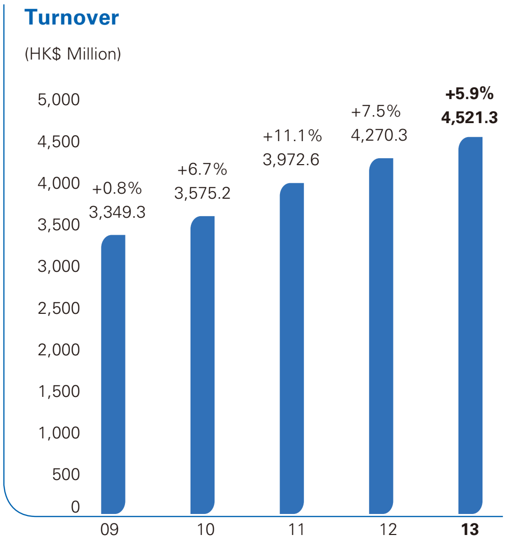
Operating expenses as a percentage of turnover increased from 32.3% to 33.1% against 2012. In addition to escalating rentals and operating cost inflation, the higher operating expenses were also due to a larger number of new stores opened in Southern China, as well as the extra operating expenses incurred by the launch of FingerShopping.com in 2013.

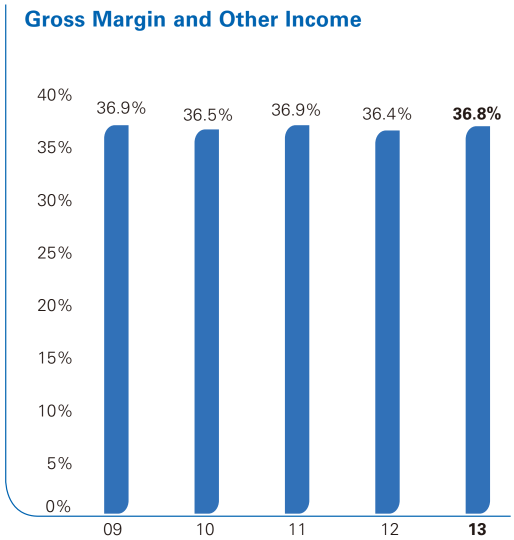
Compared to last year, the Group's operating profit declined by 6.9% to HK$150 million, excluding a one-off gain from the disposal of real estate property in 2012. The drop in operating profit was mainly because of the increased number of new stores in Southern China and the investment in omni-channel retailing through FingerShopping.com.

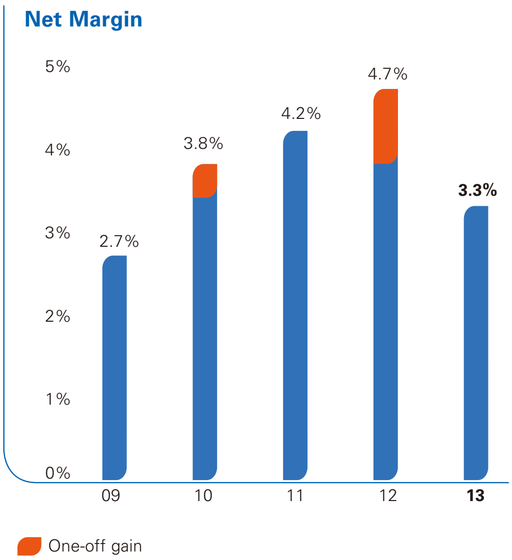
Basic earnings per share decreased by 7.5%, from 21.91 HK cents to 20.27 HK cents, excluding the one-off gain from the disposal of real estate property in 2012.

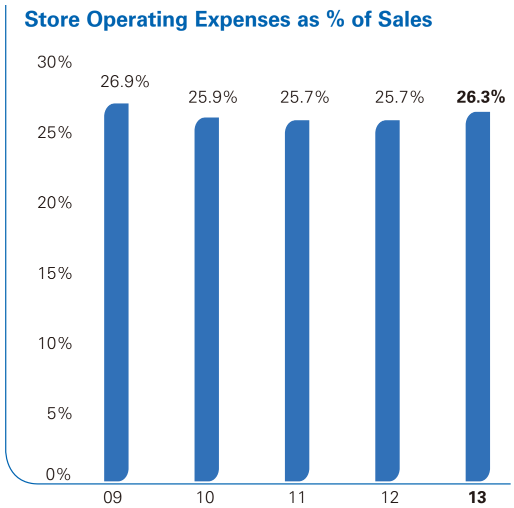
Financial Review (continued)

As at 31 December 2013 the Group had a net cash balance of HK$483 million with no bank borrowings. Most of the Group's cash and bank deposits were in Hong Kong dollars as well as Renminbi and deposited with major banks in Hong Kong and on the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held in either Hong Kong 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 Hong Kong dollar or Renminbi bank deposits, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.



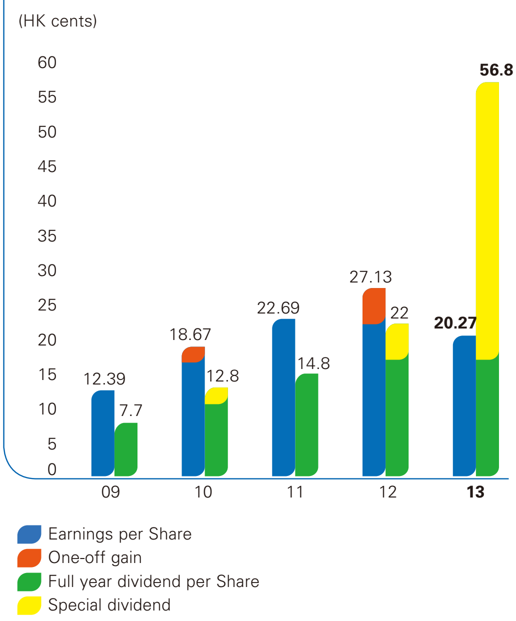




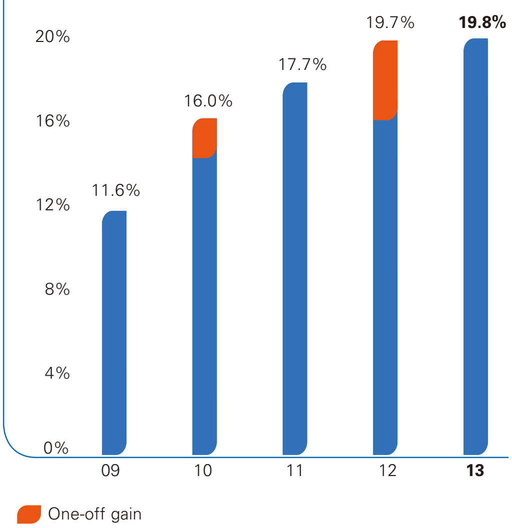


Financial Review (continued)

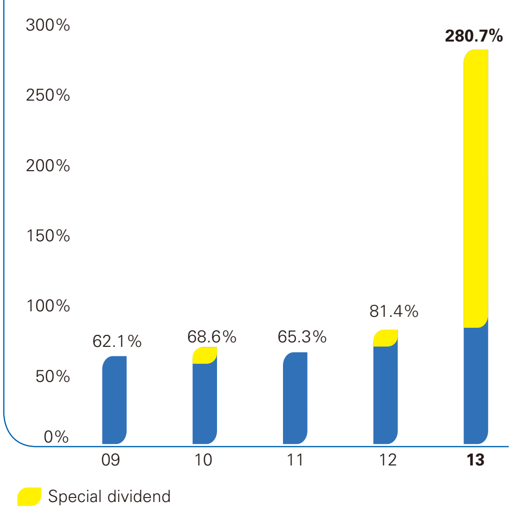
Earnings per Share and Dividend per Share



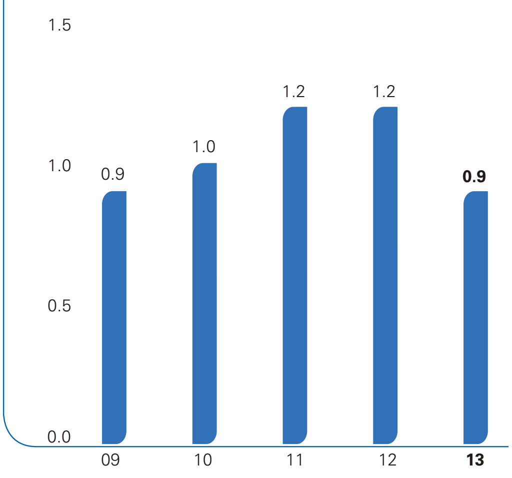
Return on Capital Employed



Dividend Payout



Current Ratio



Business Model and Corporate Strategy

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

The Group officially launched FingerShopping.com on 26 June 2013, which is operated by subsidiary FingerShopping Limited. FingerShopping.com is a distinctive online shopping platform featuring genuine, quality merchandise available via secure and convenient payment channels. It is backed by an extensive retail network of over 300 Circle K convenience stores, quality customer service and the Group's comprehensive logistics expertise.

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

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

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

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

Operations Review – Hong Kong

During the year, Circle K opened 20 new stores and closed 16 stores in Hong Kong for a net increase of four stores. The total number of stores at year-end was 335 compared to 331 at the end of 2012.

Saint Honore Cake Shop opened seven new stores and closed eight stores in Hong Kong, for a total of 89 stores at year-end compared to 90 at the end of 2012.

The retail rental market shows no indication of peaking, especially for prime retail sites. Due to the shifting demand to secondary prime retail sites, there has been a prevailing escalation in rentals in these areas.

Employees

As at 31 December 2013 the Group had a total of 6,833 employees, with 4,340, or 64%, based in Hong Kong and 2,493, or 36%, based in Guangzhou, Shenzhen and Macau. Part-time employees accounted for 37% of total headcount.

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

To follow up on the launch of the HEARTS (Happy, Energised, Achievements, Respect, Training, Success) engagement programme, five core competency and four leadership competency models were introduced to define people-management objectives and align execution practices. The five core competencies are "boss spirit", "care for people", "customer focus", "drive for excellence", and "teamwork and partnership". The four leadership competencies are "building internal and external networks", "business acumen and decision-making", "leading and developing people", and "reinventing ourselves".

To introduce the HEARTS programme and to develop core competencies in support of a people-focused corporate culture, the Group designed a poster explaining the Five Core Competencies.

Employees (continued)

An Activity Organising Board was formed with the mission of creating a happy working environment, caring for employees' families and ensuring work/life balance. Various company-sponsored events and outings were organised throughout the year and received enthusiastic levels of participation. These included movie days, visits to the Saint Honore factory, volunteer work for environmental protection, and other charity projects.

A special "Volunteer Work Leave" Policy was also introduced to encourage employees to participate in voluntary charity work and contribute to the community.

During the year the Activity Organising Board arranged visits to the Saint Honore factory, where colleagues made their own cakes with friends and family.

Marketing and Promotion

Circle K Hong Kong's innovation in premium promotions was recognised at the highly reputable Marketing Excellence Awards 2013 when it won the Silver Award in "Excellence in Retail/ Shopper Marketing" award for the "Let's LINE" Promotion, which was launched in the first quarter of the year. Riding on the success of the first promotion, Circle K launched "LINE Friends" in the last quarter of the year, this time featuring the popular LINE characters in exclusively designed stationery items. The second promotion was as well received by customers as the first one and generated substantial incremental store sales.

Because of the increasing penetration of smartphones and the growing popularity of mobile game applications, Circle K introduced a joint promotion with "Tower of Saviours" by making use of its game tokens as free premiums. The promotion also features a proprietary instant-win lucky draw mechanism through the use of the stores' electronic point of sale system.

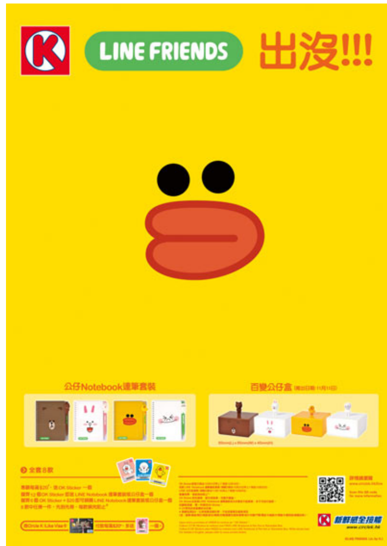
The Group's brand-building efforts were duly recognised at the "My Favourite MTR Shops Voting Campaign" organised by the MTR Corporation in the last quarter of 2013. The public were invited to vote for their favourite MTR station shops, and Circle K Hong Kong won the Bronze Award for "Most Popular MTR Shops" and the Excellence Award for "My Favourite MTR Shops for Convenient Service".

The "Let's LINE" promotional campaign launched by Circle K Hong Kong won the "Excellence in Retail/Shopper Marketing" Silver award from Marketing Magazine.

Marketing and Promotion (continued)

Circle K also won an award in the Retail Chain Store Category of the Yahoo! Emotive Brand Awards 2012-2013, an annual highlight of one of the most popular online platforms. The awards recognise brands with positive brand values and strong customer engagement, as elected by Hong Kong netizens through online voting.

The Circle K Hong Kong website was revamped and launched in September 2013, with a completely new design and functions for more user-friendly navigation and more effective customer interface. New product and service information are now available on the website, together with the latest promotional offers and social network links.



Continuing the success of the first LINE promotion, the second promotion "LINE Friends" was launched by Circle K Hong Kong in the last quarter of 2013.

Category Management

One of the Group's key initiatives for 2013 was to continue promoting its category awareness and enhancing its category offerings. During the year, the Group introduced innovative and creative themes for new products in various categories, such as "Japanese Bistro" for sake and Japanese snack food, "K-Snack Headquarters" for Korean snacks, "Craft Beer Festival" for imported designer beer, "Sweet Season" for chocolate confectionery and "Eat Healthy" for food services.

Exclusive, innovative product promotions enhanced category awareness and enriched the customer shopping experience.

Category Management (continued)

These category promotions proved to be quite effective in generating incremental sales for their respective categories, while supporting the "Always Something New" marketing platform.

In order to further expand and enrich the product offering, a dedicated sourcing team was formed with the mission of directly sourcing international products. Focus was placed specifically on Japanese and Korean products which are popular convenience store categories. These include items such as packed beverages, snack food, confectionery and packaged noodles.

Customer Service Excellence

Circle K Hong Kong was elected "Service Retailer of the Year" in the Convenience Stores Category of the Hong Kong Retail Management Association's (HKRMA) Mystery Shopper Programme for the fourth consecutive year. This was a well-deserved recognition of the team's dedication to quality customer service and the influence of the HEARTS corporate culture.

A store manager from Saint Honore Cake Shop, Apple Wong Bo Yim, was the Supervisory Level winner in the Food Shops Category of the "2013 Service and Courtesy Awards", also organised by HKRMA.

Apple Wong Bo Yim of Saint Honore Cake Shop was the winner in the Supervisory Level of Food Shops Category at the "2013 Service & Courtesy Awards" organised by the Hong Kong Retail Management Association.

In 2013, the Group continued to invest in intensive training for all frontline colleagues, while promoting a caring culture among the store operations team. The purpose of this is to promote the Group's principle that "happy employees beget happy customers".

Supply Chain Management and Logistics

To support Circle K Hong Kong's international sourcing initiative, inbound shipment and direct-import distribution procedures were set up to cope with the need for extra logistics support.

For Saint Honore Hong Kong, a GPS-based fleet management system was introduced to further enhance the cold-chain system and the business's supply chain management.

For the Guangzhou operations, the priority is to build capacity for storage and temperature control facilities in support of the business development of both Saint Honore and Circle K.

Operations Review – Guangzhou

The Guangzhou operations moved to a new office at Fortune Plaza, close to the Circle K and Saint Honore flagship stores. The move was made in preparation for another wave of growth in the Southern China market.

The Hot & In food service continued to be the main driver for revenue and margin growth, contributing more than 40% of the sales mix. It is benefited from a highly successful VIP program, where the membership base increased from approximately 100,000 to 130,000 over the last six months of 2013, representing growth of almost 30%. This is one of the critical success factors driving strong comparable stores sales growth.

Operations Review – Saint Honore Cake Shop

The Central Government issued an official decree prohibiting the practice of ostentatious gift-giving among government organisations and state-owned enterprises. The new restrictions include Mid-Autumn Festival mooncakes, which is a substantial blow for mooncake sales across all markets on the Chinese Mainland. Despite this challenging environment, Saint Honore operations were still able to report a slight improvement in mooncake sales.

Innovative new product introduction is a year-round effort for Saint Honore Cake Shop.

Operations Review – Saint Honore Cake Shop (continued)

At the end of 2013, the total number of Saint Honore cake shops increased by three (from 138 to 141) compared to the end of 2012. In 2013, the Group deliberately slowed the pace of new store openings in Guangzhou and Shenzhen for three primary reasons. The first was that new stores opened in the second half of 2012 still take time to mature. The second was that the Group intends to study these new stores closely to further upgrade and fine-tune future store models. Finally, the Group is taking a cautious outlook of the retail market on the Chinese Mainland.

Saint Honore Guangzhou also launched its official website during the year under review, which will pave way for providing an online cake ordering service to customers.

The satisfactory sales performance of mooncake contributed substantially to Saint Honore's robust sales growth in the second half of the year.

FingerShopping.com

On 26 June 2013, the Group held the grand opening of FingerShopping.com. This e-shopping platform, operated by subsidiary FingerShopping Limited, enables customers to make convenient, secure online purchases of genuine lifestyle products. As at 31 December 2013, the Group had recruited over 70 vendors with approximately 4,000 stock-keeping units.

FingerShopping.com was officially launched on 26 June 2013.

FingerShopping.com uses an innovative "clicks and bricks" model, combining the best features of a secure e-tailing platform with the support of Circle K's extensive store network. Over 80% of orders are paid for and picked up at Circle K stores. The store network also functions as one of the site's key promotional channels, promoting it via shelf talkers, brochure stands and Facebook fan page-sharing. Health and beauty has become one of the most successful anchor categories, representing 70% of the total quantity sold and 66% of total sales value. FingerShopping.com also serves as an e-commerce platform for social enterprises and SMEs, including shops run by the Hong Kong Council of Social Service (Good Goods) and famous designer brands (Point To Life, b.wing, ChristopherVineDesign, Din Dong and many more).

Corporate Social Responsibility

In September 2013, Circle K Hong Kong partnered with the New Life Psychiatric Rehabilitation Association for a corporate social integration initiative designed to improve the operational efficiency and effectiveness of two New Life convenience stores located at Kowloon Hospital. New Life convenience stores offer a variety of daily necessities, healthcare and nutritional products, fresh fruits, food and beverage items, organic snacks, floral arrangements and handicrafts made by people in recovery from mental illness. The first New Life convenience store was opened in 1997 at the West Wing of Kowloon Hospital.

Circle K Hong Kong has won top awards in Heifer's annual "Race to Feed" event seven years in a row.

Through the partnership, the New Life stores will base their design and operations on the Circle K model to give people recovering from mental illness a realistic store environment, one where they can experience professional retail training and take significant steps towards open employment. Circle K Hong Kong and the Fung (1906) Foundation also donated new furniture and equipment for the initiative.

Future Prospects

The operating conditions in Hong Kong and on the Chinese Mainland continue to be difficult. A severe labour shortage and escalating retail rentals are the key challenges faced by retailers in both markets. In addition to boosting comparable stores sales to mitigate such unfavourable market conditions, another priority is to improving productivity across all levels to maintain competitiveness. Also, to leverage the trend of multi-channel shopping, Circle K is planning on developing its store network to act as a fulfilment provider, a move that should offer considerable potential for future business opportunities.

In the short term, uncertainties about the Chinese Mainland economy remain. However, in the longer term, the continued rise of the urban households and the rapid growth of the upper-middle-class on the Chinese Mainland – which is projected to increase by nearly 100 million households by 2022, with an upper-middle-class percentage increase from 17% to 63% – indicates a strong possibility that there will be exponential growth in target customers for convenience stores and cake shops.

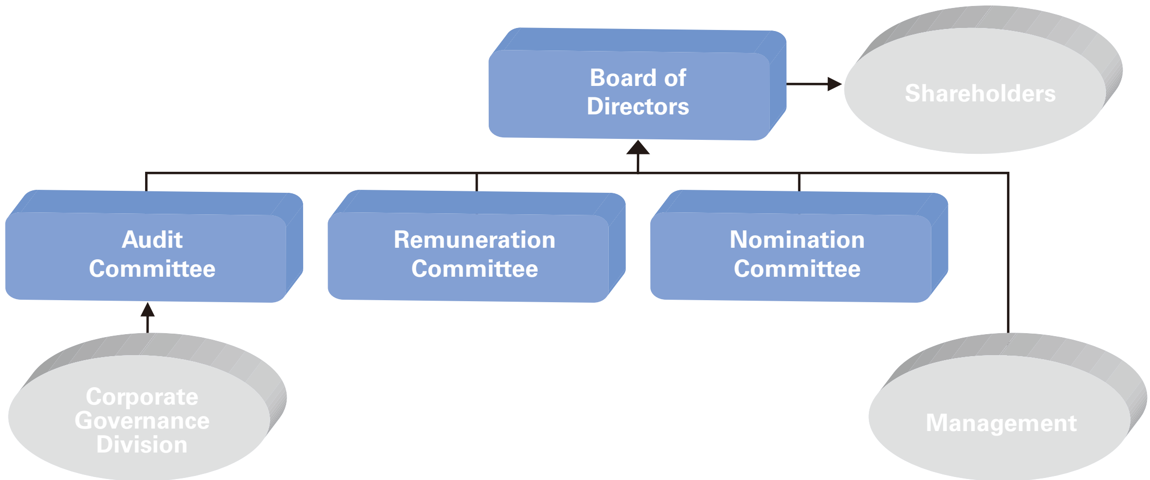
The Group will also continue to work on merger and acquisition opportunities as an important component of its strategic growth plan.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 27 February 2014

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 diversity of perspectives desirable for effective leadership of the Group. As at 31 December 2013, the Board comprised the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and four Non-executive Directors. Biographical details and relevant relationships of the Board members are set out in the Directors and Senior Management Profile section on pages 36 to 41.

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 2013 (with an average attendance rate of directors of about 95%). The Chairman holds meetings annually with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

The dates of the 2013 Board meetings and committee meetings were determined in the third quarter of 2012 to facilitate maximum attendance of Directors. Amendments to this schedule were notified to the Directors within a reasonable time before a regular Board meeting/committee meeting.

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

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

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

The Board (continued)

Board and Committee Meetings (continued)

Details of the attendance at the meetings held in 2013 are set out in the following table:

	No. of meetings **attended**/held				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Non-executive Directors:					
Victor FUNG Kwok King *(Group Chairman and Chairman of Nomination Committee)*	**4**/4	–	–	**3**/3	**1**/1
William FUNG Kwok Lun	**4**/4	–	**2**/2	–	**1**/1
Godfrey Ernest SCOTCHBROOK	**4**/4	**4**/4	–	–	**1**/1
Jeremy Paul Egerton HOBBINS	**4**/4	–	**2**/2	–	**1**/1
Benedict CHANG Yew Teck	**4**/4	**4**/4	–	–	**1**/1
Independent Non-executive Directors:					
Raymond CH'IEN Kuo Fung *(Chairman of Audit Committee)*	**2**/4	**2**/4	**1**/2	–	**1**/1
Malcolm AU Man Chung *(Chairman of Remuneration Committee)*	**4**/4	**4**/4	**2**/2	**3**/3	**1**/1
Anthony LO Kai Yiu	**4**/4	**4**/4	–	**3**/3	**1**/1
ZHANG Hongyi	**4**/4	–	**2**/2	–	**1**/1
Executive Directors:					
Richard YEUNG Lap Bun *(Chief Executive Officer)*	**4**/4	–	–	–	**1**/1
PAK Chi Kin *(Chief Operating Officer)*	**4**/4	–	–	–	**1**/1
Group Chief Compliance Officer:					
Srinivasan PARTHASARATHY +	**4**/4	**4**/4	**2**/2	**3**/3	**1**/1
Average Attendance Rate of Directors	about 95%	90%	90%	100%	100%
Dates of Meeting	27 March 2013 7 May 2013 6 August 2013 14 December 2013	27 March 2013 7 May 2013 6 August 2013 14 December 2013	27 March 2013 14 December 2013	27 March 2013 6 August 2013 14 December 2013	7 May 2013

\+ *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 2013.

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

Appointment and Re-appointment of Directors

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

No new Director was appointed during the year ended 31 December 2013.

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

Board Diversity

The Company recognises and embraces the benefits of having a diverse Board. A Board Diversity Policy was approved by the Board in May 2013. In reviewing Board composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, skills, regional and industry experience, background, race, age, culture and gender, so as to maintain an appropriate range and balance of skills, experience and background on the Board.

The Nomination Committee considers the Board to be diverse in respect of skills, regional and industry experience, background, race, age and culture. With a view to enhancing Board diversity regarding gender, the Nomination Committee is targeting to select and recommend to the Board a female candidate for directorship by the end of 2014.

Potential Conflict of Interest

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

The Board (continued)

Information and Continuous Professional Development

On appointment to the Board, each Director is given an induction on the Group's structure, businesses and governance practices to enhance his/her understanding of the Group's operations.

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

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

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

All Directors are required to provide the Company with their training records on an annual basis. For the year ended 31 December 2013, all Directors have attended the training sessions arranged by the Company. They have also attended and/or given talks at external seminars/training sessions.

Other Matters Concerning Directors

Written procedures are put in place for Directors to seek independent professional advice in performing their Directors' duties at the Company's expense. No request was made by any Director for such independent professional advice in 2013.

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

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

Independent Reporting of Corporate Compliance Function

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

Board Committees

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

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

Audit Committee

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

Raymond CH'IEN Kuo Fung * – *Committee Chairman*
Malcolm AU Man Chung *
Anthony LO Kai Yiu *
Godfrey Ernest SCOTCHBROOK +
Benedict CHANG Yew Teck +

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

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

The Audit Committee met four times in 2013 (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 the Listing Rules and statutory requirements, connected transactions, internal controls, policies and practices on corporate governance, risk management, treasury and financial reporting matters (including the annual and interim financial statements before recommending to the Board for approval); and
- Adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

Board Committees (continued)

Audit Committee (continued)

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

Under the Group's Whistleblowing Policy, employees can report any concern, including actual or potential misconduct, possible impropriety or fraud in financial reporting, accounting and internal control matters, to either senior management or the Group Chief Compliance Officer. Any shareholders or stakeholders can also report similar concerns by writing in confidence to the Group Chief Compliance Officer at the Company's principal place of business in Hong Kong. No incident of fraud or misconduct that has material effect on the Company's financial statements and overall operations was reported by employees, shareholders or stakeholders in 2013.

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 2013, the following fees paid or payable to the external auditor have been endorsed by the Audit Committee:

	Fees HK$'000
Audit services	1,950
Non-audit services (including agreed-upon procedures regarding interim financial information and tax services)	649
Total	2,599

Prior to the commencement of the audit of the Company's financial statements for the year ended 31 December 2013, 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 2014 at the forthcoming AGM.

Board Committees (continued)

Remuneration Committee

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

Malcolm AU Man Chung * – *Committee Chairman*
Raymond CH'IEN Kuo Fung *
William FUNG Kwok Lun +
Jeremy Paul Egerton HOBBINS +
ZHANG Hongyi *

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

The duties of the Remuneration Committee include:

- Make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, including allocation of share options to employees under the Company's Share Option Scheme;

- Make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management;

- Make recommendations to the Board on the remuneration of Non-executive Directors; and

- Review the Group's remuneration and human resources policy.

The Remuneration Committee met twice in 2013 (with an attendance rate of 90%) to consider the grant of share options to the employees and to review the remuneration packages of senior management. Written resolutions were also signed by members of the Remuneration Committee during the year in relation to the allotment of shares upon exercise of share options by the employees.

Remuneration Policy for Executive Directors

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

Board Committees (continued)

Remuneration Committee (continued)

Remuneration Policy for Non-executive Directors

Remuneration for Non-executive Directors comprises Directors' fees which are subject to assessment with reference to the range of remuneration of other companies listed on the Stock Exchange with similar market capitalisation, and recommendation by the Remuneration Committee for shareholders' approval at general meetings. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

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

Nomination Committee

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

Victor FUNG Kwok King + – *Committee Chairman*
Anthony LO Kai Yiu *
ZHANG Hongyi *

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

The duties of the Nomination Committee include:

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

The Nomination Committee met three times in 2013 (with a 100% attendance rate) to review the aforesaid matters.

Code of Conduct and Business Ethics

The Group places great emphasis on employees' 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, officers and employees 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 employees.

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"). Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code.

Specific confirmation of compliance has been obtained from each Director and each relevant employee. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2013.

The Company adopted the Policy on Inside Information on 1 January 2013, and handles and disseminates inside information in accordance with the requirements of the Securities and Futures Ordinance and the Listing Rules.

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 50 to 51.

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 55 and 56 respectively.

Internal Control and Risk Management

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

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

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

Internal Control and Risk Management (continued)

Control Environment

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

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

Financial Risk Management

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

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

Operational Control Management

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

Regulatory Compliance Control Management

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

Internal and External Auditors

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

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

Internal Control and Risk Management (continued)

Internal and External Auditors (continued)

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

The external auditor, PwC, performs independent statutory audit on the Group's financial statements. As part of the audit engagement, PwC also reports to the Audit Committee any significant weaknesses in the Group's internal control procedures which might come to their attention during the course of audit. PwC noted no significant internal control weaknesses in their audit for the financial year ended 31 December 2013.

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 2013:

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

- There was an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

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

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2013.

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, conducting road shows, arranging company visits and ad hoc meetings with institutional shareholders and analysts.

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

The Board confirmed that there were no significant changes in the Company's Articles of Association during 2013 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 2013, are set out in the Information for Investors section on page 42.

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 7 May 2013 at 4:00 p.m. The notice of AGM, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders at least 20 clear business days prior to the meeting. Separate resolutions were proposed in respect of each substantially separate issue.

Members of the Audit Committee, Remuneration Committee and Nomination Committee were available to answer questions from shareholders. A representative of the external auditor (the engagement partner) also attended the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

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 percentages of votes cast in favour of the resolutions were:

Ordinary resolutions passed	Percentage of votes cast
• To receive and adopt the audited consolidated financial statements and reports of the Directors and the Auditor of the Company and its subsidiaries for the year ended 31 December 2012	100%
• To declare a final dividend of 13 HK cents per share	100%
• To re-elect Mr. Benedict Chang Yew Teck as Director	99.49%
• To re-elect Mr. Zhang Hongyi as Director	99.89%
• To re-elect Mr. Richard Yeung Lap Bun as Director	99.49%
• To re-elect Mr. Jeremy Paul Egerton Hobbins as Director	99.89%
• To re-elect Dr. Raymond Ch'ien Kuo Fung as Director	99.60%
• To re-appoint PwC as Auditor and authorise the Board to fix their remuneration	100%
• To give a general mandate to the Directors to allot and issue additional shares not exceeding 20% of the issued share capital of the Company	80%
• To give a general mandate to the Directors to repurchase shares of the Company not exceeding 10% of the issued share capital of the Company	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	80%

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

Recognition

The Company has been named "Asia's Most Promising Company on Corporate Governance" at Corporate Governance Asia Magazine's "9th Corporate Governance Asia Recognition Awards 2013 – The Best of Asia", an award that recognises the substantial efforts made over the years in this important area.

Directors and Senior Management Profile

Executive Directors

Richard YEUNG Lap Bun – *Chief Executive Officer*

Mr. Yeung, aged 57, has over 20 years of experience in general management, food distribution and supply chain management and has been a Director of the Company since 1 November 2000. He is currently the Chief Executive Officer of the Group responsible for overseeing the Group's operations, marketing, logistics and supply chain management, and is actively involved in new business development on the Chinese Mainland. Prior to joining the Group in October 1998, he spent about ten years in senior positions at HAVI Food Services Group, managing the supply chain of McDonald's Restaurants in various countries in Asia. Mr. Yeung graduated from the University of Hawaii with a Bachelor of Business Administration degree. Mr. Yeung also holds a Master's degree in Business Administration from the California State University of Los Angeles and is a Certified Public Accountant of the American Institute of Certified Public Accountants. He is also a director of Fung Retailing Limited, a substantial shareholder of the Company.

PAK Chi Kin – *Chief Operating Officer*

Mr. Pak, aged 55, has over 20 years of experience in the retailing and food distribution business and has been a Director of the Company since 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 68, brother of Dr. William Fung Kwok Lun, has been a Non-executive Director of the Company since 3 January 2001. Dr. Fung is Group Chairman of the Fung Group, a Hong Kong based multinational which comprises operating groups engaging in trading, logistics, distribution and retailing. They include publicly-listed Li & Fung Limited, Trinity Limited and the Company. Dr. Fung has become Honorary Chairman of Li & Fung Limited after stepping down as its Group Chairman since May 2012. He is also a director of King Lun Holdings Limited, Fung Holdings (1937) Limited and Fung Retailing Limited, which are substantial shareholders of the Company. Dr. Fung holds Bachelor and Master degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. He is an independent non-executive director of BOC Hong Kong (Holdings) Limited and Chow Tai Fook Jewellery Group Limited (Hong Kong), Koç Holding A.Ş. (Turkey) and China Petrochemical Corporation (People's Republic of China). He was an independent non-executive director of Baosteel Group Corporation (October 2005 – January 2013). Dr. Fung is Founding Chairman of the Fung Global Institute, an independent and non-profit think-tank based in Hong Kong. He completed his term as Honorary Chairman of the International Chamber of Commerce ("ICC") end of June 2013, but continues to chair the World Trade Agenda Initiative of ICC's G20 Advisory Group. In public service, Dr. Fung is a member of the Chinese People's Political Consultative Conference and a Vice Chairman of China Centre for International Economic Exchanges. He is also a member of the Economic Development Commission 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 Council of the University of Hong Kong (2001 – 2009), Chairman of the Hong Kong – Japan Business Co-operation Committee (2004 – 2010), Chairman of the Greater Pearl River Delta Business Council (2004 – end of February 2013), a member of the Commission on Strategic Development of the Hong Kong Government (2005 – June 2012), Chairman of ICC (2008 – 2010) and a member of WTO Panel on Defining the Future of Trade (2012 – April 2013). In 2003 and 2010, the Hong Kong Government awarded Dr. Fung the Gold Bauhinia Star and the Grand Bauhinia Medal respectively for his distinguished service to the community.

William FUNG Kwok Lun

Dr. Fung, SBS, OBE, JP, aged 65, brother of Dr. Victor Fung Kwok King, has been a Non-executive Director of the Company since 3 January 2001. Dr. Fung is Group Chairman of Li & Fung Limited and a non-executive director of Trinity Limited, both of the Fung Group, and is also a director of the substantial shareholders of the Company, King Lun Holdings Limited, Fung Holdings (1937) Limited and Fung Retailing Limited. He is a director of the Fung Global Institute, an independent and non-profit think-tank based in Hong Kong. Dr. Fung held key positions at major trade and business organisations. He is the past Chairman of the Hong Kong General Chamber of Commerce (1994 – 1996), the Hong Kong Exporters' Association (1989 – 1991) and the Hong Kong Committee for the Pacific Economic Cooperation (1993 – 2002). 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 Hong Kong listed VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. He is also an independent director of Singapore Airlines Limited of Singapore.

Non-executive Directors (continued)

Godfrey Ernest SCOTCHBROOK

Mr. Scotchbrook, aged 67, 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 the 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 66, has been a Non-executive Director of the Company since 29 October 2004. Mr. Hobbins is also a director of various companies within the Fung Group including Fung Holdings (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 Fung Group in 1999 and was Group Managing Director of Fung Retailing Limited, a substantial shareholder of the Company, and previous Deputy Chairman of Fung Distribution International Limited. Prior to joining the 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 had also held a number of senior management positions in Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes where he started his career as a commercial apprentice working in brand management.

Benedict CHANG Yew Teck

Mr. Chang, aged 59, has been a Non-executive Director of the Company since 1 July 2012. He was the group managing director of Integrated Distribution Services Group Limited ("IDS") which was privatised on 29 October 2010, and had been a director of IDS from October 2003 to April 2011. He is currently a director of Fung Holdings (1937) Limited, a substantial shareholder of the Company and has been a non-executive director of Li & Fung Limited since February 2011. Mr. Chang graduated from the University of Surrey, United Kingdom, with a Bachelor of Science Degree (First Class Honours) in Marine Engineering. He is also the Chairman of the Advisory Board of the Asian Institute of Supply Chains & Logistics (formerly Li & Fung Institute of Supply Chain Management and Logistics) of the Chinese University of Hong Kong, and a member of the Advisory Board of the School of Information Systems, Singapore Management University.

Independent Non-executive Directors

Raymond CH'IEN Kuo Fung

Dr. Ch'ien, aged 62, has been an Independent Non-executive Director of the Company since 3 January 2001. Dr. Ch'ien is Chairman of MTR Corporation Limited and Hang Seng Bank Limited. Dr. Ch'ien also serves on the boards of The Hongkong and Shanghai Banking Corporation Limited, The Wharf (Holdings) Limited, Swiss Re Limited (also its predecessor Swiss Reinsurance Company Limited), China Resources Power Holdings Company Limited and UGL Limited. Formerly, Dr. Ch'ien was director of HSBC Holdings plc, VTech Holdings Limited, Inchcape plc and Hong Kong Mercantile Exchange Limited, and Chairman of CDC Corporation and China.com Inc. In public service, Dr. Ch'ien is a member of the Economic Development Commission of the Hong Kong Government since January 2013, 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. From 1992 to 1997, Dr. Ch'ien was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of Hong Kong on 1 July 1997 and served until June 2002 and was also past Chairman of the Hong Kong/European Union Business Cooperation Committee. Dr. Ch'ien received a Doctoral degree in Economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal. In 2008, Dr. Ch'ien was conferred the honour of Chevalier de l'Ordre du Mérite Agricole of France.

Malcolm AU Man Chung

Mr. Au, aged 64, has been an Independent Non-executive Director of the Company since 3 January 2001. Mr. Au holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, the United States of America and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also an independent non-executive director of Hong Kong listed China-Hongkong Photo Products Holdings Limited.

Anthony LO Kai Yiu

Mr. Lo, aged 65, has been an Independent Non-executive Director of the Company since 3 August 2005. Mr. Lo is Chairman of Shanghai Century Capital Limited and has over 30 years of experience in banking, finance and investments. Mr. Lo also serves as an independent non-executive director of Hong Kong listed Playmates Holdings Limited, Tristate Holdings Limited, IDT International Limited and Lam Soon (Hong Kong) Limited. He is also an independent non-executive director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange, and Mecox Lane Limited, a company listed on Nasdaq. Mr. Lo was former Chairman and Co-Chief Executive Officer of Shanghai Century Acquisition Corporation (a company formerly listed on the American Stock Exchange). Mr. Lo is qualified as a Chartered Accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants.

Independent Non-executive Directors (continued)

ZHANG Hongyi

Mr. Zhang, aged 68, has been an Independent Non-executive Director of the Company since 1 July 2012. Mr. Zhang graduated from Peking Institute of Foreign Trade and retired from Bank of China. He has been a Council Member of China Development Institute (Shenzhen) since March 2008, and an independent non-executive director of Shenzhen Rural Commercial Bank Limited since August 2012. In addition, Mr. Zhang is an independent non-executive director of Bank of East Asia (China) Limited. Mr. Zhang is a Senior Economist and a Fellow of the Hong Kong Institute of Bankers. He previously served as the President of Shenzhen Branch of Bank of China, Vice Mayor of Shenzhen Municipal Government, Deputy C.E.O. of Hong Kong & Macau Regional Office of Bank of China, Chairman of Nanyang Commercial Bank, Limited, Chairman of Hua Chiao Commercial Bank Ltd., Vice Chairman of BOC Credit Card (International) Limited, General Manager of Macau branch of Bank of China, Managing Director of Banco Tai Fung, Chairman of Nam Tung Trust & Investment Co. Ltd., Chairman of Nantong Bank Ltd. (Zhuhai), Executive Vice President of China Development Institute (Shenzhen), a director of Henderson (China) Investment Company Limited, an independent non-executive director of Shenzhen Overseas Chinese Town Co., Ltd. (listed on the Shenzhen Stock Exchange) and Ping An Insurance (Group) Company of China, Ltd. (listed in Hong Kong and Shanghai), and a non-executive director of Inter-Citi Minerals Inc. (listed on the Canadian Stock Exchange).

Group Chief Compliance Officer

Srinivasan PARTHASARATHY

Mr. Parthasarathy, aged 56, was appointed as the Group Chief Compliance Officer of the Company in January 2012. He is also the Group Chief Compliance Officer of Fung Holdings (1937) Limited, a substantial shareholder of the Company and of the Fung Group of companies including Li & Fung Limited and Trinity Limited of which he is also their respective Group Chief Compliance Officer. He has over 30 years of experience and has held various financial and commercial positions with the Fung Group since 1999, and the Inchcape Group before that, in Hong Kong, Singapore, the United Kingdom and the Middle East. He is a Commerce Graduate of Bombay University and qualified as a Chartered Accountant in India, securing fourth position in the All India Merit Rankings. He is also a Fellow member of the Chartered Institute of Management Accountants, United Kingdom.

Senior Management

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

Mrs. Chan, aged 51, has over 25 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*
(retired on 31 December 2013)

Mr. Kan, aged 62, 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 was responsible for managing the manufacturing functions of Saint Honore group including the factories in Hong Kong, Shenzhen, Guangzhou and Macau. Prior to joining the Group in February 2000, he was the general manager of HAVI Food Services Group and IDS Logistics (HK) Limited, and was responsible for providing supply chain management services to multinational clients of the companies. After joining the Group, he was appointed as general manager for Southern China and responsible for the Group's expansion into the PRC market. He graduated from the McGill University of Canada with a Bachelor degree in Mechanical Engineering. He also holds a Master degree in Business Administration from the University of East Asia, Macau.

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

Mr. Lai, aged 52, is 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 was promoted as Director and General Manager of Convenience Retail Southern China in October 2009. Mr. Lai 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 39, has extensive experience in finance and accounting in the retailing industry. Prior to joining the Group in July 2004, he was the manager of PricewaterhouseCoopers, and was responsible for providing assurance and business advisory services to a wide range of well established wholesaling and retailing clients. Mr. Hui graduated from the Hong Kong University of Science and Technology with a Bachelor degree in Business Administration majoring in Accounting and also holds a Master degree in Business Administration from the University of Hong Kong. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants and also a member of CFA Institute.

Information for Investors

Listing Information

Listing	Hong Kong Stock Exchange
Stock code	00831

Key Dates

27 February 2014	Announcement of 2013 Final Results
9 May 2014	Record date for right to attend Annual General Meeting
12 May 2014	Annual General Meeting
19 May to 21 May 2014 (both days inclusive)	Closure of Register of Shareholders for 2013 Final Dividend
28 May 2014	Despatch of 2013 Final Dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2013	743,081,974 shares
Market capitalisation as at 31 December 2013	HK$4,176,121,000
Earnings per share for 2013	
Interim	8.12 HK cents
Full year	20.27 HK cents
Dividend per share for 2013	
Interim	3.80 HK cents
Special	40.00 HK cents
Final	13.00 HK cents
Full year	56.80 HK cents

Share Registrar and Transfer Offices

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

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

* *With effect from 31 March 2014, the address will be changed to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong*

Enquiries Contact

Sam HUI Chi Ho
Group Finance Director

Telephone	2991 6300
Fax	2991 6302
E-mail	investor@cr-asia.com

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

Website

www.cr-asia.com

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2013.

Principal Activities and Analysis of Operations

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

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 57.

The Directors had declared an interim dividend of 3.80 HK cents per share, totaling HK$28,235,000, and a special dividend of 40.00 HK cents per share, totaling HK$297,209,000, which were paid on 28 August 2013.

The Directors recommended the payment of a final dividend of 13.00 HK cents per share, totaling HK$96,603,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$164,000.

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 25 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company at 31 December 2013 calculated under the Companies Law of the Cayman Islands amounted to HK$395,967,000 (2012: HK$383,659,000).

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 2013 are set out in note 18 to the consolidated financial statements.

Ten-Year Financial Summary

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

Purchase, Sale or Redemption of Listed Securities

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

Share Options

1. 2001 Share Option Scheme

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

2. 2010 Share Option Scheme

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

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 54,032,597, representing approximately 7.27% 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 2013 are as follows:

(A) Continuous contract employees

Number of share options									
As at 1 January 2013	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)	As at 31 December 2013	Exercise price HK$	Grant date	Exercisable from	Exercisable until
1,130,000	–	(1,110,000)	–	(20,000)	–	3.39	3 May 2007	3 May 2010	2 May 2013
1,340,000	–	(930,000)	–	–	410,000	3.39	3 May 2007	3 May 2011	2 May 2014
340,000	–	(340,000)	–	–	–	3.46	19 November 2007	19 November 2010	18 November 2013
480,000	–	(220,000)	–	–	260,000	3.46	19 November 2007	19 November 2011	18 November 2014
120,000	–	(40,000)	–	–	80,000	2.04	21 December 2009	21 December 2010	20 December 2014
60,000	–	(60,000)	–	–	–	2.04	21 December 2009	21 December 2011	20 December 2014
14,325,000	–	–	(206,000)	–	14,119,000	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
–	508,000	–	–	–	508,000	5.40	28 March 2013	1 April 2014	31 March 2017
18,127,000	508,000	(2,700,000)	(206,000)	(20,000)	15,709,000				

Share Options (continued)

(B) Directors

	Number of share options									
	As at 1 January 2013	Granted	Exercised *(Note 2)*	Lapsed	Expired	As at 31 December 2013	Exercise price HK$	Grant date	Exercisable from	Exercisable until
Richard Yeung Lap Bun	400,000	–	(400,000)	–	–	–	3.39	3 May 2007	3 May 2010	2 May 2013
	400,000	–	–	–	–	400,000	3.39	3 May 2007	3 May 2011	2 May 2014
	2,000,000	–	–	–	–	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
Pak Chi Kin	300,000	–	(300,000)	–	–	–	3.39	3 May 2007	3 May 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
	5,400,000	–	(1,000,000)	–	–	4,400,000				

Notes:

1. *During the year, share options to subscribe for a total of 508,000 shares were granted on 28 March 2013. The closing price of the shares immediately before the date on which the options were granted was HK$5.30.*

2. *Share options to subscribe for 3,700,000 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$5.53.*

3. *Share options to subscribe for 206,000 shares lapsed during the year following the cessation of employment of certain grantees.*

4. *Share options to subscribe for 20,000 shares expired during the year following the expiry of the options.*

5. *The value of the options granted during the year is HK$334,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$5.40 at the grant date, exercise price shown above, standard deviation of expected share price returns of 25.3%, expected life of options of three years, expected dividend paid out rate of 3.7% and annual risk-free interest rate of 0.5%. 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 2013, 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 *
ZHANG Hongyi *
Godfrey Ernest SCOTCHBROOK
Jeremy Paul Egerton HOBBINS
Benedict CHANG Yew Teck

Executive Directors
Richard YEUNG Lap Bun
PAK Chi Kin

* *Independent Non-executive Directors*

In accordance with Article 87 of the Company's Articles of Association, Dr. Victor Fung Kwok King, Mr. Malcolm Au Man Chung, Mr. Godfrey Ernest Scotchbrook and Mr. Pak Chi Kin 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 30 "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 2013, the Directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and/or the Code for Securities Transactions by Directors and Relevant Employees adopted by the Company:

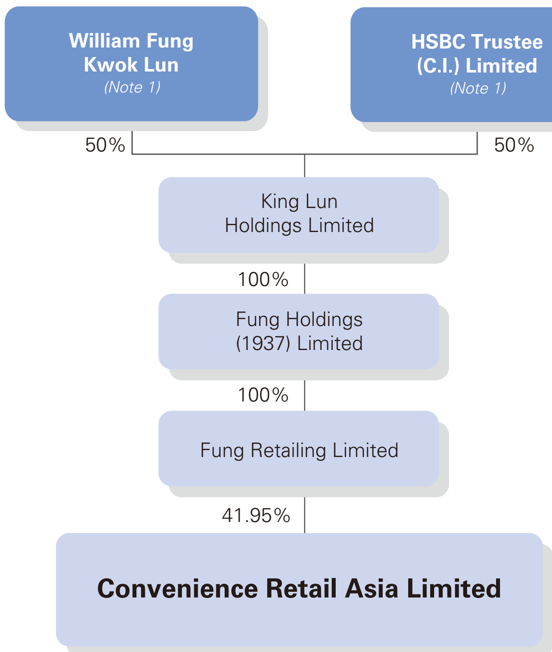
Long positions in shares and the underlying shares of the Company

	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	–	–	311,792,000 *(Note 1)*	–	311,792,000	41.95%
William Fung Kwok Lun	–	–	311,792,000 *(Note 1)*	–	311,792,000	41.95%
Richard Yeung Lap Bun	19,996,000	–	–	2,400,000 *(Note 2)*	22,396,000	3.01%
Pak Chi Kin	800,000	–	–	2,000,000 *(Note 2)*	2,800,000	0.37%
Raymond Ch'ien Kuo Fung	600,000	–	–	–	600,000	0.08%
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 2013, the interests of Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun in the shares of the Company are summarised in the following chart:



Notes:

1. *King Lun Holdings Limited ("King Lun") through its indirect wholly owned subsidiary, Fung Retailing Limited ("FRL") (a wholly owned subsidiary of Fung Holdings (1937) Limited ("FH (1937)")) held 311,792,000 shares in the Company. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr. Victor Fung Kwok King, the remaining 50% is owned by Dr. William Fung Kwok Lun. Therefore, Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, by virtue of their interests in King Lun, are deemed to have interests in 311,792,000 shares of the Company.*

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

Save as disclosed above, as at 31 December 2013, 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 2013, 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:

Interests in shares of the Company

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	311,792,000 *(L)*	Trustee *(Note 1)*	41.95%
King Lun Holdings Limited	311,792,000 *(L)*	Corporate interests *(Note 1)*	41.95%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000 *(L)*	Other	12.45%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000 *(L)*	Other *(Note 2)*	12.45%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000 *(L)*	Corporate interests *(Note 3)*	12.45%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	87,790,000 *(L)*	Other *(Note 4)*	11.81%
JPMorgan Chase & Co.	37,752,000 *(L)* 26,458,000 *(P)*	Corporate interests *(Note 5)*	5.08%
Dempsey Hill Asia Master Fund ("Dempsey Hill Asia")	37,008,000 *(L)* *(Note 6)*	Other	4.98%
Dempsey Hill Capital Pte Ltd ("Dempsey Hill Capital")	37,008,000 *(L)* *(Note 6)*	Other *(Note 7)*	4.98%
Lim Thiam Soon ("Mr. Lim")	37,008,000 *(L)* *(Note 6)*	Corporate interests *(Note 7)*	4.98%

(L) – Long Position
(P) – Lending Pool

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

Interests in shares of the Company (continued)

Notes:

1. *These shares were held by FRL. King Lun indirectly owns 100% interests in FRL through its wholly owned subsidiary, FH (1937). All of HSBC Trustee (C.I.) Limited, King Lun, FH (1937) and FRL are deemed to have interests in these shares pursuant to the SFO. Please refer to Note 1 in the above section headed "Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures".*

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

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

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

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

6. *The number of shares held was reported in the Disclosure of Interests notices filed on 12 September 2012 and no further notification has been filed by the shareholders.*

7. *These shares were held by Dempsey Hill Asia of which Dempsey Hill Capital is the fund manager. Dempsey Hill Capital is owned as to 70% by Mr. Lim.*

Save as disclosed above, as at 31 December 2013, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

Sufficiency of Public Float

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

Major Customers and Suppliers

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

– the largest supplier	25%
– five largest suppliers combined	47%

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

		HK$'000
1.	Purchases of various products (being both food and non-food products) from FH (1937) and its associates *(Note 1)*	9,978
2.	Properties leasing and/or licensing arrangements with FH (1937) and its associates *(Note 2)*	8,749

Notes:

1. *This refers to the purchases of various products (being both food and non-food products) by the Group from FH (1937) (the controlling shareholder of the Company) and its associates under a master agreement signed on 22 November 2012 for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (details of which were disclosed in the announcement dated 22 November 2012).*

2. *This refers to the leasing of properties and/or licensing of the right to use properties (or any part thereof) by FH (1937) (the controlling shareholder of the Company) and its associates to the Group under a master agreement signed on 22 November 2012 for a term of three years commencing from 1 January 2013 and ending on 31 December 2015 (details of which were disclosed in the announcement dated 22 November 2012).*

The Independent Non-executive Directors reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In addition, all the disclosure requirements in connection with the above transactions pursuant to Chapter 14A of the Listing Rules have been duly complied with by the Company.

Connected Transactions (continued)

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

Contracts with Controlling Shareholders

Save as disclosed under "Connected Transactions" above and note 30 "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 2013, the Directors have selected suitable and relevant accounting policies and applied them consistently as stated in note 2 to the consolidated financial statements; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Auditor

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

On behalf of the Board
Victor FUNG Kwok King
Chairman

Hong Kong, 27 February 2014

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Convenience Retail Asia Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 119, which comprise the consolidated and company balance sheets as at 31 December 2013, 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 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 February 2014

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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Consolidated Profit and Loss Account

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Revenue	5	**4,521,289**	4,270,318
Cost of sales	6	**(2,942,260)**	(2,801,587)
Gross profit		**1,579,029**	1,468,731
Other income	5	**86,417**	84,250
Other gains, net	7	**9,988**	42,621
Store expenses	6	**(1,188,133)**	(1,099,556)
Distribution costs	6	**(110,810)**	(103,918)
Administrative expenses	6	**(199,202)**	(174,135)
Operating profit		**177,289**	217,993
Interest income	8	**7,483**	11,585
Profit before income tax		**184,772**	229,578
Income tax expenses	9	**(34,419)**	(29,627)
Profit attributable to shareholders of the Company	10 & 26	**150,353**	199,951
Earnings per share (HK cents)			
Basic	11	**20.27**	27.13
Diluted	11	**20.04**	26.94
Dividends	12	**422,047**	162,676

The notes on pages 65 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Profit attributable to shareholders of the Company	**150,353**	199,951
Other comprehensive income/(loss):		
Item that may be reclassified subsequently to profit or loss		
Exchange differences	**2,218**	945
Release of exchange reserve upon disposal of a subsidiary	**(3,825)**	–
Total comprehensive income attributable to shareholders of the Company	**148,746**	200,896

The notes on pages 65 to 119 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Fixed assets	*15*	**357,546**	362,250
Lease premium for land	*16*	**55,388**	31,197
Intangible assets	*17*	**357,465**	357,465
Available-for-sale financial asset	*19*	**1,895**	1,895
Rental and other long-term deposits		**69,183**	65,180
Deferred tax assets	*20*	**9,203**	9,152
		850,680	827,139
Current assets			
Inventories	*21*	**173,959**	180,914
Rental deposits		**51,920**	41,820
Trade receivables	*22*	**50,335**	47,819
Other receivables, deposits and prepayments		**76,897**	83,872
Taxation recoverable		**226**	–
Bank deposits	*23*	**51,284**	203,998
Cash and cash equivalents	*23*	**431,348**	539,035
		835,969	1,097,458
Current liabilities			
Trade payables	*24*	**546,920**	551,015
Other payables and accruals		**191,127**	184,225
Taxation payable		**11,055**	5,638
Cake coupons		**153,493**	142,555
		902,595	883,433
Net current (liabilities)/assets		**(66,626)**	214,025
Total assets less current liabilities		**784,054**	1,041,164

Consolidated Balance Sheet (continued)

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Financed by:			
Share capital	*25*	**74,308**	73,938
Reserves	*26*	**587,407**	845,026
Proposed dividend	*26*	**96,603**	96,217
Shareholders' funds		**758,318**	1,015,181
Non-current liabilities			
Long service payment liabilities	*27*	**16,462**	16,962
Deferred tax liabilities	*20*	**9,274**	9,021
		784,054	1,041,164

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 65 to 119 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Non-current assets			
Investments in subsidiaries	*18*	**654,538**	654,538
Fixed assets	*15*	**3,643**	4,548
Rental and other long-term deposits		**–**	23
		658,181	659,109
Current assets			
Amounts due from subsidiaries	*18*	**367,683**	173,297
Rental deposits		**1,816**	1,793
Other receivables, deposits and prepayments		**1,624**	1,560
Bank deposits	*23*	**–**	48,710
Cash and cash equivalents	*23*	**121,865**	76,682
		492,988	302,042
Current liabilities			
Amounts due to subsidiaries	*18*	**668,912**	492,716
Other payables and accruals		**10,956**	9,725
		679,868	502,441
Net current liabilities		**(186,880)**	(200,399)
Total assets less current liabilities		**471,301**	458,710
Financed by:			
Share capital	*25*	**74,308**	73,938
Reserves	*26*	**299,364**	287,442
Proposed dividend	*26*	**96,603**	96,217
		470,275	457,597
Non-current liability			
Long service payment liabilities	*27*	**1,026**	1,113
		471,301	458,710

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 65 to 119 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

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

	Attributable to shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital reserves HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total equity HK$'000
At 1 January 2013	73,938	317,977	177,087	17,222	11,317	10,710	406,930	1,015,181
Profit attributable to shareholders of the Company	–	–	–	–	–	–	150,353	150,353
Release of exchange reserve upon disposal of a subsidiary	–	–	–	–	–	(3,825)	–	(3,825)
Exchange differences	–	–	–	–	–	2,218	–	2,218
Total comprehensive income for the year	–	–	–	–	–	(1,607)	150,353	148,746
Issue of new shares	370	12,077	–	–	–	–	–	12,447
Employee share option benefit	–	3,625	–	–	139	–	92	3,856
Transfer to capital reserves	–	–	–	559	–	–	(559)	–
Dividends paid	–	–	–	–	–	–	(421,912)	(421,912)
	370	15,702	–	559	139	–	(422,379)	(405,609)
At 31 December 2013	74,308	333,679	177,087	17,781	11,456	9,103	134,904	758,318

The notes on pages 65 to 119 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

	Note	**2013** **HK$'000**	2012 HK$'000
Cash flows from operating activities			
Cash generated from operations	*28*	**251,623**	226,479
Hong Kong profits tax paid		**(24,154)**	(34,186)
Overseas income tax paid		**(4,807)**	(5,376)
Net cash generated from operating activities		**222,662**	186,917
Cash flows from investing activities			
Purchase of fixed assets		**(62,243)**	(106,071)
Purchase of lease premium for land		**(25,150)**	–
Proceeds from disposal of fixed assets		**307**	61,183
Decrease in bank deposits		**155,765**	120,469
Interest received		**9,704**	11,165
Net cash generated from investing activities		**78,383**	86,746
Cash flows from financing activities			
Proceeds from issuance of shares		**12,447**	18,122
Dividends paid		**(421,912)**	(147,545)
Net cash used in financing activities		**(409,465)**	(129,423)
(Decrease)/increase in cash and cash equivalents		**(108,420)**	144,240
Cash and cash equivalents at 1 January		**539,035**	394,283
Effect of foreign exchange rate changes		**733**	512
Cash and cash equivalents at 31 December		**431,348**	539,035

The notes on pages 65 to 119 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 February 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The Group has adopted the following new and amended standards of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2013 and relevant to its operations:

HKFRS 10	Consolidated Financial Statements
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 Amendment	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKAS 1 Amendment	Presentation of Items of Other Comprehensive Income
HKAS 27 (2011)	Separate Financial Statements
Annual Improvements Project	Annual Improvements 2009-2011 Cycle

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

The following new and amended standards and interpretations of HKFRS are mandatory for accounting periods beginning on or after 1 January 2013 but they are not relevant to the Group's operations:

HKFRS 1 Amendment	Government Loans
HKFRS 7 Amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKAS 19 (2011)	Employee Benefits
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

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 2014. 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 9	Financial Instruments
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendment	Investment Entities
HKAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities
HKAS 36 Amendment	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 Amendment	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

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

(i) Subsidiaries

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(ii) Transactions with non-controlling interests

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised in other comprehensive income.

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

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

(e) Fixed assets and lease premium for land

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

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

Equipment, furniture and fixtures	10% to 33 $^{1}/_{3}$%
Motor vehicles	15% to 25%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

(f) Intangible assets

(i) Goodwill

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

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

(ii) Trademarks

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of non-financial assets

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

(h) Financial assets

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

Classification

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial assets (continued)

Recognition and measurement

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

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

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

Impairment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial assets (continued)

Impairment (continued)

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

(i) 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.

(j) 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.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(l) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Trade payables

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

(n) 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

(iv) Long service payment liabilities

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(v) Share-based compensation

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

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

(p) Provisions

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

(q) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

(s) 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$113,991,000 (2012: HK$170,721,000) as at 31 December 2013.

If Renminbi had been strengthened/weakened by 1% against HK dollar with all other variables held constant, the Group's net profit would have been increased/decreased by HK$1,140,000 (2012: HK$1,707,000) for the year ended 31 December 2013.

(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.

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) *Credit risk* (continued)

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$546,920,000 (2012: HK$551,015,000) and other payables and accruals of HK$191,127,000 (2012: HK$184,225,000) are contractually maturing within one year. On company level, all of the financial liabilities, including the balances with subsidiaries of HK$668,912,000 (2012: HK$492,716,000) are repayable on demand and other payables and accruals of HK$10,956,000 (2012: HK$9,725,000) are contractually maturing within one year. The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK$32,888,000 (2012: HK$32,888,000).

(iv) *Interest rate risk*

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

If the interest rates had been increased/decreased by 0.5% with all other variables held constant, the Group's net profit would have been increased/decreased by HK$1,872,000 (2012: HK$2,489,000) for the year ended 31 December 2013.

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 financial asset that is measured at fair value as at 31 December 2013 is as follows:

	2013	2012
	HK$'000	HK$'000
Available-for-sale financial asset (level 3)	**1,895**	1,895

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. For financial assets where the significant inputs is not based on observable market data, the asset is included in level 3.

(d) Group's valuation processes

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held between Group Finance Director and the valuation team at least twice every year, in line with the Group's reporting periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of fixed assets

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

(b) Estimated impairment of intangible assets

The Group tests annually whether goodwill and trademarks have suffered any impairment, in accordance with the accounting policy stated in note 2f. The recoverable amounts of goodwill and trademarks are determined based on fair value less costs to sell calculations and royalty relief valuation method. These calculations require the use of estimates *(note 17)*.

(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 25. Where the outcome of the number of options that are exercisable is different, such difference will impact the consolidated profit and loss account in the subsequent remaining vesting period of the relevant share options.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Income taxes

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

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

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

The Group is principally engaged in the operation of chains of convenience stores and bakeries. Revenues recognised during the year are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**3,578,293**	3,387,685
Bakery sales revenue	**942,996**	882,633
	4,521,289	4,270,318
Other income		
Service items and miscellaneous income	**86,417**	84,250

Segment information

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

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

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

Segment information (continued)

The segment information provided to the management for the reportable segments for the years ended 31 December 2013 and 2012 are as follows:

	2013				
	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	3,372,041	206,252	959,694	102,342	4,640,329
Inter-segment revenue	–	–	(118,849)	(191)	(119,040)
Revenue from external customers	3,372,041	206,252	840,845	102,151	4,521,289
Total segment other income	82,652	1,719	4,037	404	88,812
Inter-segment other income	–	(124)	(2,271)	–	(2,395)
Other income	82,652	1,595	1,766	404	86,417
	3,454,693	207,847	842,611	102,555	4,607,706
Profit/(loss) after tax	135,137	(20,718)	50,147	(14,213)	150,353
Profit/(loss) after tax includes:					
Depreciation	(26,725)	(7,487)	(25,285)	(5,462)	(64,959)
Amortisation	–	(462)	(584)	(67)	(1,113)
Interest income	6,625	159	497	202	7,483
Income tax (expenses)/credit	(26,576)	–	(8,440)	597	(34,419)

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

Segment information (continued)

	2012				
	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	3,216,504	171,186	912,255	77,166	4,377,111
Inter-segment revenue	(5)	–	(106,255)	(533)	(106,793)
Revenue from external customers	3,216,499	171,186	806,000	76,633	4,270,318
Total segment other income	80,880	1,852	3,749	107	86,588
Inter-segment other income	–	(68)	(2,270)	–	(2,338)
Other income	80,880	1,784	1,479	107	84,250
	3,297,379	172,970	807,479	76,740	4,354,568
Profit/(loss) after tax (after gain on disposal of property)	135,102	(18,748)	86,930	(3,333)	199,951
Profit/(loss) after tax (before gain on disposal of property)	135,102	(18,748)	48,428	(3,333)	161,449
Profit/(loss) after tax includes:					
Depreciation	(24,844)	(7,932)	(24,700)	(2,930)	(60,406)
Amortisation	–	(523)	(584)	–	(1,107)
Interest income	9,027	1,201	657	700	11,585
Income tax (expenses)/credit	(24,887)	–	(6,445)	1,705	(29,627)
Gain on disposal of property, net of tax	–	–	38,502	–	38,502

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 2013 and 2012 are as follows:

	2013				
	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	**488,885**	**76,874**	**709,433**	**67,063**	**1,342,255**
Total segment assets include:					
Additions to segment non-current assets	**26,784**	**6,723**	**18,031**	**40,362**	**91,900**
Total segment liabilities	**577,555**	**43,214**	**273,156**	**14,077**	**908,002**

	2012				
	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	545,154	99,217	728,380	49,308	1,422,059
Total segment assets include:					
Additions to segment non-current assets	42,911	11,435	36,742	15,122	106,210
Total segment liabilities	578,113	39,507	262,167	14,970	894,757

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:

	2013	2012
	HK$'000	HK$'000
Segment assets for reportable segments	**1,342,255**	1,422,059
Unallocated:		
Deferred tax assets	**9,203**	9,152
Taxation recoverable	**226**	–
Corporate bank deposits	**334,965**	493,386
Total assets per consolidated balance sheet	**1,686,649**	1,924,597

Reportable segment liabilities are reconciled to total liabilities as follows:

	2013	2012
	HK$'000	HK$'000
Segment liabilities for reportable segments	**908,002**	894,757
Unallocated:		
Deferred tax liabilities	**9,274**	9,021
Taxation payable	**11,055**	5,638
Total liabilities per consolidated balance sheet	**928,331**	909,416

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$4,087,571,000 (2012: HK$3,906,107,000), and the total of revenue from external customers from other countries is HK$433,718,000 (2012: HK$364,211,000) for the year ended 31 December 2013.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK$717,049,000 (2012: HK$721,798,000), and the total of these non-current assets located in other countries is HK$122,533,000 (2012: HK$94,294,000) as at 31 December 2013.

6. EXPENSES BY NATURE

	Group	
	2013	2012
	HK$'000	HK$'000
Amortisation of lease premium for land *(note 16)*	**1,113**	1,107
Auditor's remuneration		
Audit services	**1,950**	1,950
Non-audit services	**649**	453
Changes in inventories	**2,754,473**	2,628,521
Depreciation of owned fixed assets *(note 15)*	**64,959**	60,077
Depreciation of investment property	**–**	329
Employee benefit expense *(note 13)*	**770,674**	701,286
Operating leases rental for land and buildings		
Minimum lease payment	**435,321**	397,140
Contingent lease payment	**10,316**	9,872
Other expenses	**400,950**	378,461
Total cost of sales, store expenses, distribution costs and administrative expenses	**4,440,405**	4,179,196

7. OTHER GAINS, NET

For the year ended 31 December 2013, other gains mainly included net exchange gains amounting to HK$6,860,000 (2012: HK$1,322,000), rental compensation amounting to HK$2,800,000 (2012: HK$5,324,000) and release of exchange reserve upon disposal of a subsidiary amounting to HK$3,825,000 (2012: nil), net of losses on disposal of fixed assets amounting to HK$3,497,000 (2012: net gains of HK$35,975,000 including disposal of a real estate property HK$36,788,000).

8. INTEREST INCOME

	Group	
	2013	2012
	HK$'000	HK$'000
Interest income on bank deposits	**7,483**	11,585

9. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2013 and 2012. 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	
	2013	2012
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**28,219**	27,314
Overseas profits tax	**5,933**	5,899
Deferred income tax charge/(credit) *(note 20)*	**267**	(3,586)
	34,419	29,627

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 Group as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
Profit before income tax	**184,772**	229,578
Calculated at a taxation rate of 16.5%	**30,487**	37,880
Effect of different taxation rates in other jurisdictions	**(4,287)**	(3,113)
Income not subject to taxation	**(2,982)**	(8,544)
Expenses not deductible for tax purposes	**1,335**	1,904
Tax losses not recognised	**8,806**	5,924
Effect of previously unrecognised temporary differences	**66**	(191)
Reversal of previously recognised temporary differences	**1,498**	(3,304)
Over-provision in prior year	**(504)**	(1,108)
Remeasurement of deferred tax – change in tax rate	**–**	179
	34,419	29,627

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$418,361,000 (2012: HK$146,526,000).

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.

	2013 HK$'000	2012 HK$'000
Profit attributable to shareholders of the Company	**150,353**	199,951
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**741,862,795**	736,912,534
Adjustment for:		
Share options	**8,340,538**	5,175,150
Weighted average number of ordinary shares for diluted earnings per share	**750,203,333**	742,087,684

12. DIVIDENDS

	2013 HK$'000	2012 HK$'000
Interim dividend, proposed of 3.8 HK cents (2012: 3.8 HK cents) per share	**28,235**	28,060
Special dividend, proposed of 40 HK cents (2012: 5.2 HK cents) per share	**297,209**	38,399
Final dividend, proposed of 13 HK cents (2012: 13 HK cents) per share	**96,603**	96,217
	422,047	162,676

At a meeting held on 27 February 2014, the Directors proposed a final dividend of 13 HK cents per share. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

13. EMPLOYEE BENEFIT EXPENSE

	Group	
	2013 HK$'000	2012 HK$'000
Wages and salaries	**739,283**	672,298
Unutilised annual leave	**618**	281
Employee share option benefit	**3,856**	3,636
Pension costs – defined contribution plan *(note b & c)*	**26,423**	24,537
Long service payment costs *(note 27)*	**494**	534
	770,674	701,286

Notes:

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

(b) Forfeited contributions totalling HK$522,000 (2012: HK$663,000) were utilised during the year leaving nil (2012: nil) available at the year-end to reduce future contributions.

(c) Contributions totalling HK$3,848,000 (2012: HK$3,786,000) 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 2013 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	160	–	–	–	–	160
Jeremy Paul Egerton Hobbins	160	–	–	–	–	160
Richard Yeung Lap Bun *(note ii)*	110	3,180	7,372	500	15	11,177
Pak Chi Kin	110	1,920	1,474	506	15	4,025
Raymond Ch'ien Kuo Fung	290	–	–	–	–	290
Malcolm Au Man Chung	290	–	–	–	–	290
Godfrey Ernest Scotchbrook	160	–	–	–	–	160
Anthony Lo Kai Yiu	230	–	–	–	–	230
Benedict Chang Yew Teck *(note iii)*	160	–	–	–	–	160
Zhang Hongyi *(note iv)*	230	–	–	–	–	230
	2,120	5,100	8,846	1,006	30	17,102

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

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2012 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	241	–	–	–	–	241
William Fung Kwok Lun	130	–	–	–	–	130
Jeremy Paul Egerton Hobbins	160	–	–	–	–	160
Richard Yeung Lap Bun *(note ii)*	110	3,180	7,243	519	14	11,066
Pak Chi Kin	110	1,920	1,449	500	14	3,993
Raymond Ch'ien Kuo Fung	290	–	–	–	–	290
Malcolm Au Man Chung	300	–	–	–	–	300
Godfrey Ernest Scotchbrook	160	–	–	–	–	160
Anthony Lo Kai Yiu	221	–	–	–	–	221
Benedict Chang Yew Teck *(note iii)*	75	–	–	–	–	75
Zhang Hongyi *(note iv)*	105	–	–	–	–	105
	1,902	5,100	8,692	1,019	28	16,741

Notes:

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

(ii) Mr. Richard Yeung Lap Bun is the Chief Executive Officer of the Company.

(iii) Mr. Benedict Chang Yew Teck was appointed as a Non-executive Director of the Company on 1 July 2012.

(iv) Mr. Zhang Hongyi was appointed as an Independent Non-executive Director of the Company on 1 July 2012.

(v) No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2013 and 2012.

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

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

(b) Five highest paid individuals

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

	2013 HK$'000	2012 HK$'000
Salaries, housing allowances, share options, other allowances and benefit in kind	**6,261**	6,242
Discretionary bonuses	**1,325**	1,201
Pension costs – defined contribution scheme	**45**	41
	7,631	7,484

The emoluments of the above individuals fell within the band between HK$2,000,001 and HK$3,000,000 during the years of 2013 and 2012.

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

(c) Senior management's emoluments

The emoluments of the senior management included two Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four senior executives fell within the band between HK$2,000,001 and HK$3,000,000 during the years of 2013 and 2012.

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 2012					
Cost	205,761	244,470	443,546	22,326	916,103
Accumulated depreciation	(35,157)	(201,958)	(355,302)	(17,041)	(609,458)
Net book amount	170,604	42,512	88,244	5,285	306,645
Year ended 31 December 2012					
Opening net book amount	170,604	42,512	88,244	5,285	306,645
Additions	20,961	36,373	46,542	2,195	106,071
Transfer from investment property	34,702	–	–	–	34,702
Disposals	(23,956)	(642)	(581)	(29)	(25,208)
Depreciation *(note 6)*	(5,050)	(19,403)	(34,208)	(1,416)	(60,077)
Exchange differences	3	22	83	9	117
Closing net book amount	197,264	58,862	100,080	6,044	362,250
At 31 December 2012					
Cost	230,541	272,465	475,778	23,274	1,002,058
Accumulated depreciation	(33,277)	(213,603)	(375,698)	(17,230)	(639,808)
Net book amount	197,264	58,862	100,080	6,044	362,250
Year ended 31 December 2013					
Opening net book amount	**197,264**	**58,862**	**100,080**	**6,044**	**362,250**
Additions	**3,966**	**18,917**	**36,722**	**3,611**	**63,216**
Disposals	**–**	**(2,605)**	**(1,141)**	**(58)**	**(3,804)**
Depreciation *(note 6)*	**(5,712)**	**(20,905)**	**(36,787)**	**(1,555)**	**(64,959)**
Exchange differences	**8**	**350**	**403**	**82**	**843**
Closing net book amount	**195,526**	**54,619**	**99,277**	**8,124**	**357,546**
At 31 December 2013					
Cost	**234,520**	**277,728**	**492,276**	**25,846**	**1,030,370**
Accumulated depreciation	**(38,994)**	**(223,109)**	**(392,999)**	**(17,722)**	**(672,824)**
Net book amount	**195,526**	**54,619**	**99,277**	**8,124**	**357,546**

15. FIXED ASSETS (continued)

Group (continued)

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

	2013 **HK$'000**	2012 HK$'000
In Hong Kong, held on:		
Leases of 10 to 50 years	**124,785**	128,744
Outside Hong Kong, held on:		
Leases of 10 to 50 years	**10,590**	10,862
	135,375	139,606

As at 31 December 2013 and 2012, freehold land of HK$11,561,000 included in land and properties is located outside Hong Kong.

Depreciation expense of HK$10,525,000 (2012: HK$9,221,000) has been charged in cost of sales, HK$44,597,000 (2012: HK$41,357,000) in store expenses, HK$3,279,000 (2012: HK$3,338,000) in distribution costs and HK$6,558,000 (2012: HK$6,161,000) in administrative expenses.

15. FIXED ASSETS (continued)

Company

	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Total HK$'000
At 1 January 2012			
Cost	3,485	3,782	7,267
Accumulated depreciation	(663)	(1,845)	(2,508)
Net book amount	2,822	1,937	4,759
Year ended 31 December 2012			
Opening net book amount	2,822	1,937	4,759
Additions	410	901	1,311
Depreciation	(382)	(1,140)	(1,522)
Closing net book amount	2,850	1,698	4,548
At 31 December 2012			
Cost	3,895	4,670	8,565
Accumulated depreciation	(1,045)	(2,972)	(4,017)
Net book amount	2,850	1,698	4,548
Year ended 31 December 2013			
Opening net book amount	**2,850**	**1,698**	**4,548**
Additions	**–**	**511**	**511**
Depreciation	**(402)**	**(1,014)**	**(1,416)**
Closing net book amount	**2,448**	**1,195**	**3,643**
At 31 December 2013			
Cost	**3,895**	**5,179**	**9,074**
Accumulated depreciation	**(1,447)**	**(3,984)**	**(5,431)**
Net book amount	**2,448**	**1,195**	**3,643**

16. 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	
	2013	2012
	HK$'000	HK$'000
At 1 January	**31,197**	32,252
Addition	**25,150**	–
Amortisation *(note 6)*	**(1,113)**	(1,107)
Exchange differences	**154**	52
Net book value at 31 December	**55,388**	31,197

	Group	
	2013	2012
	HK$'000	HK$'000
Outside Hong Kong, held on:		
Lease of over 50 years	**635**	649
Leases of 10 to 50 years	**54,753**	30,548
	55,388	31,197

17. INTANGIBLE ASSETS

	Goodwill HK$'000	Trademarks HK$'000	Group HK$'000
At 31 December 2013 and 2012			
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 life due to the enduring nature of the brand.

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

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

Revenue growth rate *(note i)*	9%–21%
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 any impairment loss as at 31 December 2013 based on the impairment assessment performed.

If the annual revenue had 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.

17. INTANGIBLE ASSETS (continued)

(b) Impairment test for goodwill

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

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

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

Gross margin *(note i)*	48%
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 48% and is estimated by management with reference to the past performance and its expectations for the market development.

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

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

The Group does not have to recognise any impairment loss as at 31 December 2013 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 increased by 1%, the goodwill's recoverable amount would still be greater than its carrying value and no impairment would be noted.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013	2012
	HK$'000	HK$'000
Unlisted shares at cost	**654,538**	654,538

As at 31 December 2013 and 2012, the balances with subsidiaries are unsecured, interest free and repayable on demand.

As at 31 December 2013, 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%
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%

18. 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 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 and Cake Shop Shenzhen Limited 深圳利亞餅屋便利店有限公司 *	PRC *(note i)*	Convenience stores and bakery chain operator and lease-holder	Registered capital of RMB20,000,000	100%
Convenience Retail Southern China Limited	Hong Kong	Dormant	2 ordinary shares of HK$1 each	100%
Convenience Retail Southern China Limited 利亞華南便利店有限公司 *	PRC *(note ii)*	Convenience stores operator and lease-holder	Registered capital of RMB128,000,000	99.3%
Dinamo Investments Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Easy Triumph Holdings Limited	Hong Kong	Dormant	1 ordinary share of HK$1	100%
Easywin Limited	British Virgin Islands	Trademark holder	1 ordinary share of US$1	100%
Eltham Agents Limited	British Virgin Islands	Investment holding	10 ordinary shares of US$1 each	100%
Everfit Agents Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Evergain Consultants Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
FingerShopping Limited	Hong Kong	E-business	15,600,000 ordinary shares of HK$1 each	100%
Gold Tree Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Golden Mindset Company Limited	Hong Kong	Marketing of festive and bakery products	2 ordinary shares of HK$1 each	100%
Great Moment Investment Limited	Hong Kong	Property holding	2 ordinary shares of HK$1 each	100%
Green Rich Enterprises Limited	Hong Kong	Property holding	1 ordinary share of HK$1	100%
Kingdom Wise Limited	Hong Kong	Property holding	2 ordinary shares of HK$1 each	100%

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital/registered capital	Interest held
Indirectly held: (continued)				
Marine Merit Limited	Hong Kong	Property holding	1 ordinary share of HK$1	100%
Saint Honore Cake Shop Limited	Hong Kong	Bakery chain operator and lease-holder	5 ordinary shares of HK$10 each 345,005 non-voting deferred shares of HK$10 each	100%
Saint Anna Cake Shop (Macau) Limited Pastelarias Santa Ana (Macau), Limitada #	Macau	Bakery chain operator and lease-holder	Quota capital of MOP100,000	100%
Saint Honore Cake Shop Guangzhou Limited 廣州市聖安娜餅屋有限公司 *	PRC *(note i)*	Bakery chain operator and lease-holder	Registered capital of RMB38,345,674	100%
Saint Honore Cake Shop (Shenzhen) Investment Limited	Hong Kong	Dormant	2 ordinary shares of HK$1 each	100%
Saint Honore Cake Shop (Shenzhen) Limited 聖安娜餅屋(深圳)有限公司 *	PRC *(note i)*	Food factory operator	Registered capital of HK$18,610,000	100%
Silver Wave Agents Limited	British Virgin Islands	Investment holding	1 ordinary share of US$1	100%
Smart Trend Developments 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	Inactive	2 ordinary shares of HK$1 each	100%

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

Notes:

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

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

19. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group	
	2013	2012
	HK$'000	HK$'000
Unlisted investment in Macau	**1,895**	1,895

Note:

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

20. DEFERRED TAXATION

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

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**(131)**	3,485
Charged/(credited) to the consolidated profit and loss account *(note 9)*	**267**	(3,586)
Exchange difference	**(65)**	(30)
At 31 December	**71**	(131)

20. DEFERRED TAXATION (continued)

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

	Group							
Deferred tax assets	**Tax losses**		**Accelerated tax depreciation**		**Others**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(5,911)**	(4,811)	**(3,280)**	(3,792)	**(1,239)**	(588)	**(10,430)**	(9,191)
Charged/(credited) to the consolidated profit and loss account	**(442)**	(1,070)	**192**	512	**176**	(651)	**(74)**	(1,209)
Exchange difference	**(65)**	(30)	**–**	–	**–**	–	**(65)**	(30)
At 31 December	**(6,418)**	(5,911)	**(3,088)**	(3,280)	**(1,063)**	(1,239)	**(10,569)**	(10,430)

Deferred tax liabilities	**Accelerated tax depreciation**		**Fair value gain**		**Others**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**1,811**	2,128	**7,650**	9,710	**838**	838	**10,299**	12,676
Charged/(credited) to the consolidated profit and loss account	**590**	(317)	**(249)**	(2,060)	**–**	–	**341**	(2,377)
At 31 December	**2,401**	1,811	**7,401**	7,650	**838**	838	**10,640**	10,299

20. DEFERRED TAXATION (continued)

	Group	
	2013	2012
	HK$'000	HK$'000
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**(9,934)**	(6,224)
Deferred tax assets to be recovered within 12 months	**(635)**	(4,206)
	(10,569)	(10,430)
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	**9,551**	9,210
Deferred tax liabilities to be settled within 12 months	**1,089**	1,089
	10,640	10,299

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	
	2013	2012
	HK$'000	HK$'000
Deferred tax assets	**(9,203)**	(9,152)
Deferred tax liabilities	**9,274**	9,021

20. DEFERRED TAXATION (continued)

The Group did not recognise deferred income tax assets amounting to HK$34,459,000 (2012: HK$33,131,000) in respect of tax losses amounting to HK$140,908,000 (2012: HK$135,392,000) that can be carried forward against future taxable income. These unrecognised tax losses have no expiry dates except for the unrecognised tax losses as below:

	Group	
	2013	2012
	HK$'000	HK$'000
Less than 1 year	**32,465**	24,486
1-5 years	**102,807**	110,906
	135,272	135,392

Deferred income tax liabilities of HK$1,950,000 (2012: HK$1,652,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of a subsidiary. Such unremitted earnings are to be reinvested and amount to HK$38,997,000 at 31 December 2013 (2012: HK$33,049,000).

21. INVENTORIES

	Group	
	2013	2012
	HK$'000	HK$'000
Raw materials and packing materials	**26,300**	24,473
Finished goods	**147,659**	156,441
	173,959	180,914

22. 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 2013, the aging analysis of trade receivables is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
0-30 days	**37,235**	34,728
31-60 days	**4,620**	4,308
61-90 days	**2,484**	2,582
Over 90 days	**5,996**	6,201
	50,335	47,819

As of 31 December 2013, trade receivables of HK$1,240,000 (2012: HK$1,187,000) were impaired. The amount of the provision was HK$473,000 as of 31 December 2013 (2012: HK$217,000). 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 2013, trade receivables of HK$12,333,000 (2012: HK$12,121,000) 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	
	2013	2012
	HK$'000	HK$'000
Past due		
Up to 3 months	**7,104**	6,890
Over 3 months	**5,229**	5,231
	12,333	12,121

22. TRADE RECEIVABLES (continued)

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

	Group	
	2013	2012
	HK$'000	HK$'000
HK dollar (HK$)	**38,381**	34,059
Renminbi (RMB)	**9,839**	11,443
Patacas (MOP)	**2,115**	2,317
	50,335	47,819

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

	Group	
	2013	2012
	HK$'000	HK$'000
At 1 January	**217**	188
Provision for receivable impairment	**326**	62
Receivables written off	**(70)**	(33)
At 31 December	**473**	217

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.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**125,872**	211,278	**1,865**	11,682
Bank deposits	**305,476**	327,757	**120,000**	65,000
Cash and cash equivalents	**431,348**	539,035	**121,865**	76,682
Current bank deposits	**51,284**	203,998	**–**	48,710
Total cash and bank balances	**482,632**	743,033	**121,865**	125,392

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$430,464,000 (2012: HK$678,223,000).

As at 31 December 2013, bank deposits of HK$356,760,000 (2012: HK$531,755,000) bear effective interest rate of approximately 1.9% (2012: 2.3%) per annum. These deposits have an average maturity of 31 days (2012: 54 days).

As at 31 December 2013, certain cash and bank balances of HK$55,288,000 (2012: HK$58,239,000) 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 2013, the Group's total bank balances and cash are denominated in the following currencies:

	Group	
	2013	2012
	HK$'000	HK$'000
HK dollar (HK$)	**308,001**	507,301
Renminbi (RMB)	**169,147**	228,797
Patacas (MOP)	**5,484**	6,935
	482,632	743,033

24. TRADE PAYABLES

At 31 December 2013, the aging analysis of the trade payables is as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
0-30 days	**295,685**	299,803
31-60 days	**152,912**	142,399
61-90 days	**57,210**	53,214
Over 90 days	**41,113**	55,599
	546,920	551,015

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

25. SHARE CAPITAL

	2013		2012	
	Shares of HK$0.10 each		Shares of HK$0.10 each	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
At 31 December	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
At 1 January	**739,381,974**	**73,938**	733,909,974	73,391
Issue of shares on exercise of share options *(Note)*	**3,700,000**	**370**	5,472,000	547
At 31 December	**743,081,974**	**74,308**	739,381,974	73,938

Note:

During the year, 3,700,000 (2012: 5,472,000) shares were allotted and issued pursuant to the exercise of share options.

25. SHARE CAPITAL (continued)

Share options

(i) Share Option Scheme

(a) 2001 Share Option Scheme

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

(b) 2010 Share Option Scheme

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

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

25. 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:*

	2013		2012	
	Number of options	**Weighted average exercise price HK$**	Number of options	Weighted average exercise price HK$
At 1 January	**23,527,000**	**3.25**	30,095,000	3.26
Granted	**508,000**	**5.40**	332,000	3.71
Lapsed	**(206,000)**	**3.22**	(1,050,000)	3.26
Expired	**(20,000)**	**3.39**	(378,000)	3.12
Exercised	**(3,700,000)**	**3.36**	(5,472,000)	3.31
At 31 December	**20,109,000**	**3.29**	23,527,000	3.25
Exercisable	**1,150,000**	**3.31**	4,870,000	3.35

During the year ended 31 December 2013, the weighted average share price at the date of share options exercised was HK$5.54 (2012: HK$4.33). The options outstanding at 31 December 2013 and 2012 had a weighted average remaining contractual life of 3.1 years and 3.6 years respectively.

25. 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$	**2013 Number of options**	2012 Number of options
3 May 2013	3.39	**–**	1,830,000
3 May 2014	3.39	**810,000**	2,040,000
19 November 2013	3.46	**–**	340,000
19 November 2014	3.46	**260,000**	480,000
21 December 2014	2.04	**80,000**	180,000
1 April 2017	3.22	**18,119,000**	18,325,000
1 April 2017	3.71	**332,000**	332,000
1 April 2017	5.40	**508,000**	–
		20,109,000	23,527,000

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$0.66 (2012: HK$0.57) per option. The significant inputs into the models for the share options granted in 2013 were as follows:

	2013
Expected volatility	**25.3%**
Expected life	**3 years**
Risk free rate	**0.5%**
Expected dividends	**3.7%**

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.

26. RESERVES

(a) Group

	Share premium HK$'000	Merger reserve HK$'000	Capital reserves HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2012	295,490	177,087	16,472	13,268	9,765	354,599	866,681
Issue of new shares	17,575	–	–	–	–	–	17,575
Employee share option benefit	4,912	–	–	(1,951)	–	675	3,636
Exchange differences	–	–	–	–	945	–	945
Profit attributable to shareholders of the Company	–	–	–	–	–	199,951	199,951
Transfer to capital reserves	–	–	750	–	–	(750)	–
Dividends paid	–	–	–	–	–	(147,545)	(147,545)
At 31 December 2012	317,977	177,087	17,222	11,317	10,710	406,930	941,243
Representing:							
Reserves							845,026
Proposed dividend							96,217
							941,243
At 1 January 2013	**317,977**	**177,087**	**17,222**	**11,317**	**10,710**	**406,930**	**941,243**
Issue of new shares	**12,077**	**–**	**–**	**–**	**–**	**–**	**12,077**
Employee share option benefit	**3,625**	**–**	**–**	**139**	**–**	**92**	**3,856**
Exchange differences	**–**	**–**	**–**	**–**	**2,218**	**–**	**2,218**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**150,353**	**150,353**
Release of exchange reserve upon disposal of a subsidiary	**–**	**–**	**–**	**–**	**(3,825)**	**–**	**(3,825)**
Transfer to capital reserves	**–**	**–**	**559**	**–**	**–**	**(559)**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(421,912)**	**(421,912)**
At 31 December 2013	**333,679**	**177,087**	**17,781**	**11,456**	**9,103**	**134,904**	**684,010**
Representing:							
Reserves							**587,407**
Proposed dividend							**96,603**
							684,010

26. 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 2012	295,490	12,792	13,268	42,560	364,110
Issue of new shares	17,575	–	–	–	17,575
Employee share option benefit	4,912	–	(1,951)	32	2,993
Profit attributable to shareholders of the Company	–	–	–	146,526	146,526
Dividends paid	–	–	–	(147,545)	(147,545)
At 31 December 2012	317,977	12,792	11,317	41,573	383,659
Representing:					
Reserves					287,442
Proposed dividend					96,217
					383,659
At 1 January 2013	**317,977**	**12,792**	**11,317**	**41,573**	**383,659**
Issue of new shares	**12,077**	**–**	**–**	**–**	**12,077**
Employee share option benefit	**3,625**	**–**	**139**	**18**	**3,782**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**418,361**	**418,361**
Dividends paid	**–**	**–**	**–**	**(421,912)**	**(421,912)**
At 31 December 2013	**333,679**	**12,792**	**11,456**	**38,040**	**395,967**
Representing:					
Reserves					**299,364**
Proposed dividend					**96,603**
					395,967

27. 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**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**16,962**	17,699	**1,113**	1,095
Expenses recognised in the consolidated profit and loss account – as shown below	**494**	534	**16**	18
Benefit paid	**(994)**	(1,271)	**(103)**	–
At 31 December	**16,462**	16,962	**1,026**	1,113

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

	Group	
	2013	2012
	HK$'000	HK$'000
Current service cost	**242**	276
Interest cost	**252**	258
Total, included in employee benefit expense *(note 13)*	**494**	534

Of the total charge, HK$111,000 (2012: HK$117,000), HK$273,000 (2012: HK$266,000), HK$38,000 (2012: HK$39,000) and HK$72,000 (2012: HK$112,000) were included in cost of sales, store expenses, distribution costs and administrative expenses respectively.

27. LONG SERVICE PAYMENT LIABILITIES (continued)

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

	2013	2012
Discount rate	**1.5%**	1.5%
Long-term rate of salary increases		
Full time staff	**2.5%**	2.5%
Part time staff	**2.5%**	2.5%
Long-term rate of increase of maximum amount of long service payment/wages and minimum mandatory provident fund relevant income	**2.5%**	2.5%

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	Group	
	2013	2012
	HK$'000	HK$'000
Profit for the year	**150,353**	199,951
Adjustments for:		
Income tax expenses	**34,419**	29,627
Interest income	**(7,483)**	(11,585)
Depreciation of owned fixed assets	**64,959**	60,077
Depreciation of investment property	**–**	329
Amortisation of lease premium for land	**1,113**	1,107
Employee share option benefit	**3,856**	3,636
Losses/(gains) on disposal of fixed assets	**3,497**	(35,975)
Long service payment costs	**494**	534
Foreign exchange (gains)/losses, net	**(6,453)**	260
	244,755	247,961
Changes in working capital		
Inventories	**6,955**	(1,488)
Trade receivables, rental deposits, other receivables, deposits and prepayments	**(11,865)**	(17,729)
Trade payables, other payables and accruals	**1,834**	(9,027)
Long service payment liabilities	**(994)**	(1,271)
Cake coupons	**10,938**	8,033
	251,623	226,479

29. COMMITMENTS

(a) Capital commitments

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

	Group	
	2013	2012
	HK$'000	HK$'000
Contracted but not provided for	**6,031**	2,651
Authorised but not contracted for	**790**	2,667
	6,821	5,318

(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	
	2013	2012
	HK$'000	HK$'000
Not later than one year	**369,970**	333,860
Later than one year and not later than five years	**343,080**	311,379
Later than five years	**2,954**	6,052
	716,004	651,291

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.

30. RELATED PARTY TRANSACTIONS

Fung Retailing Limited ("FRL") is a substantial shareholder of the Company, which owns 41.95% of the Company's shares. All of the related party transactions of the Group are entered into with Fung Holdings (1937) Limited (the holding company of FRL and a substantial shareholder of the Company), its subsidiaries and associates.

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

(a) Related party transactions

	Note	2013 HK$'000	2012 HK$'000
Income			
Service income and reimbursement of office and administrative expenses	*(i)*		
Subsidiaries/fellow subsidiaries of a substantial shareholder		**4,849**	4,509
Associates of a substantial shareholder		**1,246**	645
Service income	*(ii)*		
Associate of a substantial shareholder		**43**	–
Expenses			
Reimbursement of office and administrative expenses	*(iii)*		
Subsidiaries/fellow subsidiaries of a substantial shareholder		**2,555**	2,742
Associates of a substantial shareholder		**758**	684
Rental payable	*(iv)*		
Fellow subsidiaries of a substantial shareholder		**8,320**	8,010
Associates of a substantial shareholder		**429**	429
Net purchases	*(v)*		
Associates of a substantial shareholder		**9,978**	9,487

(b) Key management personnel compensation

	2013 HK$'000	2012 HK$'000
Fees	**2,120**	1,902
Discretionary bonuses	**10,594**	10,284
Salaries and other allowances	**12,362**	12,342
Employee share option benefit	**1,502**	1,507
Pension costs – defined contribution scheme	**90**	83
	26,668	26,118

30. RELATED PARTY TRANSACTIONS (continued)

(c) Year-end balances with related parties

	2013 **HK$'000**	2012 HK$'000
Amounts due from:		
Subsidiaries of a substantial shareholder	**52**	75
Associates of a substantial shareholder	**64**	12
Amounts due to:		
Subsidiaries of a substantial shareholder	**(520)**	(691)
Associates of a substantial shareholder	**(3,709)**	(2,889)

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 (2012: HK$32,888,000). As of 31 December 2013, the banking facilities of the subsidiaries amounting to HK$2,373,000 (2012: HK$996,000) were utilised.

Notes:

(i) Service income and reimbursements receivable from subsidiaries/fellow subsidiaries/associates of a substantial shareholder in respect of office and administrative expenses incurred are charged on an actual cost recovery basis and in accordance with the terms of agreements.

(ii) Service income from associate of a substantial shareholder were carried out in ordinary course of business and on terms mutually agreed between the Group and the associate.

(iii) Reimbursements payable to subsidiaries/fellow subsidiaries/associates of a substantial shareholder in respect of office and administrative expenses incurred, are charged on an actual cost recovery basis.

(iv) Rentals are payable to fellow subsidiaries/associates of a substantial shareholder in accordance with the terms of agreements.

(v) Purchases from associates of a substantial shareholder were carried out in ordinary course of business and on terms mutually agreed between the Group and the associates.

Ten-Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the ten years ended 31 December 2013.

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Restated)
Revenue	**4,521,289**	4,270,318	3,972,615	3,575,238	3,349,326	3,322,665	2,917,614	2,231,217	1,995,206	1,736,491
Profit attributable to shareholders of the company	**150,353**	199,951	166,320	136,359	90,449	88,873	86,867	75,054	73,578	66,276
Total assets	**1,686,649**	1,924,597	1,859,961	1,659,092	1,524,591	1,518,341	1,487,397	978,279	879,449	779,120
Total liabilities	**(928,331)**	(909,416)	(919,889)	(809,463)	(742,585)	(760,263)	(767,749)	(457,422)	(397,864)	(343,228)
Non-controlling interests	**–**	–	–	–	–	8,256	7,954	8,173	2,912	6,613
Shareholders' funds	**758,318**	1,015,181	940,072	849,629	782,006	766,334	727,602	529,030	484,497	442,505