# Convenience Retail Asia Limited

# 利亞零售有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 08052


# Annual Report 2008

Member of the Li & Fung Group

# Our Vision:

Convenience Retail Asia Limited
is committed to be the
**preferred and most innovative**
convenience store chain in Asia.

# Contents


Circle K Hong Kong launched the new thematic extension of the "Always Something New" brand building campaign on television in September 2008, featuring celebrity DJ Sammy as the spokesperson.

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

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

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

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

# Corporate Information

## Executive Directors
Yeung Lap Bun, Richard *(Chief Executive Officer)*
Li Kwok Ho, Bruno *(Chief Financial Officer)*

## Non-executive Directors
Dr. Fung Kwok King, Victor+ *(Chairman)*
Dr. Fung Kwok Lun, William
Godfrey Ernest Scotchbrook*
Jeremy Paul Egerton Hobbins*
Wong Yuk Nor, Louisa

## Independent non-executive Directors
Dr. Ch'ien Kuo Fung, Raymond*+
Au Man Chung, Malcolm*+
Lo Kai Yiu, Anthony*

## Group Chief Compliance Officer
Siu Kai Lau, James

## Company Secretary
Li Sau Ping, Maria (ACIS)

## Qualified Accountant
Hui Chi Ho, Sam (FCPA)

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

## Head Office and Principal Place of Business
12th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen
Shatin
New Territories
Hong Kong

## Website
www.cr-asia.com

## Legal Advisers
JSM
(as to Hong Kong Law)

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

## Auditor
PricewaterhouseCoopers
*Certified Public Accountants*

## Principal Banker
The Hongkong & Shanghai
Banking Corporation Limited

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

# Key Financial Highlights

| | 2008 HK$'000 | 2007 HK$'000 | Change % |
|---|---|---|---|
| **Revenue** | **3,322,665** | 2,917,614 | +13.9% |
| **Profit attributable to shareholders of the Company** | **88,873** | 86,867 | +2.3% |
| **Basic earnings per share (HK cents)** | **12.18** | 12.08 | +0.8% |
| **Dividend per share (HK cents)** | | | |
| – Final | **5.5** | 5.5 | 0% |
| – Full year | **7.2** | 7.2 | 0% |

## Operation Highlights

- Circle K Hong Kong and Saint Honore posted satisfactory sales performance in the fourth quarter of 2008 despite deteriorating economic environment
- Gross margin negatively impacted by steep food cost inflation over the year in review
- Recessionary economy posing fresh challenges as well as creating new opportunities
- The Group holds net cash position of HK$418.5 million as of 31 December 2008 without any bank borrowings

## Number of Stores as of 31 December 2008

| | | |
|---|---|---|
| **Circle K Convenience Stores** | | |
| Hong Kong | | 284 |
| Guangzhou | | 71 |
| Shenzhen | | 6 |
| **Subtotal** | | 361 |
| **Franchised Circle K Stores** | | |
| Guangzhou | | 5 |
| Macau | | 17 |
| Zhuhai | | 12 |
| **Subtotal** | | 34 |
| **Total number of Circle K Stores** | | **395** |
| **Saint Honore Group** | | |
| Hong Kong | – Cake Shop | 77 |
| | – Bread Boutique | 7 |
| **Subtotal** | | 84 |
| Macau | – Cake Shop | 7 |
| Guangzhou | – Cake Shop | 14 |
| **Subtotal** | | 21 |
| **Total number of Saint Honore Stores** | | **105** |
| **Total number of Stores under Convenience Retail Asia** | | **500** |

# Chairman's Statement

**Dr. Fung Kwok King, Victor**
*Chairman*

## Financial Overview

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), achieved continued sales growth of 13.9% and a net profit increase of 2.3% for 2008 as compared to 2007. Basic earnings per share increased by 0.8% from 12.08 HK cents to 12.18 HK cents. The financial position of the Group remains strong with a cash reserve of HK$418.5 million without any bank borrowings.

## Review of the Hong Kong Retail Market

During the last quarter of 2008, the impact of the global financial crisis started to affect the local market. This was manifested in the form of a credit crunch and loss of confidence in investment products, triggered in particular by the Lehman Brothers minibond issue. Consumer confidence dived around the world, and Hong Kong was no exception.

The Nielsen Consumer Confidence Index reported a decline from 118[1] in 2007 to 109[1] in the first half of 2008 and a further drop to an all-time low of 88[1] by the end of 2008. However, findings from the study also concluded that consumers in Hong Kong are not holding back from spending altogether and are still willing to spend on good bargains.

For the Group, the implication of such findings is that even in an economic downturn, there are opportunities for retailers who continue to invest in engaging their customers by understanding and meeting their changing needs in a recession environment.

1 *Published by The Nielsen Company on 6 November 2008.*

## Review of the Hong Kong Retail Market (continued)

In October 2008, which marked the turning point in consumer sentiment, the volume of overall retail sales in Hong Kong started to decrease by 4.3%[2] compared to the same month in 2007, even though retail values still registered a positive 0.3%[2] growth. The decreasing trend in sales volume was to continue till the end of the year, despite minor growth in retail sales value. Total retail sales in 2008 increased by 10.5%[3] in value and 5.0%[3] in volume as compared to 2007.

However, when compared with the preceding three-month period, the volume of total retail sales in the last quarter of 2008 decreased by 3.6%[3], even with the positive boost from the holiday season and the rebound in inbound tourism in December, which was a result of further liberalisation measures by the Central People's Government to facilitate individual visitors from the Chinese Mainland.

Headline consumer price inflation, which posed real threats to the Group's operation margin for the first three quarters of 2008, started to stabilise in the fourth quarter with the consumer price index rising by 4.3%[4] for the 12 months ended December 2008 over the previous year. Along with the drastic fall-off in energy prices and weakened consumer demand, a gradual tapering of price inflation is anticipated.

The negative wealth effect arising from asset market corrections, coupled with deteriorating income and job prospects, continued to dampen consumer spending mood for the rest of the year. Market conditions for the retailing operations in Hong Kong took a turn for the worse in the fourth quarter and could well signal only the beginning of even tougher times ahead.

## Company Initiatives for Hong Kong Operations

In view of the abrupt change in the economic environment, the Group made the decision to further revise downward its target number of store openings for 2008.

The net number of new Circle K stores opened in Hong Kong was 14 instead of the average number of over 20 new stores per year as in previous years. Such a conservative stance was also due to the unrealistic expectations of landlords in their rental terms for new premises despite the economic downturn.

In anticipation of changing market dynamics, the Group undertook major initiatives to further control overhead costs and maximise productivity. This was mainly achieved by increasing sales turnover per store day and controlling the allocation of human resources per store in accordance with sales performance.

Another area for substantial cost savings was the continual reduction in energy consumption. This is an ongoing company initiative that has enabled the Group to achieve financial savings in operation expenses as well as environmental sustainability objectives.

The Group also continued to implement the company credo, "Always Something New", in Circle K's internal functional executions in concurrence with all aspects of customer interface, including category management, marketing promotion and advertising.

2 *Published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 2 January 2009.*

3 *Published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 2 February 2009.*

4 *Published by Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 22 January 2009.*

## Company Initiatives for Hong Kong Operations (continued)

As for the Saint Honore operations, the Group pressed on with its store opening programme with sites that were committed to earlier in the year, in an ongoing effort to upgrade store locations chain-wide. By the end of the year, 11 new Saint Honore Cake Shops were added in Hong Kong.

According to market feedback, the contemporary, stylish design of the new and renovated stores together with the introduction of a new range of chilled cakes to enhance that category's offerings, proved to be quite effective in rejuvenating and upgrading Saint Honore's brand image. This observation was well supported by the steady improvement in comparable store sales performance.

The steep rise in food price inflation put considerable pressure on Saint Honore's margin performance throughout the year, but a gradual and assured margin improvement is anticipated, assisted by various initiatives in cost saving and the recent adjustments in food commodity prices.

## Review of the Retail Market on the Chinese Mainland

On the Chinese Mainland, retail sales of consumer goods continued to increase despite a perceptible slowdown in overall economic growth. This could probably be explained by strong Government initiatives to encourage domestic spending. Total retail sales enjoyed a year-on-year increase of 19.0%[5] in December and a healthy double-digit growth of 21.6%[5] for 2008 over 2007.

The telltale signs of the impact of the global financial crisis are the year-on-year single-digit GDP growth of 9.0%[5] for the third quarter of 2008, compared to the double-digit growth of the preceding quarters, as well as the negative export growth of 2.8%[6] for the month of December and the drop in consumer confidence index to 87.3[7] in December from 95.6[7] in January 2008.

The runaway inflation rate that was rampant in the first three quarters of 2008 started to decelerate in the fourth quarter, with the Consumer Price Index decreasing from 4.9%[8] in August to 1.2%[5] in December 2008.

## Review of the Guangzhou Operations

Following the implementation of a series of restructuring and cost-saving initiatives that began in early 2008, the Group's Guangzhou operations were able to maximise overall productivity and operational efficiency. The new store opening programme was put on hold during this period of business consolidation.

In reaction to the deteriorating economic conditions in Dongguan, the Group decided to close its five Circle K stores in the market. This temporary measure enables the Group to focus on its Guangzhou operations as the strategic base for Southern China. The Group does not rule out the possibility of re-entering the market when the economic conditions improve.

5 *Published by National Bureau of Statistics of China on 22 January 2009.*

6 *Published by General Administration of Customs of the People's Republic of China on 22 January 2009.*

7 *Published by National Bureau of Statistics of China on 10 February 2009.*

8 *Published by National Bureau of Statistics of China on 10 September 2008.*

## Review of the Guangzhou Operations (continued)

At the end of 2008, the Group submitted documentation for official approval for the acquisition of an additional 25% equity interest in Convenience Retail Southern China Limited from Guangzhou Grain Holding Company Limited. Upon approval of the transaction, the Group's total equity interest in the company would increase to 98.5%. This dominant equity holding position would not only re-confirm the Group's commitment to the Guangzhou market, but also provide more liberty for the management team to increase investment in the market at an optimum time to take advantage of future economic recovery.

The experiment with the franchising model is still a work in progress, and every detail of the franchisee operations and contractual terms is being closely monitored.

## Corporate Governance

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

The Group will also make every effort to comply with the revised provisions in the Code on Corporate Governance Practices as implemented by The Stock Exchange of Hong Kong Limited.

## Outlook for 2009

With the global financial turmoil still unfolding, the Group will maintain a conservative outlook regarding the operational environment in 2009 and prepare for worst-case scenarios regarding the economic environment and market sentiment.

With the anticipated increase in unemployment, the precarious future of small- and medium-size enterprises, the volatility of the equity market, the adjustments in the property market and the drop in inbound tourism from the Americas, North Asia and Europe, prospects for retail operators in Hong Kong are among some of the most challenging for the last few decades.

On the Chinese Mainland, one cause for concern for convenience store operators is that a portion of existing customers might become overly price sensitive and reduce their shopping frequency.

The Group also anticipates continued pressure on pricing and gross margin, because in a recession environment, nothing less than a value proposition is effective in winning customer loyalty and maintaining market share. In view of this, the Group is implementing an aggressive promotion plan and cost-saving initiatives to maintain turnover sales and protect operating margin.

In order to mitigate the adverse market conditions, the Group also intends to adopt defensive tactics in the near term future by maintaining its existing lean-and-mean operation, training and developing human resources, conserving a substantial cash reserve as well as decelerating all expansion plans and waiting for the economic factors to improve before initiating another phase of accelerated expansion.

On behalf of the Board, I would like to take this opportunity to thank the management team and all staff for their initiatives and commitment which has enabled the Group to deliver satisfactory business results in a year of unexpected market developments and financial turmoil.

**Fung Kwok King, Victor**
*Chairman*

Hong Kong, 16 March 2009

# Management Discussion and Analysis

**Mr.Yeung Lap Bun, Richard**
*Chief Executive Officer*

## Financial Review

The Board is pleased to report the financial results of the Group for the year ended 31 December 2008. The Group's turnover for the year and the fourth quarter increased to HK$3,322.7 million and HK$829.9 million respectively, representing growth of 13.9% and 6.1% when compared to the corresponding period in 2007. Also, in 2008 the turnover of the convenience store business increased by 8.6% to HK$2,667.5 million compared to 2007. These increases were mainly attributable to the opening of new stores and a sales increase at comparable convenience stores (stores in existence throughout 2007 and 2008). Sales for comparable convenience stores in Hong Kong and Southern China increased by 4.4% and 9.5% respectively against 2007. Meanwhile, the turnover of the cakes and bakery business increased by 42.6% to HK$702.7 million compared to 2007, which was due mainly to the full-year consolidation of the Saint Honore operations in 2008, the opening of new stores and an increase in comparable store sales.

Gross margin and other income (excluding interest income) increased from 36.6% to 37.1% of turnover for the year and from 36.9% to 38.1% of turnover for the fourth quarter when compared to 2007. These increases were due to an improvement in the convenience store business gross margin, which was partly offset by the deterioration in gross margin for the bakery business as a result of substantial increases in food costs in 2008.

Store expenses as a percentage of turnover increased from 26.7% to 26.9% for the year and 27.5% to 28.3% for the fourth quarter when compared to 2007. This was mainly due to one-off business closure expenses for convenience stores in Dongguan and the consolidation of Saint Honore results with a higher cost structure.

Distribution costs as a percentage of turnover increased from 2.3% to 2.5% for the year and decreased from 2.6% to 2.5% for the fourth quarter when compared to 2007. The overall increase in distribution costs as a percentage of turnover was due to the consolidation of Saint Honore results. The decrease in distribution costs as a percentage of turnover for the fourth quarter was mainly due to improvements in the distribution process and operation efficiency.

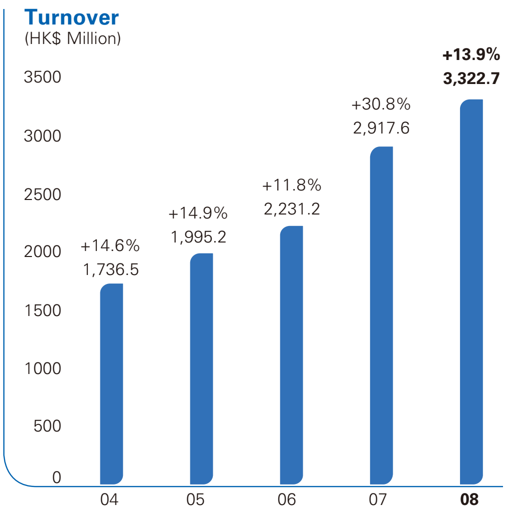
Administrative expenses as a percentage of turnover increased from 4.2% to 4.3% for the year and from 3.7% to 4.3% for the fourth quarter when compared to 2007. The increases were mainly due to an increase in staff cost and the full-year consolidation of the Saint Honore results in 2008.

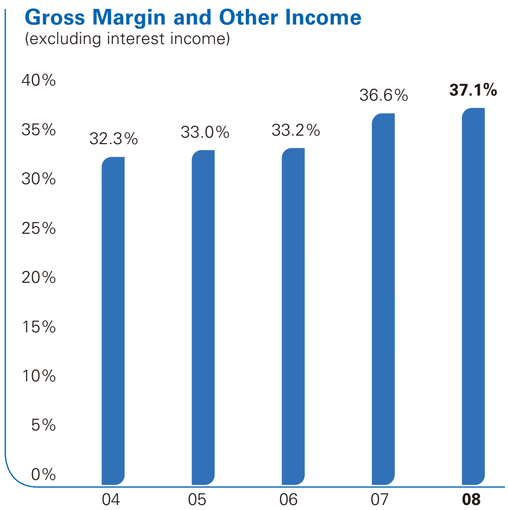
## Financial Review (continued)

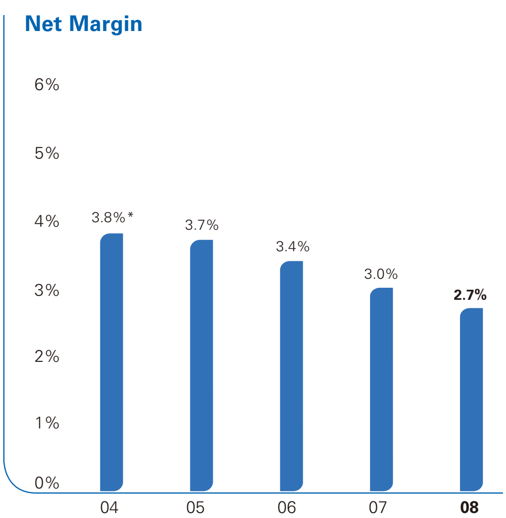
Net profit attributable to shareholders increased by 2.3% and 0.3% to HK$88.9 million and HK$21.6 million for the year and the fourth quarter when compared to 2007. Basic earnings per share increased by 0.8% from 12.08 HK cents to 12.18 HK cents for the year.

The Group continued to maintain a strong financial position with net cash of HK$418.5 million without any bank borrowings. The Hong Kong business generated a free cash flow of approximately HK$59.4 million in 2008.

Most of the Group's cash balances were deposits in HK dollars with major banks in Hong Kong, and most of the Group's assets, liabilities, revenues and payments were held in either HK dollars or Renminbi. The Group had limited foreign exchange exposure in Renminbi as a result of its business operations on the Chinese Mainland. The Group is subject to interest rate risks on the interest income earned from short-term bank deposits. The Group will continue its policy of placing surplus cash in short-term HK dollars or Renminbi bank deposits to meet the funding requirements of any future acquisition projects.

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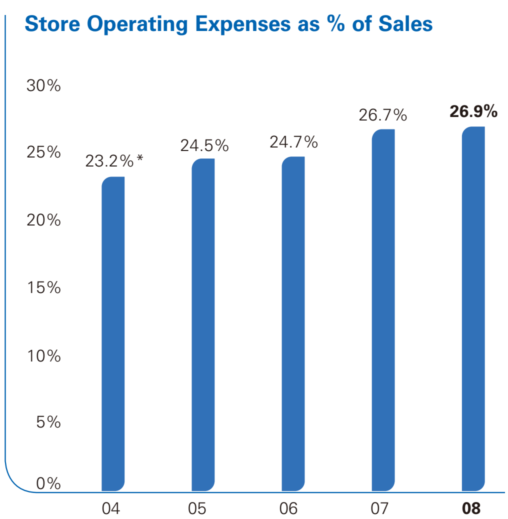


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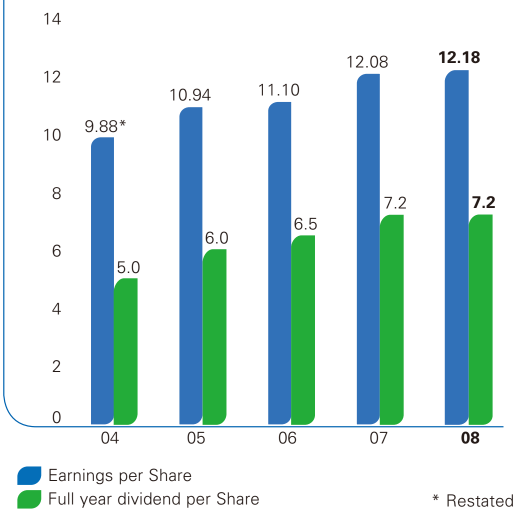
## Financial Review (continued)

### Earnings per Share and Dividend per Share

(HK cents)

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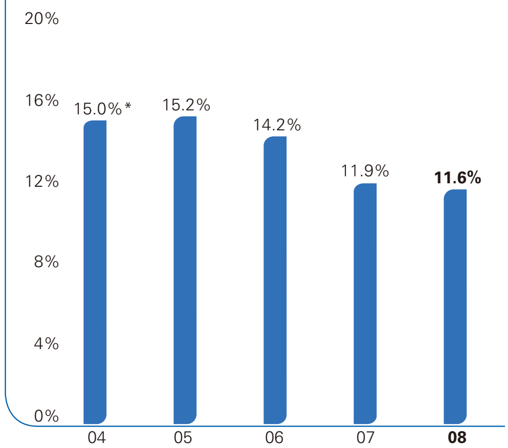
### Return on Capital Employed

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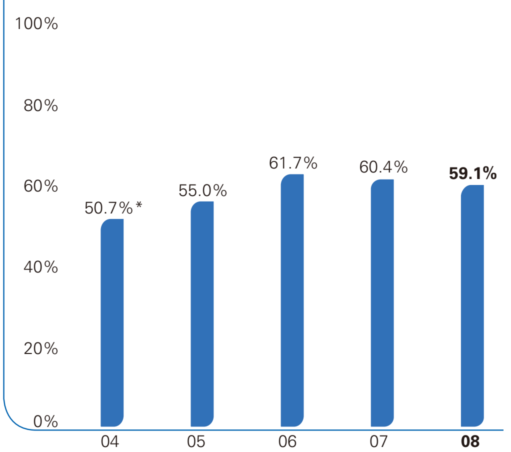
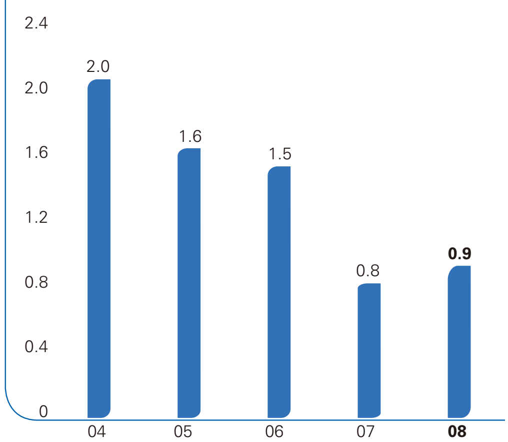
### Dividend Payout




* Restated

### Current Ratio



## Operations Review – Hong Kong

As of 31 December 2008, the Group operated a total of 284 company-owned-and-managed Circle K stores in Hong Kong, compared to 270 stores at the end of 2007.

As for Saint Honore, the Group operated a total of 84 company-owned-and-managed stores in Hong Kong, compared to 81 stores at the end of 2007. Altogether the Group operated a total of 368 retail outlets under the two retailing brands in Hong Kong.


Convenience Retail Asia Limited was one of the nominated enterprises at the "Hong Kong Outstanding Enterprises Parade 2008" presented by the Economic Digest in December 2008. The event recognises the achievements of outstanding enterprises and encourages excellence among listed companies in Hong Kong.

## Employees

As of 31 December 2008, the Group had a total of 6,146 employees, with 3,962 based in Hong Kong and 2,184 in Guangzhou, Shenzhen and Macau. Part-time staff accounted for about 29% of the total headcount. In 2008, the Group increased the part-time ratio significantly in order to lower its fixed staff cost and to have more flexibility in its management of human resources. Total staff costs in 2008 were HK$564.9 million, compared with HK$458.7 million for 2007.

The Group offers competitive remuneration schemes to its staff. In addition, discretionary bonuses and share options are granted to eligible staff based on individual and company performance.

One of the key initiatives for 2008 was skill development for the operations team. The Group developed training programmes for staff of different levels across various disciplines. Workshops for management staff were also conducted to improve working efficiency and communication effectiveness.

In order to share best practices between Hong Kong and Guangzhou, an Operation Manager Regional Development Program was implemented in September 2008 and completed in mid-January 2009. It was an exchange program of operations staff in the two markets including on-the-job training, store visits, case studies and an open discussion session.

To further improve internal communications, "meet the staff" sessions were conducted for office staff. These provided opportunities for the management team to share company policies as well as market information.

## Marketing and Promotions


The Rilakkuma redemption promotion for Christmas 2008 ran by Circle K Hong Kong was successfully concluded with 99% redemption rate and very enthusiastic consumer feedback on the Internet.

In the second half of 2008, the Group planned and launched non-stop promotional activities in support of the "Always Something New" positioning, which contributed to a healthy comparable convenience store sales growth of 4.4% for the year.

The most notable promotions were the packaged drink campaign in July and the magazine campaign in September, both of which achieved immediate sales increases and built their respective categories in the long term. They also succeeded in building customer awareness of the range of products offered and the novelty of the new products or titles being introduced. Through these promotional efforts, the Group was able to strengthen its relationships with vendors, opening up the possibility of further joint promotion opportunities.

The highlight of the last quarter of 2008 was the Rilakkuma bear redemption program, which was launched in December with a 99% redemption rate. Because the Rilakkuma bear is an immensely popular Japanese licensed character, this promotion generated considerable buzz on the Internet and became a hot topic in chat rooms among trend followers.

## Category Management

In August, the live telecast of the Olympics attracted many viewers, which in turn generated tremendous demand for in-home consumption of packaged drinks, beer, snacks and confectionery. Even though there were some concerns about a slowdown in retail sales during and after the event, the first Olympics hosted by the PRC actually boosted sales of the above categories in the convenience stores.

Unfortunately, the excitement of the Olympics was closely followed by the issue of melamine-contaminated dairy products, which resulted in a major setback for sales in the dairy and ice-cream product categories at the end of the third quarter and in the fourth quarter.



The new thematic extension of the "Always Something New" brand building campaigns was launched in September 2008 by Circle K Hong Kong with two 20-second duration television commercials and instore posters promoting package drinks  and the magazine category respectively.

## Category Management (continued)

The Group launched a new merchandising display for the online game category in the last quarter, together with a dedicated website to build loyalty among the community of Circle K online game shoppers.

The range of convenience services offered by Circle K, including the ticketing service for Hong Kong Disneyland, EPS cash withdrawal and monthly bill payment for household utilities, continued to show promising growth.

The category team for in-store bakery and steamed stations continued to work on enhancing the product offerings of these two categories. The Group was also able to increase penetration of these food services among Circle K stores with the opening of new stores and refitting of existing stores.

## Customer Service Excellence

The Group continued to nurture a culture of quality customer service among frontline staff by offering them "home-like" support from friendly, caring store colleagues and encouraging them to work together as a family and a team. The aim is for the warmth and care of these "family members" to be passed on to customers in the form of quality service.

The Service Star program launched six years ago continues to be an effective incentive program with new service stars being identified and recognised every year.

Meanwhile, a leadership training program, which has been refined over the past four years, continues to provide career development for store managers with potential to become future leaders.


The Circle K Service Star Certificate Presentation Ceremony is an annual event at Circle K Hong Kong. This effective incentive program helps to maintain a high standard of customer service by recognising the outstanding performers at the frontline.

## Supply Chain Management and Logistics

Significant improvements in the distribution process and operational efficiency contributed to a reduction in distribution costs.

These improvements were made possible via an upgraded Warehouse Management System and an enhanced Store Support System, which were completed and launched in the third and the fourth quarters respectively.

The Group also conducted internal process improvement projects and distribution effectiveness studies to further refine delivery truck routing management, improve transportation efficiency, enhance physical flow and create a more practical operational infrastructure.

One of the key objectives for the restructuring was to integrate the Circle K and the Saint Honore logistics resources into a mutual support logistics system for maximum synergy.

## Operations Review – Guangzhou

Against the backdrop of a reasonably upbeat retail market environment, the Group's convenience store business in Guangzhou achieved 9.6% comparable store sales growth in 2008.

Two major events adversely affected the Group's turnover in Guangzhou in the second half of 2008: the implementation of new government regulations requiring retailers to charge for plastic bags on 1 June 2008, which immediately reduced the basket size of convenience store shoppers to an average of one to two items; and the melamine contamination issue, which dealt a serious blow to sales for the dairy and ice-cream product categories overnight.

In view of the economic uncertainties, the Group decided not only to call a halt to the pace of expansion but also to aggressively close down underperforming stores in Guangzhou. After the weeding process, the Group anticipates that only profitable stores and stores with good breakeven potential will be left to form a strong base for a new phase of expansion.


On 24 October 2008, the Group celebrated the opening of the 100th Circle K store in South China at Xinhe Plaza, Guangzhou. Celebrity artist and Circle K spokesperson Sammy was invited to officiate the ribbon-cutting ceremony together with the senior management.

To maintain a high standard of operational excellence and quality customer service, the Group launched the Service Star program in Guangzhou to improve store execution. Also, the Group will aim to achieve tighter control of payroll expenses through a new roster scheduling which will allocate manpower in proportion to turnover sales.

The Group made the decision to close five Circle K stores in Dongguan in December 2008. This was a premeditated strategic move triggered by the fast deterioration of the local economic conditions.

## The Saint Honore Operation

Saint Honore reported an encouraging sales performance in the fourth quarter of 2008. With the concerted effort being exercised by management over purchases and expenses in the manufacturing centres, gross margin should be kept at an acceptable level. Company initiatives to streamline the operational flow, reduce overhead expenses, improve productivity and minimise spoilage were all on track and started to show promising results.

New Saint Honore stores designed to provide more shopping convenience for home-makers were opened during the year in carefully selected locations. The new store layouts also allowed for much more user-friendly traffic flow and easy-to-access product presentation.

A total of more than 200 new or upgraded products were introduced in 2008. The initiative was to provide customers with superior Saint Honore products that are not only fresh, but also better tasting and more attractive. The Group was also able to generate healthy incremental sales through an enhanced range of chilled cakes and bread products, as reflected by positive sales trends.

The Group also embarked upon a strategic effort to rejuvenate the Saint Honore brand in Hong Kong and Macau through a strengthened product research and development team, which will focus on product improvement and innovation. This includes enhancing product taste, freshness and presentation across the range, upgrading store design and presentation, and quality customer service through training.


With renewed focus on product research and development, Saint Honore Hong Kong introduced more than two hundred new and improved products in 2008. The "Baby Cake" collection, a premium range of chilled cake launched in November, offers superior taste sensation and exquisite designs.

## Corporate Responsibility and Sustainability Initiatives

For the sixth consecutive year, the Group was awarded the Caring Company nomination by The Hong Kong Council of Social Service in recognition of our community involvement and commitment to being a responsible corporate citizen.

Circle K Hong Kong staff together with other staff members of the Li & Fung Group of companies, responded quickly to the Sichuan earthquake disaster in May by making a significant donation of HK$23.3 million to the Red Cross and World Vision Hong Kong after receiving matching funds from the Li & Fung (1906) Foundation. Circle K Hong Kong also supported the UNICEF fundraising programme for Sichuan by placing a donation box in every Circle K store in Hong Kong from 15 to 31 May.

Elsewhere, the Group elected to become a Retail Partner of HEIFER International Hong Kong by participating in HEIFER charity projects throughout the year. From September to December 2008, HEIFER donation boxes were placed in all Circle K stores to make it easy for customers to donate small change to poor rural families on the Chinese Mainland.


Circle K Hong Kong participated in HEIFER's "Race to Feed" charity event for the second year. The team walked away with major awards for the event including the "Champion of the Yak Race", the "Top Fundraising Team" and the "Top Fundraising Individual" .

On 25 October, the Group took part in HEIFER International Hong Kong's "Race to Feed 2008" to raise funds for the "Heifer Sichuan Rehabilitation Project". The Circle K team walked away with the Championship in the Yak Race as well as the "Top Fundraising Team" and "Top Fundraising Individual" awards.

And in February 2008, Saint Honore donated 6,000 rice puddings in celebration of the Chinese New Year to needy families in the Yuexiu district through the Civil Affairs Bureau of Guangzhou City.

## Future Prospects

In view of highly uncertain global economic prospects and rather discouraging local market factors, the strategic priority for the Group is to be prepared for the worst-case scenario and be ready to react to any drastic market development.

The Group anticipates a marked downturn in overall retail sales in 2009 due to impaired consumer confidence, with the discretionary spending categories suffering most. However, as the Group's convenience store and bakery chains also deal in daily consumables with small-ticket transactions that do not fall into the discretionary shopping category, its sales performance might be more recession-resistant, especially with the implementation of marketing initiatives to put together an offering of value-for-money products with competitive pricing.

However, when the unemployment rate accelerates and the asset market plummets, negative consumer sentiment will prevail, and the only means to drive sales and motivate spending will be aggressive discount offers and value promotion. Retail pricing structure and margin maintenance will be subjected to considerable challenges and pressures. Consumers will find any price increase unacceptable since the topmost consideration in their minds will be to maximise their limited budgets. Brand loyalty and outlet preference will become secondary.

Competition will become even more cutthroat, while price/value competition will set the mood and tone for the retail market generally. Overhead expenses are expected to remain high as downward adjustments in labour cost, retail rental and other operating expenses seem unlikely to occur in the near term.

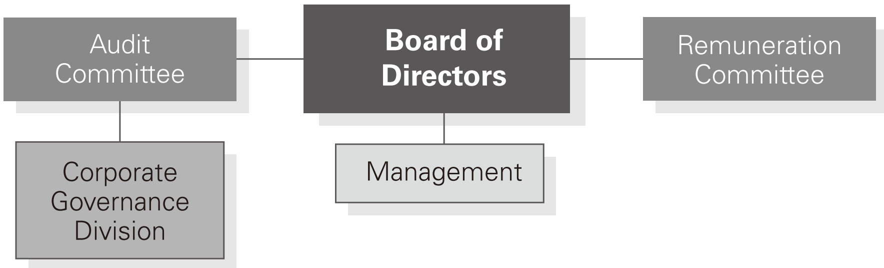
Therefore, in addition to the challenge of maintaining sales growth, another major challenge for the Group will be to protect margin performance. The Group has always exercised maximum vigilance and frugality to lower its operational costs and improve gross margin. It will continue to do so in 2009 with doubled effort.

The Group will also put all capital expenditures under close scrutiny, and the new store-opening program will become a lower priority in all the markets where the Group operates for 2009. In this period of uncertainty, the Group will continue to invest in business "enablers" – people training and talent development, business competencies and internal processes as well as brand-building and store presentation, which will provide a competitive edge when the market condition improves.

The Group will not be sidetracked from its strategic goals set in the three-year plan. It will, however, find unorthodox ways to achieve those goals. The year 2009 will be a year of business consolidation, with the management team operating in a defensive mode. At the same time the Group will continue to build on a more solid foundation in preparation for another expansion phase with the support of substantial cash reserves and high liquidity.

# Corporate Governance Report

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




## The Board

The Board is structured to ensure it is of a high calibre and has a balance of skills, experience and knowledge desirable for effective leadership of the Group. The Board is composed of the non-executive Chairman, two executive Directors including the Chief Executive Officer, and seven non-executive Directors (of whom three are independent) whose biographical details and relevant relationships are set out in the Directors and Senior Management Profile section on pages 33 to 37.

In order to reinforce their respective independence, accountability and responsibility, the role of the Chairman is separate from that of the Chief Executive Officer. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures, whilst the Chief Executive Officer, supported by the executive Director, is responsible for managing the Group's businesses, including the implementation of major strategies and initiatives adopted by the Board.

The non-executive Directors, who offer diverse industry expertise and do not involve in the day-to-day management of the Group, serve the important functions of advising the management on strategy development, ensuring high standards of financial and other mandatory reporting, and providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board has received from each independent non-executive Director an annual written confirmation of his independence in accordance with Rule 5.09 of the GEM Listing Rules and considers that the independent non-executive Directors to be independent.

The Board is responsible for the appointment, re-appointment and removal of Directors. The Chairman, in consultation with other Board members, nominates an individual for a new appointment as the Company's Director, in particular for independent non-executive Director. Under the guidelines on appointment and re-appointment of Directors as endorsed by the Board on 7 March 2007, the new appointee needs to have appropriate professional knowledge and industry experience, personal ethics, integrity, personal skills and be able to contribute sufficient time for the proper functioning of the Board. No new Director was appointed during the year ended 31 December 2008.

## The Board (continued)

The Board held four meetings in 2008 (with an average attendance rate of 95%) to discuss the overall corporate strategic direction and objectives, operational and financial performance (including annual budgets, annual, interim and quarterly results), recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant matters of the Group as well as major investment opportunities. In 2008, the Chairman held meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present.

Regular board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set by the Chairman in consultation with members of the Board. Agenda and accompanying board papers are sent in full to all Directors at least three days before the intended date of meeting so as to give the Directors sufficient time to prepare before the meeting. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations.

All members of the Board have separate and independent access to the Company Secretary at all times to obtain relevant information for carrying out their duties as Directors of the Company. Written procedures are 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 2008.

The Board has established two committees with specified responsibilities as described later in this report. The Board makes decisions on major operational and financial matters as well as investments. The general management and day-to-day decisions and matters (including preparation of annual, interim and quarterly accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, monitoring of budgets, implementation of adequate system of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations) are delegated to the management team.

The Board also recognises the importance of independent reporting of the corporate compliance function. The Group Chief Compliance Officer, as appointed by the Board, attended all Board and committee meetings in 2008 to advise on corporate compliance matters covering risk management and compliance issues relating to mergers and acquisitions, secretarial, accounting and financial reporting.

Non-executive Directors were appointed for an initial term of three years and will continue in office thereafter subject to termination by not less than three months' prior notice in writing by either party to the other. In addition, all Directors including the non-executive Directors are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once every three years pursuant to the Company's Articles of Association and the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

Each Director ensures that he or she can give sufficient time and attention to the affairs of the Company. The Directors are requested to disclose to the Company on a periodic basis the number and nature of offices held in public companies or organisations and other significant commitments, with the identity of the public companies or organisations.

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

## The Board (continued)

Details of the attendance at Board and committee meetings held in 2008 are set out in the following table:

| | No. of meetings **attended**/held | | |
|---|---|---|---|
| | **Board** | **Audit Committee** | **Remuneration Committee** |
| **Non-executive Directors:** | | | |
| Dr. Fung Kwok King, Victor *(Group Chairman and Chairman of Remuneration Committee)* | **4**/4 | – | **1**/1 |
| Dr. Fung Kwok Lun, William | **3**/4 | – | – |
| Mr. Godfrey Ernest Scotchbrook | **4**/4 | **4**/4 | – |
| Mr. Jeremy Paul Egerton Hobbins | **4**/4 | **3**/4 | – |
| Ms. Wong Yuk Nor, Louisa | **4**/4 | – | – |
| **Independent non-executive Directors:** | | | |
| Dr. Ch'ien Kuo Fung, Raymond *(Chairman of Audit Committee)* | **3**/4 | **4**/4 | **0**/1 |
| Mr. Au Man Chung, Malcolm | **4**/4 | **4**/4 | **1**/1 |
| Mr. Lo Kai Yiu, Anthony | **4**/4 | **4**/4 | – |
| **Executive Directors:** | | | |
| Mr. Yeung Lap Bun, Richard *(Chief Executive Officer)* | **4**/4 | – | – |
| Mr. Li Kwok Ho, Bruno *(Chief Financial Officer)* | **4**/4 | **4**/4* | – |
| **Group Chief Compliance Officer:** | | | |
| Mr. Siu Kai Lau, James | **4**/4+ | **4**/4+ | **1**/1+ |
| **Average attendance rate** | 95% | 95% | about 67% |
| **Dates of meeting** | 12 March 2008<br>7 May 2008<br>4 August 2008<br>7 November 2008 | 12 March 2008<br>7 May 2008<br>4 August 2008<br>7 November 2008 | 7 May 2008 |

* *Attended committee meetings as a non-member*

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

## Board Committees

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

With reference to the consultation conclusions published by The Stock Exchange of Hong Kong Limited in November 2008, amendments have been made to the GEM Listing Rules and all (except one) amendments have become effective on 1 January 2009. In view of the amendments, the terms of reference of the Audit Committee have been revised and approved by the Board in March 2009.

### Audit Committee

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

Dr. Ch'ien Kuo Fung, Raymond* – *Committee Chairman*
Mr. Au Man Chung, Malcolm*
Mr. Lo Kai Yiu, Anthony*
Mr. Godfrey Ernest Scotchbrook+
Mr. Jeremy Paul Egerton Hobbins+

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

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

The Audit Committee met four times in 2008 (with an average attendance rate of 95%) to review with senior management and the Company's internal (Corporate Governance Division ("CGD")) and external auditors the Group's significant internal control and financial matters as set out in the Audit Committee's terms of reference. The Committee's review covers the audit plans and findings of internal and external auditors, external auditor's independence, the Group's accounting principles and practices, listing rules and statutory compliance, internal controls, risk management and financial reporting matters (including the annual, interim and quarterly accounts before recommending to the Board for approval).

Under the Group's policy, employees can report any concerns, including misconduct, impropriety or fraud in financial reporting, accounting practices and internal control matters, to either senior management or the Group Chief Compliance Officer. No incident of fraud or misconduct that has material effect on the Company's accounts and overall operations was reported by employees in 2008.

## Board Committees (continued)

**Audit Committee** (continued)

*External Auditor's Independence*

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

A policy on the provision of non-audit services by the external auditor has been established since 2005 which includes prohibition of specified non-audit services to be performed by the external auditor. Other non-audit services, with fees above a threshold and are considered not to affect the independence of the external auditor, require prior approval of the Audit Committee. The nature and ratio of annual external audit fees and non-audit services fees (including review of interim report and tax services) for 2008 amounted to HK$1,842,000 and HK$305,000 respectively have been endorsed by the Audit Committee.

Prior to the commencement of the audit of the Company's accounts for the year ended 31 December 2008, the Audit Committee obtained written confirmation from the external auditor on their independence as required by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee is satisfied with the review of audit fees and scope, effectiveness of the audit process, independence and objectivity of the external auditor, PricewaterhouseCoopers ("PwC"), and has recommended to the Board the re-appointment of PwC as the Company's external auditor for the financial year ending 31 December 2009 at the forthcoming annual general meeting.

**Remuneration Committee**

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

Dr. Fung Kwok King, Victor+ – *Committee Chairman*
Dr. Ch'ien Kuo Fung, Raymond*
Mr. Au Man Chung, Malcolm*

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

The Remuneration Committee is responsible for the review of the Group's remuneration and human resources policy and the approval of the remuneration policy for all executive Directors and senior management, including the allocation of share options to employees under the Company's Share Option Scheme.

The Remuneration Committee met once in 2008 with an attendance rate of about 67% to review the remuneration of executive Directors and fees to Directors. Written resolutions were also signed by members of the Remuneration Committee during the year in relation to the allotment of shares upon exercise of share options by the employees.

## Board Committees (continued)

**Remuneration Committee** (continued)

*Remuneration Policy for Executive Directors*

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

*Remuneration Policy for Non-Executive Directors*

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

## Code of Conduct and Business Ethics

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

## Directors' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation of compliance has been obtained from all Directors. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines which are of no less exacting terms than those set out in the GEM Listing Rules. No incident of non-compliance was noted by the Company in 2008.

In view of the amendments to the GEM Listing Rules which have taken effect on 1 January 2009 or will take effect on 1 April 2009, the Group's procedures governing Directors' securities transactions have been revised accordingly.

## Directors' Interests

Details of Directors' interests in the shares of the Company and certain major associated corporations are set out in the Directors' Report on pages 46 to 49.

## Directors' and Auditor's Responsibilities for the Accounts

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

## Internal Control and Risk Management

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

The Board is responsible for ensuring that the Group maintains a sound and effective system of internal controls, and for reviewing the adequacy and effectiveness of such system through the Audit Committee. Such system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and that it aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Board has delegated to executive management the design, implementation and ongoing monitoring of such system of internal controls covering financial, operational and compliance controls and risk management procedures. Qualified personnel throughout the Group maintain and monitor this system of controls on an ongoing basis.

### Control Environment

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

The Group maintains a tailored governance framework with defined lines of responsibility and appropriate delegation of authority. An Operation Support Group, under the supervision of the Chief Financial Officer, was established to centralise the function and control exercised over treasury activities, financial and management reporting, human resources functions and computer systems.

### 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 accounts on pages 72 to 73.

### Operational Control Management

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

## Internal Control and Risk Management (continued)

### Regulatory Compliance Control Management

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

### Internal and External Auditors

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

The Audit Committee approved a Three-Year Audit Plan that is linked to the Group's Three-Year Business Plan. The 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 audit review covers all material controls including financial, operational and compliance controls, as well as risk management policies and procedures. Summary of the scope of reviews and key recommendations is reported to the Audit Committee on a quarterly basis. The implementation of all agreed recommendations is being followed up on a three-month basis.

As part of the annual review of the effectiveness of the Group's system of internal controls, CGD independently reviews the Internal Control Self-Assessment Checklist completed by various business units, and assesses the adequacy and effectiveness of internal controls implemented by management.

The external auditor performs independent statutory audit on the Group's accounts. As part of the audit engagement, the external auditor also reports to the Audit Committee any significant deficiencies in the Group's internal control system which might come to their attention during the course of audit. The external auditor noted no significant internal control deficiencies in their audit for the financial year ended 31 December 2008.

### Overall Assessment

Based on the assessments made by senior management, CGD (Internal Audit) and the external auditor in 2008, and up to the date of approval of the Company's 2008 annual report and accounts, the Audit Committee is satisfied that:

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

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

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

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2008.

## Shareholders' Rights

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

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

To further enhance minority shareholders' rights, the Company has since 2007 adopted the policy of voting by poll on all resolutions put forward at each annual general meeting. With reference to the amendments to the GEM Listing Rules as mentioned above, voting by poll has become mandatory on all resolutions at general meetings starting from 1 January 2009.

Revised provisions have also been introduced in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules, which require listed companies to arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent 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

In 2008, the Company continued to pursue a policy of promoting investor relations and communication by conducting analysts' briefings after interim and final results announcement, conducting road shows after each quarterly results announcement, participating in investor conferences and making corporate presentations during the conferences, arranging company visits and holding regular meetings with institutional shareholders and analysts.

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

## Investor Relations and Communication (continued)

The Board confirmed that there were no significant changes in the Company's Articles of Association during 2008 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 2008 are set out in the Information for Investors section on page 38.

### Annual General Meeting

The annual general meeting ("AGM") provides an opportunity for communication between the Board and the shareholders of the Company. All shareholders have proper notice of the AGM at which Directors and chairmen or members of the committees are available to answer questions on the business.

The most recent AGM of the Company was held on 7 May 2008 at the Auditorium, 12th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong. The notice of AGM, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders more than 21 days prior to the meeting. Separate resolutions were proposed in respect of each substantially separate issue. A member of the Audit Committee and the chairman of the Remuneration Committee were available to answer questions from shareholders. At the meeting, voting by way of a poll was demanded by the chairman of the meeting for all the proposed resolutions set out in the notice.

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

| Ordinary resolutions passed | Percentage of votes cast |
|---|---|
| • To receive and adopt the Audited Consolidated Accounts and Reports of the Directors and the Auditor for the year ended 31 December 2007 | 100% |
| • To declare a final dividend of 5.5 HK cents per share | 100% |
| • To re-elect Dr. Fung Kwok King, Victor and Mr. Li Kwok Ho, Bruno as Directors | 98.57% in respect of each individual resolution |
| • To re-elect Ms. Wong Yuk Nor, Louisa and Mr. Yeung Lap Bun, Richard as Directors | 100% in respect of each individual resolution |
| • To re-appoint PwC as Auditor and to authorise the Board to fix their remuneration | 100% |
| • To grant a general mandate to the Directors to allot and issue additional shares not exceeding 20% of the issued share capital of the Company | 89.51% |
| • To grant a general mandate to the Directors to repurchase shares of the Company not exceeding 10% of the issued share capital of the Company | 99.70% |
| • 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 | 89.51% |

| Special resolution passed | Percentage of votes cast |
|---|---|
| • To approve the amendments of the Company's Articles of Association | 99.70% |

## Investor Relations and Communication (continued)

**Annual General Meeting** (continued)

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

## Corporate Communication

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

Policy Committee Meetings are held monthly for senior executives to formulate company-wide policies and practices, and to report and discuss significant issues affecting the Group.

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

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

## Corporate Social Responsibility and Sustainability

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

**Human Resources**

The Group recognises that human capital is a key asset to its sustained growth and profitability. The Group dedicates considerable efforts into staff training, career development and staff well-being.

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

The Group is fully committed to investing in the growth and development of its people, especially in their leadership skills. A new series of leadership training initiatives for Circle K frontline staff was launched during the year, with objectives including creating a positive working environment at stores and enabling the store managers to lead their staff to achieve outstanding performance. For the Saint Honore operations, a training and career ladder was established to facilitate a learning culture at the frontline and to enhance the competitiveness of the customer service standard.

## Corporate Social Responsibility and Sustainability (continued)

**Human Resources** (continued)

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

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

**Workplace Safety**

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

**Environmental Protection**

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

The Group continues to support the "No Plastic Bag Day" campaign organised by the Green Student Council (which is fixed on every Tuesday). Messages to discourage the usage of plastic bags are displayed at all Circle K and Saint Honore stores in Hong Kong. The frontline staff are well briefed to avoid plastic bag usage as much as possible and only provide bags upon customer request.

In order to curb "white pollution", the usage of super-thin plastic bags has been banned by the Chinese government with effect from 1 June 2008; also, plastic bags will not be distributed for free at retail outlets. In view of the new regulations, plastic bags used at the Group's stores on the Chinese Mainland have been re-designed, and customers will be advised of the price of plastic bags before the store staff provide such bags to them.

The Group has been conscientiously reducing electricity consumption by using energy saving LED lights rather than traditional lighting at stores.

Saint Honore Hong Kong has been using bio-degradable materials for some parts of its mooncake packaging since 2007. In addition, Saint Honore Hong Kong has entered into a one-year Voluntary Agreement on Management of Mooncake Packaging in September 2008 with the Environmental Protection Department for reducing the environmental impact of mooncake packaging. In particular, Saint Honore Hong Kong will contain the use of packaging materials per unit weight of mooncake to the 2008's level, and endeavour to further reduce packaging materials to practicable limit; adopt packaging materials that are recyclable and with minimum environmental impact on post-consumption management; and support and facilitate recovery and recycling of used packaging materials.

## Corporate Social Responsibility and Sustainability (continued)

**Community Involvement**

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

Activities in 2008 included:

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

- Participation in Standard Chartered Hong Kong Marathon.

- Fund-raising for Sichuan earthquake victims and Myanmar cyclone victims. Staff donations were matched dollar for dollar by the Li & Fung (1906) Foundation and such donations were made to the Red Cross in various locations and World Vision Hong Kong. Circle K Hong Kong supported the UNICEF by placing a donation box in every Circle K store in Hong Kong from 15 to 31 May 2008. A charity bazaar for staff was held with products donated by Circle K, Saint Honore and other related companies.

- Visit to store and warehouse organised for secondary school students.

- Participation in HEIFER charity projects and donation of rice puddings to needy families in the Yuexiu district of Guangzhou, details of which are set out in the Management Discussion and Analysis section on pages 10 to 19.

# Directors and Senior Management Profile

## Executive Directors

**Yeung Lap Bun, Richard –** *Chief Executive Officer*

Mr. Yeung, aged 52, has over 20 years of experience in general management, food distribution and supply chain management. He is responsible for overseeing the Group's operations, marketing, logistics and supply chain management and he is actively involved in new business development in the Chinese Mainland. Prior to joining the Group in October 1998, he spent about ten years in senior positions at HAVI Food Services Group, managing the supply chain of McDonald's Restaurants in various countries in Asia. Mr. Yeung graduated from the University of Hawaii with a Bachelor of Business Administration degree. Mr. Yeung also holds a Master degree in Business Administration from the California State University of Los Angeles and is a Certified Public Accountant. He is also a director of Li & Fung (Retailing) Limited, a substantial shareholder of the Company.

**Li Kwok Ho, Bruno –** *Chief Financial Officer*

Mr. Li, aged 59, joined Li & Fung Group in January 1991 as the Chief Financial Officer. In February 1993, he was appointed as the Retail Services Director of Li & Fung Retailing Group and took charge of all the centralised supporting services which comprised the areas of Finance and Accounting, Human Resource and Administration, Business Systems Development and Real Estate. He is also the Compliance Officer of the Company under Rule 5.19 of the GEM Listing Rules. Mr. Li graduated from the Chinese University of Hong Kong with a Bachelor of Science degree and obtained a postgraduate diploma in Accountancy from the University of Strathclyde in Scotland. He is a member of the Institute of Chartered Accountants of Scotland with more than 27 years of professional experience in finance and accounting. He is also a director of Li & Fung (Retailing) Limited, a substantial shareholder of the Company.

## Non-executive Directors

**Dr. Fung Kwok King, Victor –** *Chairman*

Dr. Fung, aged 63, brother of Dr. Fung Kwok Lun, William, has been a non-executive director of the Company since January 2001. Dr. Fung is Group Chairman of Li & Fung (1937) Limited (a substantial shareholder of the Company) and publicly listed Li & Fung Group companies including Li & Fung Limited, Integrated Distribution Services Group Limited and the Company. He is also a director of King Lun Holdings Limited and Li & Fung (Retailing) Limited (substantial shareholders of the Company). Dr. Fung holds Bachelor and Master degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. Dr. Fung is an independent non-executive director of BOC Hong Kong (Holdings) Limited and Orient Overseas (International) Limited in Hong Kong, CapitaLand Limited in Singapore and Baosteel Group Corporation in the People's Republic of China, and a non-executive director of Hup Soon Global Corporation Limited in Singapore. In public service, Dr. Fung is Chairman of the International Chamber of Commerce. He is a member of Chinese People's Political Consultative Conference and a member of the Executive Committee of the Commission on Strategic Development of the Hong Kong Government. Dr. Fung is also Chairman of the Hong Kong University Council, the Greater Pearl River Delta Business Council and the Hong Kong-Japan Business Co-operation Committee. From 1991 to 2000, Dr. Fung was Chairman of the Hong Kong Trade Development Council, from 1996 to 2003, he was the Hong Kong representative on the APEC Business Advisory Council, and from 1999 to 2008, he was Chairman of the Hong Kong Airport Authority. In 2003, the Hong Kong Government awarded Dr. Fung the Gold Bauhinia Star for distinguished service to the community.

## Non-executive Directors (continued)

**Dr. Fung Kwok Lun, William**

Dr. Fung, SBS, OBE, JP, aged 60, brother of Dr. Fung Kwok King, Victor, is the Group Managing Director of Li & Fung Limited and a non-executive director of Integrated Distribution Services Group Limited of the Li & Fung Group. He is also a director of the substantial shareholders of the Company, King Lun Holdings Limited, Li & Fung (1937) Limited and Li & Fung (Retailing) Limited. Dr. Fung is a non-executive Director of the Company since 2001. Dr. Fung has held key positions at major trade organisations. He is past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation Council. He has been awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region Government in 2008. Dr. Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and holds a Master degree in Business Administration from the Harvard Graduate School of Business. He was awarded the degree of Doctor of Business Administration, *honoris causa* by the Hong Kong University of Science & Technology and by the Hong Kong Polytechnic University. Currently, Dr. Fung is a non-executive director of HSBC Holdings plc and an independent non-executive director of VTech Holdings Limited and Shui On Land Limited. Formerly, he was a non-executive director of Bank of Communications Co., Ltd. and an independent non-executive director of CLP Holdings Limited.

**Godfrey Ernest Scotchbrook**

Mr. Scotchbrook, aged 62, prior to re-designation as non-executive Director in August 2005, had been an independent non-executive Director of the Company since November 2002. Mr. Scotchbrook presently serves as an independent director of Del Monte Pacific Limited (a company engaged in the production, marketing and distribution of premium branded food and beverage products) and a non-executive director of Boustead Singapore Limited (a company engaged in engineering services and geo-spatial technology) in Singapore. Mr. Scotchbrook was a founder of Scotchbrook Communications Ltd., a firm specialising in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance. He is a Fellow of the Hong Kong Management Association and also of the British Chartered Institute of Public Relations.

**Jeremy Paul Egerton Hobbins**

Mr. Hobbins, aged 61, is also a director of various companies within the Li & Fung Group including Integrated Distribution Services Group Limited. Mr. Hobbins joined the Li & Fung Group in 1999 and was Group Managing Director of Li & Fung (Retailing) Limited (a substantial shareholder of the Company) and previous Deputy Chairman of Li & Fung (Distribution) Limited. Prior to joining the Li & Fung Group, Mr. Hobbins was the Chief Executive of Inchcape Marketing Services-Asia Pacific and was also the Chief Executive Officer of Inchcape Marketing Services Limited which was listed in Singapore, from 1997 to 1998. In addition, he served as a member of the Group Management Board of Inchcape plc and a director of Inchcape NRG, a business machines joint-venture with Ricoh. Previously, he was the Chief Executive Officer of Inchcape Berhad, prior to which he was the Chief Executive Officer of Inchcape Buying Services from 1993 to 1996. Before joining the Inchcape group, he was the President and Chief Executive Officer of the Campbell Soup Company, UK & Ireland, and previously was President of the Dairy Division of Ault Foods, Canada. He had also held senior positions at Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes. Mr. Hobbins completed Advanced Management Programmes at the London Business School, Imede and Insead.

**Wong Yuk Nor, Louisa**

Ms. Wong, aged 59, joined Li & Fung (Retailing) Limited (a substantial shareholder of the Company) in April 1998 as a director responsible for strategic planning, marketing and communication for the Li & Fung Retailing Group. Ms. Wong graduated from the University of Hong Kong with a Bachelor of Arts degree and has more than 20 years of professional experience in marketing and advertising. Prior to joining Li & Fung (Retailing) Limited, Ms. Wong was the Managing Director of a leading 4A advertising agency Foote, Cone and Belding Limited for many years.

## Independent non-executive Directors

**Dr. Ch'ien Kuo Fung, Raymond**

Dr. Ch'ien, aged 57, is an independent non-executive Director of the Company since January 2001. Dr. Ch'ien is also director of various listed public companies both in Hong Kong and overseas, namely, he is Chairman of CDC Corporation and its subsidiary, China.com Inc., MTR Corporation Limited and Hang Seng Bank Limited. He also serves on the boards of The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, The Wharf (Holdings) Limited and Swiss Reinsurance Company Limited. Formerly, Dr. Ch'ien was director of HSBC Holdings plc and VTech Holdings Limited. In public service, Dr. Ch'ien is Chairman of the Hong Kong/European Union Business Cooperation Committee and is a Hong Kong member of the APEC Business Advisory Council. Dr. Ch'ien is an honorary President and past Chairman of the Federation of Hong Kong Industries. He was also appointed a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference in January 2008. From 1992 to 1997, Dr. Ch'ien was a member of the Executive Council of Hong Kong, then under British Administration. He was appointed a member of the Executive Council of the Hong Kong Special Administrative Region on 1 July 1997 and served until June 2002. Dr. Ch'ien received a doctoral degree in Economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. He was appointed a Justice of the Peace in 1993 and a Commander in the Most Excellent Order of the British Empire in 1994. In 1999, he was awarded the Gold Bauhinia Star Medal. In 2008, Dr. Ch'ien was awarded the honour of Chevalier de l'Ordre du Merite Agricol of France.

**Au Man Chung, Malcolm**

Mr. Au, aged 59, is an independent non-executive Director of the Company since January 2001. Mr. Au holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, USA and a Master of Business Administration degree from the University of Toronto, Canada. Mr. Au is also a non-executive director of China-Hongkong Photo Products Holdings Limited, a listed company in Hong Kong and Eu Yan Sang International, a listed company in Singapore.

**Lo Kai Yiu, Anthony**

Mr. Lo, aged 60, is an independent non-executive Director of the Company since August 2005. Mr. Lo is Chairman of Shanghai Century Capital Limited. He has over 28 years of experience in banking, finance and investments. Mr. Lo was appointed as an independent non-executive director of Lam Soon (Hong Kong) Limited in December 2008 and also serves as an independent non-executive director of Hong Kong listed Playmates Holdings Limited, Tristate Holdings Limited and IDT International Limited. He is also a director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange. He is a director, Chairman and Co-Chief Executive Officer of Shanghai Century Acquisition Corporation, a company listed on the American Stock Exchange since April 2006. Since 1998 to May 2006, Mr. Lo was a member of the listing committee of The Stock Exchange of Hong Kong Limited. Mr. Lo is qualified as a chartered accountant with the Canadian Institute of Chartered Accountants and is a member of the Hong Kong Institute of Certified Public Accountants.

## Group Chief Compliance Officer

**Siu Kai Lau, James**

Mr. Siu, aged 64, joined the Group in 2005 as Group Chief Compliance Officer. He first joined the Li & Fung Limited Group in 1993 as Chief Financial Officer until 1996 when he became its Chief Compliance Officer. He is an executive Director of Li & Fung (1937) Limited, a substantial shareholder of the Li & Fung Group of companies including publicly listed Li & Fung Limited and Integrated Distribution Services Group Limited of which he is also their respective Group Chief Compliance Officer. Prior to joining Li & Fung Group, Mr. Siu was the partner-in-charge (1981 – 1989) of the Hong Kong audit practice of Coopers & Lybrand (currently PricewaterhouseCoopers) specialising in advising corporate clients on mergers, acquisitions, finance and on public listings. His community work included serving as member of the Supervisory Board of the Hong Kong Housing Society and Chairman of its Audit Committee (2001 – 2006) and a member of the Professional Accountants in Business Committee of the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (2002 – 2006). Mr. Siu is a member of the Securities and Futures Commission Dual Filing Advisory Group and was the Deputy Chairman of the Corporate Governance Committee of the HKICPA (2007). He is a Fellow of both the Institute of Chartered Accountants in Australia and the HKICPA. He is also a Fellow member of the Hong Kong Institute of Directors. Mr. Siu holds a Bachelor of Economics degree from Australia.

## Senior Management

**Pak Chi Kin –** *Managing Director*

Mr. Pak, aged 50, has over 20 years of experience in the retailing and food distribution business. He is currently responsible for overseeing the Circle K operations in Hong Kong and the Chinese Mainland. Prior to joining the Group in May 1999, Mr. Pak had been the senior manager at HAVI Food Services Group in charge of the distribution of food products and logistics services to McDonald's Restaurants. Graduated from the University of Hong Kong with a Bachelor degree of Science in Engineering, he also holds a Master degree of Science in Engineering from the University of Hong Kong. Mr. Pak is a member of the executive committee of the Hong Kong Retail Management Association.

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

Mrs. Chan, aged 46, is responsible for the Saint Honore Cake Shop retail operations in Hong Kong and Macau. She also took up the advisory role for the Group's cake shop operation in Guangzhou. Mrs. Chan holds a Master degree in Business Administration jointly conferred by the J.L. Kellogg Graduate School of Management, Northwestern University in the United States and the Hong Kong University of Science and Technology. She also holds a Bachelor degree in Administrative Studies from the Trent University in Canada. Mrs. Chan joined Saint Honore group in 1986 and was promoted to the position of Managing Director in 1996.

## Senior Management (continued)

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

Mr. Kan, aged 57, has over 26 years of experience in manufacturing and logistics management with multinationals and local companies in Hong Kong and Southern China. Previously the General Manager of Convenience Retail Southern China, he was transferred to the position of Managing Director of Saint Honore Food Manufacturing in March 2007 and is currently responsible for managing the manufacturing functions of Saint Honore group including two factories in Hong Kong, one in Shenzhen, one in Guangzhou and one in 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.

**Tse Yiu Hon, Wallace –** *General Manager (Acting), Convenience Retail Southern China*

Mr. Tse, aged 48, joined the Group in June 1995. He used to be the Divisional Manager of Buying and Marketing for Circle K Hong Kong until his promotion in October 2007 to the position of Assistant General Manager of Convenience Retail Southern China. He now heads the Circle K and Saint Honore operations in Southern China. He has over 20 years of experience in the retailing industry gained from his experience in PARKnSHOP and 7-Eleven. He holds a diploma in Management Studies from The Hong Kong Polytechnic University as well as a Master degree in Marketing Management from the Macquarie University of Australia. He is also an Associate Member of the Hong Kong Institute of Marketing.

**Lai Chun Pang –** *General Manager – Operations*

Mr. Lai, aged 47, is responsible for overseeing daily operations of Circle K in areas of supply chain and logistics, business development, site development and store operations. Prior to joining the Group in 1987, he spent over six years in retail operations and local distribution of imported sportswear. He has been in charge of store operations after joining the Group and was promoted to the position of General Manager in 2006. He holds a Bachelor degree of Arts with Honours in Business Studies and a Master degree of Arts in International Business Management from the City University of Hong Kong.

**Hui Chi Ho, Sam –** *Group Financial Controller*

Mr. Hui, aged 34, 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. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also a member of CFA Institute.

# Information for Investors

## Listing Information

| | |
|---|---|
| Listing | Hong Kong Stock Exchange (GEM Board) |
| Stock code | 08052 |

## Key Dates

| | |
|---|---|
| 16 March 2009 | Announcement of 2008 Final Results |
| 29 April to 5 May 2009 (both days inclusive) | Closure of Register of Shareholders |
| 5 May 2009 | Annual General Meeting |
| 6 May 2009 | Despatch of 2008 Final Dividend warrants |

## Share Information

| | |
|---|---|
| Board lot size | 2,000 shares |
| Shares outstanding as at 31 December 2008 | 729,915,974 shares |
| Market capitalisation as at 31 December 2008 | HK$1,379,541,190 |
| Earnings per share for 2008 | |
| Interim | HK5.39 cents |
| Full year | HK12.18 cents |
| Dividend per share for 2008 | |
| Interim | HK1.7 cents |
| Final | HK5.5 cents |
| Full year | HK7.2 cents |

## Share Registrar & Transfer Offices

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

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

## Enquiries Contact

Mr. Li Kwok Ho, Bruno
Executive Director

| | |
|---|---|
| Telephone | 2991 6886 |
| Fax | 2632 8189 |
| E-mail | investor@cr-asia.com |

Convenience Retail Asia Limited
12th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen
Shatin
New Territories
Hong Kong

## Website

www.cr-asia.com

# Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31 December 2008.

## Principal Activities and Analysis of Operations

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

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

## Results and Appropriations

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

The Directors had declared an interim dividend of 1.7 HK cents per share, totalling HK$12,409,000, which was paid on 1 September 2008.

The Directors recommended the payment of a final dividend of 5.5 HK cents per share, totaling HK$40,145,000.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

## Donations

Charitable and other donations made by the Group during the year amounted to HK$211,000.

## Fixed Assets

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

## Share Capital

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

## Distributable Reserves

Distributable reserves of the Company at 31 December 2008 calculated under the Companies Law (2004 Revision) of the Cayman Islands, amounted to HK$356,290,000 (2007: HK$351,417,000).

## Pre-emptive Rights

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

## Subsidiaries

Details of the Company's subsidiaries as at 31 December 2008 are set out in note 17 to the accounts.

## Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 108.

## Purchase, Sale or Redemption of Shares

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

## Share Options

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

**(i) Purpose of the Scheme**

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

**(ii) Qualifying participants**

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

## Share Options (continued)

**(iii) Maximum number of shares**

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes (including the pre-IPO share option plan) must not in aggregate exceed 10% of the shares in issue as at the date of approval of the Scheme. The total number of shares available for issue, save for those already granted, under all the schemes is 19,556,000, representing approximately 2.679% of the issued share capital of the Company as at the date of this Report.

**(iv) Limit for each participant**

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

**(v) Option period**

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

**(vi) Amount payable on application or acceptance**

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

**(vii) Subscription price**

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

**(viii) The remaining life of the Scheme**

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

## Share Options (continued)

Details of the share options granted and remain outstanding as at 31 December 2008 are as follows:

### (A) Continuous contract employees

| Grant date | Options held at 1 January 2008 | Options granted during the year | Options exercised during the year *(Note 2)* | Options lapsed during the year *(Note 3)* | Options expired during the year *(Note 4)* | Options held at 31 December 2008 | Exercise price HK$ | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|---|---|
| 20 May 2003 | 508,000 | – | (508,000) | – | – | – | 1.69 | 20 May 2004 | 19 May 2008 |
| 20 May 2003 | 308,000 | – | (284,000) | – | (24,000) | – | 1.69 | 20 May 2005 | 19 May 2008 |
| 30 September 2003 | 10,000 | – | – | – | (10,000) | – | 2.225 | 30 September 2004 | 29 September 2008 |
| 30 September 2003 | 54,000 | – | – | – | (54,000) | – | 2.225 | 30 September 2005 | 29 September 2008 |
| 29 March 2004 | 324,000 | – | (10,000) | (20,000) | – | 294,000 | 2.535 | 29 March 2005 | 28 March 2009 |
| 29 March 2004 | 48,000 | – | – | – | – | 48,000 | 2.535 | 29 March 2006 | 28 March 2009 |
| 6 August 2004 | 76,000 | – | (8,000) | – | – | 68,000 | 2.40 | 6 August 2005 | 5 August 2009 |
| 6 August 2004 | 290,000 | – | – | – | – | 290,000 | 2.40 | 6 August 2006 | 5 August 2009 |
| 4 May 2005 | 480,000 | – | – | (44,000) | – | 436,000 | 2.86 | 4 May 2006 | 3 May 2010 |
| 4 May 2005 | 362,000 | – | – | (30,000) | – | 332,000 | 2.86 | 4 May 2007 | 3 May 2010 |
| 14 September 2005 | 1,654,000 | – | – | – | – | 1,654,000 | 2.53 | 14 September 2006 | 13 September 2010 |
| 14 September 2005 | 140,000 | – | – | – | – | 140,000 | 2.53 | 14 September 2007 | 13 September 2010 |
| 10 March 2006 | 794,000 | – | (26,000) | (12,000) | – | 756,000 | 2.905 | 10 March 2007 | 9 March 2011 |

## Share Options (continued)

### (A) Continuous contract employees (continued)

| Grant date | Options held at 1 January 2008 | Options granted during the year | Options exercised during the year *(Note 2)* | Options lapsed during the year *(Note 3)* | Options expired during the year *(Note 4)* | Options held at 31 December 2008 | Exercise price HK$ | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|---|---|
| 10 March 2006 | 576,000 | – | – | (106,000) | – | 470,000 | 2.905 | 10 March 2008 | 9 March 2011 |
| 29 August 2006 | 434,000 | – | – | – | – | 434,000 | 2.93 | 29 August 2007 | 28 August 2011 |
| 29 August 2006 | 180,000 | – | – | (48,000) | – | 132,000 | 2.93 | 29 August 2008 | 28 August 2011 |
| 30 March 2007 | 1,172,000 | – | – | (38,000) | – | 1,134,000 | 3.00 | 30 March 2008 | 29 March 2012 |
| 30 March 2007 | 354,000 | – | – | (34,000) | – | 320,000 | 3.00 | 30 March 2009 | 29 March 2012 |
| 3 May 2007 | 2,640,000 | – | – | – | – | 2,640,000 | 3.39 | 3 May 2009 | 2 May 2012 |
| 3 May 2007 | 2,640,000 | – | – | – | – | 2,640,000 | 3.39 | 3 May 2010 | 2 May 2013 |
| 3 May 2007 | 2,640,000 | – | – | – | – | 2,640,000 | 3.39 | 3 May 2011 | 2 May 2014 |
| 19 November 2007 | 540,000 | – | – | (16,000) | – | 524,000 | 3.46 | 19 November 2009 | 18 November 2012 |
| 19 November 2007 | 740,000 | – | – | (20,000) | – | 720,000 | 3.46 | 19 November 2010 | 18 November 2013 |
| 19 November 2007 | 740,000 | – | – | (20,000) | – | 720,000 | 3.46 | 19 November 2011 | 18 November 2014 |
| | 17,704,000 | – | (836,000) | (388,000) | (88,000) | 16,392,000 | | | |

## Share Options (continued)

**(B) Directors**

| Grant date | Options held at 1 January 2008 | Options granted during the year | Options exercised during the year | Options lapsed during the year | Options expired during the year | Options held at 31 December 2008 | Exercise price HK$ | Exercisable from | Exercisable until |
|---|---|---|---|---|---|---|---|---|---|
| 3 May 2007 | 800,000 *(Note 1)* | – | – | – | – | 800,000 | 3.39 | 3 May 2009 | 2 May 2012 |
| 3 May 2007 | 800,000 *(Note 1)* | – | – | – | – | 800,000 | 3.39 | 3 May 2010 | 2 May 2013 |
| 3 May 2007 | 800,000 *(Note 1)* | – | – | – | – | 800,000 | 3.39 | 3 May 2011 | 2 May 2014 |
| | 2,400,000 | – | – | – | – | 2,400,000 | | | |

*Notes:*

1. *Share options to subscribe for 1,200,000, 600,000 and 600,000 shares were respectively granted to the Directors, Messrs. Yeung Lap Bun, Richard and Li Kwok Ho, Bruno and Ms. Wong Yuk Nor, Louisa. Please refer to the section headed "Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" for details.*

2. *Share options to subscribe for 836,000 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 HK$2.84.*

3. *Share options to subscribe for 388,000 shares lapsed during the year following the cessation of employment of certain grantees.*

4. *Share options to subscribe for 88,000 shares expired during the year following the expiry of the options.*

5. *No share options were granted to the participants during the year.*

Save as disclosed above, as at 31 December 2008, none of the Directors, chief executives, management shareholders or substantial shareholders of the Company or their respective associates have been granted share options under the Scheme.

## Directors

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

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

*Executive Directors*
Mr. YEUNG Lap Bun, Richard
Mr. LI Kwok Ho, Bruno

* *Independent non-executive Directors*

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

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

## Directors' Service Contracts

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

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

## Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year except as disclosed under "Connected Transactions" stated below and note 28 "Related Party Transactions" to the accounts.

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

As at 31 December 2008, the interests and short positions of each of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and certain of its major associated corporations (Note 1) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealing by the Directors under the GEM Listing Rules and/or the Code of Conduct for dealings in securities adopted by the Company, were as follows:

**The Company**

*Long positions in shares and the underlying shares of equity derivatives*

| | Number of shares | | | | | |
|---|---|---|---|---|---|---|
| Name of Directors | Personal interests | Family interests | Corporate/ Trust interests | Number of underlying shares (share options) | Total interests | Approximate percentage of interests |
| Dr. Fung Kwok King, Victor | – | – | 373,692,000 *(Note 2)* | – | 373,692,000 | 51.19% |
| Dr. Fung Kwok Lun, William | – | – | 373,692,000 *(Note 2)* | – | 373,692,000 | 51.19% |
| Mr. Yeung Lap Bun, Richard | 19,196,000 | – | – | 1,200,000 *(Note 3)* | 20,396,000 | 2.79% |
| Mr. Li Kwok Ho, Bruno | 2,676,000 | – | – | 600,000 *(Note 4)* | 3,276,000 | 0.45% |
| Ms. Wong Yuk Nor, Louisa | 1,588,000 | – | – | 600,000 *(Note 5)* | 2,188,000 | 0.30% |
| Dr. Ch'ien Kuo Fung, Raymond | 1,000,000 | – | – | – | 1,000,000 | 0.14% |
| Mr. Jeremy Paul Egerton Hobbins | 180,000 | – | – | – | 180,000 | 0.02% |

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

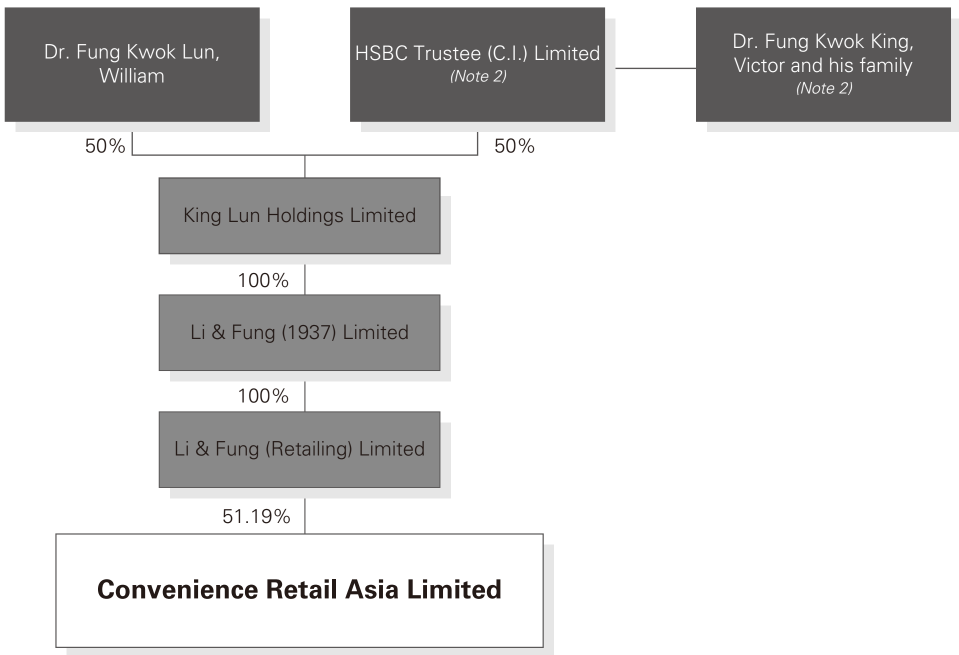
### Major associated corporations

*Long positions in shares and the underlying shares of equity derivatives*

| Name of Directors | Name of associated corporations | Class of shares | Number of (i) shares | Number of (ii) underlying shares | Nature of interests/ Holding capacity | Approximate percentage of interests |
|---|---|---|---|---|---|---|
| Dr. Fung Kwok King, Victor | Li & Fung (Distribution) Limited | Full voting ordinary shares | 13,800,000 | – | *(Note 6)* | 100% |
| | LiFung Trinity Limited | Ordinary share | 1 | – | *(Note 7)* | 100% |
| | Trinity Limited | Ordinary shares | 799,673,555 | – | *(Note 8)* | 66.35% |
| Dr. Fung Kwok Lun, William | Li & Fung (Distribution) Limited | Full voting ordinary shares | 13,800,000 | – | Corporate interests *(Note 6)* | 100% |
| | LiFung Trinity Limited | Ordinary share | 1 | – | Corporate interests *(Note 7)* | 100% |
| | Trinity Limited | Ordinary shares | 799,673,555 | – | Corporate interests *(Note 8)* | 66.35% |
| Mr. Jeremy Paul Egerton Hobbins | Trinity Limited | Ordinary shares | 4,234,500 | – | Corporate interests *(Note 9)* | 0.35% |

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

As at 31 December 2008, the interests of Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William in shares of the Company are summarised in the following chart:




*Notes:*

1. *Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William, by virtue of their interests in King Lun Holdings Limited ("King Lun") and the Company are deemed to be interested in the shares and underlying shares of certain associated corporations of the Company under SFO. A waiver from full compliance from Rule 18.15 of the GEM Listing Rules for the disclosure of Directors' interests in the shares and underlying shares of the associated corporations has been granted by the Stock Exchange on 2 February 2009. Accordingly, the companies under this section headed "Interests and short positions of Directors in the shares, underlying shares and debentures of the Company and certain major associated corporations" are only the major associated corporations of the Company and are not intended to be exhaustive.*

2. *King Lun through its indirect wholly owned subsidiary, Li & Fung (Retailing) Limited ("LFR") (a wholly owned subsidiary of Li & Fung (1937) Limited ("LF (1937)")) held 373,692,000 shares in the Company. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr. Fung Kwok King, Victor (HSBC Trustee (C.I.) Limited replaced J.P. Morgan Trust Company (Jersey) Limited as the trustee of the trust on 27 August 2008), the remaining 50% is owned by Dr. Fung Kwok Lun, William.*

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

*Notes: (continued)*

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

4. *On 3 May 2007, Mr. Li Kwok Ho, Bruno was granted share options pursuant to the Share Option Scheme of the Company to subscribe for a total of 600,000 shares at an exercise price of HK$3.39 per share. The options are to be vested in Mr. Li Kwok Ho, Bruno in three equal lots in relation to the performance year 2007, 2008 and 2009 respectively. Subject to confirmation of vesting, the options in relation to the performance year 2007 would be exercisable during the period from 3 May 2009 to 2 May 2012. The remaining two lots of options in relation to the performance year 2008 and 2009 would be exercisable during the respective period of 3 May 2010 to 2 May 2013 and 3 May 2011 to 2 May 2014.*

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

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

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

8. *King Lun through its indirect wholly owned subsidiary, LiFung Trinity Limited (a wholly owned subsidiary of LFR) held 799,673,555 shares in Trinity Limited. Dr. Fung Kwok King, Victor and Dr. Fung Kwok Lun, William are deemed to have interests in these shares through their respective interests in King Lun, LF (1937), LFR and LiFung Trinity Limited as set out in Notes 2 & 7 above.*

9. *4,234,500 shares in Trinity Limited were held by Martinville Holdings Limited which is owned by Mr. Jeremy Paul Egerton Hobbins.*

Save as disclosed above, as at 31 December 2008, none of the Directors, chief executives and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations.

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

As at 31 December 2008, the interests and short positions of shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

**Long positions in shares**

| Name of shareholders | Number of shares | Nature of interests/ Holding capacity | Approximate percentage of interests |
|---|---|---|---|
| HSBC Trustee (C.I.) Limited | 373,692,000 | Trustee *(Note 1)* | 51.19% |
| King Lun Holdings Limited | 373,692,000 | Corporate interests *(Note 1)* | 51.19% |
| Commonwealth Bank of Australia | 59,520,000 | Corporate interests *(Note 2)* | 8.15% |
| Aberdeen Asset Management Plc and its subsidiaries | 51,060,000 | Other *(Note 3)* | 6.99% |
| Arisaig Greater China Fund Limited ("Arisaig China") | 89,346,000 | Other | 12.24% |
| Arisaig Partners (Mauritius) Limited ("Arisaig Partners") | 89,346,000 | Other *(Note 4)* | 12.24% |
| Cooper Lindsay William Ernest ("Mr. Cooper") | 89,346,000 | Corporate interests *(Note 5)* | 12.24% |

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

**Long positions in shares** (continued)

*Notes:*

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

2. *These shares were indirectly held by Commonwealth Bank of Australia through a chain of 100% owned companies, namely Colonial Holding Company Ltd, Commonwealth Insurance Holdings Ltd, Colonial First State Group Ltd, First State Investments (UK Holdings) Ltd, SI Holdings Ltd, First State Investment Management (UK) Ltd and First State Investments International Ltd.*

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

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

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

Save as disclosed above, as at 31 December 2008, the Company had not been notified of any other shareholders' interests or short positions which are required to be kept under section 336 of SFO.

## Sufficiency of Public Float

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

## Directors' Benefits from Rights to Acquire Shares or Debentures

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

## Major Customers and Suppliers

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

| | |
|---|---|
| – the largest supplier | 17% |
| – five largest suppliers combined | 48% |

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

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

## Connected Transactions

During the year, the Group had various transactions with related parties (details are set out in note 28 to the accounts on pages 106 and 107). The following transactions are expected to continue on an on-going basis and will constitute continuing connected transactions (exempt from independent shareholders' approval requirements) of the Company:

| | | HK$'000 |
|---|---|---|
| 1. | Net purchases of products from IDS (Hong Kong) Limited ("IDS (HK)") *(Note 1)* | 7,745 |
| 2. | The Circle K Convenience Stores (HK) Limited ("Circle K (HK)") lease *(Note 2)* | 2,564 |
| 3. | The Circle K (HK) licence *(Note 3)* | 202 |

*Notes:*

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

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

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

## Connected Transactions (continued)

Saint Honore Holdings Limited, a subsidiary of the Company since 22 February 2007, entered into a supply agreement dated 30 March 2007 (details of which were disclosed in the announcement dated 30 March 2007) with Hong Kong Catering Management Limited, in which the former directors of Saint Honore Holdings Limited are interested, for the supply of festive products, bakery products, cakes and other food products. For the period from 1 January 2008 to 21 February 2008, the total amount received under the agreement was HK$1,657,000. Such agreement constituted connected transaction (exempt from independent shareholders' approval requirements) of the Company up to 21 February 2008.

On 17 December 2008, Circle K Convenience Stores PRC Limited ("Circle K PRC"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement (details of which were disclosed in the announcement dated 17 December 2008) as purchaser with Guangzhou Grain Holding Company Limited ("Guangzhou Grain") as vendor whereby Circle K PRC agreed to acquire additional 25% of the equity interest of Convenience Retail Southern China Limited ("CRSC"), a subsidiary of Circle K PRC, at a consideration of RMB15,000,000 (approximately HK$17,026,000). Upon completion of the sale and purchase agreement, the equity interest of Circle K PRC in CRSC will increase from 73.5% to 98.5%. Guangzhou Grain is a connected person of the Company by virtue of it being a substantial shareholder of CRSC and such agreement therefore constituted a connected transaction for the Company (exempt from independent shareholders' approval requirements) under Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors confirmed that the above transactions have been entered into on normal commercial terms no less favourable to the Group than terms available from independent third parties and each of these transactions has been entered into in the ordinary course of business of the Group, and is fair and reasonable to the Company and in the interests of the shareholders of the Company as a whole. In addition, all the disclosure requirements in connection with the above transactions pursuant to Chapter 20 of the GEM Listing Rules have been duly complied with by the Company.

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

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

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

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

## Contracts with Controlling Shareholders

Save as disclosed under "Connected Transactions" above and note 28 "Related Party Transactions" to the accounts, no other contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries were entered into or existed during the year.

## Management Contracts

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

## Directors' Interest in Competing Business

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

## Directors' Responsibilities for the Accounts

The Directors are responsible for the preparation of the accounts 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 accounts for the year ended 31 December 2008, the Directors have selected suitable and relevant accounting policies and applied them consistently as stated in note 2 to the accounts; made judgments and estimates that are prudent and reasonable; and have prepared the accounts 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 accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
**Fung Kwok King, Victor**
*Chairman*

Hong Kong, 16 March 2009

# Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the consolidated accounts of Convenience Retail Asia Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 56 to 107, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated profit and loss account, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

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

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

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

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 accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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, 16 March 2009

# Consolidated Profit and Loss Account

For the year ended 31 December 2008

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Revenue | *5* | **3,322,665** | 2,917,614 |
| Cost of sales | *6* | **(2,315,890)** | (2,058,581) |
| Gross profit | | **1,006,775** | 859,033 |
| Other income | *5* | **224,379** | 208,726 |
| Store expenses | *6* | **(895,185)** | (778,896) |
| Distribution costs | *6* | **(82,934)** | (67,060) |
| Administrative expenses | *6* | **(144,012)** | (123,296) |
| Operating profit | | **109,023** | 98,507 |
| Finance income, net | *7* | **5,083** | 6,622 |
| Profit before income tax | | **114,106** | 105,129 |
| Income tax expenses | *8* | **(25,233)** | (23,583) |
| Profit for the year | | **88,873** | 81,546 |
| Profit attributable to: | | | |
| Shareholders of the Company | *9 & 24* | **88,873** | 86,867 |
| Minority interests | | **–** | (5,321) |
| | | **88,873** | 81,546 |
| Dividends | *10* | **52,554** | 52,495 |
| Earnings per share for profit attributable to the shareholders of the Company | | | |
| – Basic earnings per share (HK cents) | *11* | **12.18** | 12.08 |
| – Diluted earnings per share (HK cents) | *11* | **12.18** | 12.04 |

The notes on pages 62 to 107 are an integral part of these consolidated accounts.

# Consolidated Balance Sheet

As at 31 December 2008

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Fixed assets | *14* | **248,632** | 241,355 |
| Lease premium for land | *15* | **174,874** | 180,680 |
| Intangible assets | *16* | **357,465** | 357,465 |
| Available-for-sale financial asset | *18* | **1,895** | 1,895 |
| Rental and other long-term deposits | | **59,584** | 37,244 |
| Bank deposits | *21* | **–** | 50,000 |
| Deferred tax assets | *19* | **8,280** | 3,613 |
| | | **850,730** | 872,252 |
| Current assets | | | |
| Inventories | | **118,255** | 110,450 |
| Amount due from immediate holding company | *28* | **–** | 227 |
| Rental deposits | | **21,068** | 25,797 |
| Trade receivables | *20* | **35,066** | 30,688 |
| Other receivables, deposits and prepayments | | **74,650** | 53,048 |
| Taxation recoverable | | **82** | 2,091 |
| Cash and cash equivalents | *21* | **418,490** | 392,844 |
| | | **667,611** | 615,145 |
| Current liabilities | | | |
| Trade payables | *22* | **438,442** | 455,352 |
| Other payables and accruals | | **143,400** | 140,660 |
| Taxation payable | | **12,848** | 10,935 |
| Cake coupons | | **125,398** | 127,613 |
| | | **720,088** | 734,560 |
| Net current liabilities | | **(52,477)** | (119,415) |
| Total assets less current liabilities | | **798,253** | 752,837 |

As at 31 December 2008

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Financed by: | | | |
| Share capital | *23* | **72,992** | 72,907 |
| Reserves | *24* | **653,197** | 614,584 |
| Proposed dividend | *24* | **40,145** | 40,111 |
| Shareholders' funds | | **766,334** | 727,602 |
| Minority interests | | **(8,256)** | (7,954) |
| | | **758,078** | 719,648 |
| Non-current liabilities | | | |
| Long service payment liabilities | *25* | **22,533** | 14,180 |
| Deferred tax liabilities | *19* | **17,642** | 19,009 |
| | | **798,253** | 752,837 |

On behalf of the Board

**Fung Kwok King, Victor**
*Director*

**Yeung Lap Bun, Richard**
*Director*

The notes on pages 62 to 107 are an integral part of these consolidated accounts.

# Balance Sheet

As at 31 December 2008

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in and loan to subsidiaries | *17* | **673,538** | 673,538 |
| Bank deposits | *21* | **–** | 50,000 |
| | | **673,538** | 723,538 |
| Current assets | | | |
| Amount due from immediate holding company | | **–** | 384 |
| Amounts due from subsidiaries | *17* | **109,000** | 118,783 |
| Other receivables, deposits and prepayments | | **2,859** | 1,306 |
| Cash and cash equivalents | *21* | **212,492** | 202,664 |
| | | **324,351** | 323,137 |
| Current liabilities | | | |
| Amounts due to subsidiaries | *17* | **565,579** | 619,865 |
| Other payables and accruals | | **2,836** | 2,294 |
| Taxation payable | | **192** | 192 |
| | | **568,607** | 622,351 |
| Net current liabilities | | **(244,256)** | (299,214) |
| Total assets less current liabilities | | **429,282** | 424,324 |
| Financed by: | | | |
| Share capital | *23* | **72,992** | 72,907 |
| Reserves | *24* | **316,145** | 311,306 |
| Proposed dividend | *24* | **40,145** | 40,111 |
| | | **429,282** | 424,324 |

On behalf of the Board

| | |
|---|---|
| **Fung Kwok King, Victor** | **Yeung Lap Bun, Richard** |
| *Director* | *Director* |

The notes on pages 62 to 107 are an integral part of these consolidated accounts.

# Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Actuarial losses on post employment benefit | | |
| – gross | **(9,561)** | – |
| – tax | **1,570** | – |
| Exchange differences | **4,100** | 3,288 |
| Employee share option benefit | **259** | 8 |
| Net (expense)/income recognised directly in equity | **(3,632)** | 3,296 |
| Profit for the year | **88,873** | 81,546 |
| Total recognised income for the year | **85,241** | 84,842 |
| Attributable to: | | |
| Shareholders of the Company | **85,543** | 89,706 |
| Minority interests | **(302)** | (4,864) |
| | **85,241** | 84,842 |

The notes on pages 62 to 107 are an integral part of these consolidated accounts.

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | *26(a)* | **124,242** | 230,288 |
| Hong Kong profits tax paid | | **(25,208)** | (16,485) |
| Overseas income tax paid | | **(475)** | (1,890) |
| Net cash generated from operating activities | | **98,559** | 211,913 |
| Cash flows from investing activities | | | |
| Acquisition of subsidiaries | *26(b)* | **–** | (348,063) |
| Purchase of fixed assets | | **(85,131)** | (64,204) |
| Proceeds from disposal of fixed assets | | **4,919** | 491 |
| Proceeds from disposal of land premium | | **1,984** | – |
| Proceeds from disposal of financial assets | | **–** | 34,916 |
| Decrease in non-current bank deposits | | **50,000** | 70,000 |
| Interest received | | **5,083** | 7,367 |
| Net cash used in investing activities | | **(23,145)** | (299,493) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of shares | | **1,482** | 14,166 |
| Drawdown of bank loans | | **–** | 80,000 |
| Repayment of bank loans | | **–** | (80,000) |
| Interest paid | | **–** | (745) |
| Dividends paid | | **(52,552)** | (48,600) |
| Net cash used in financing activities | | **(51,070)** | (35,179) |
| Increase/(decrease) in cash and cash equivalents | | **24,344** | (122,759) |
| Cash and cash equivalents at 1 January | | **392,844** | 514,785 |
| Effect of foreign exchange rate changes | | **1,302** | 818 |
| Cash and cash equivalents at 31 December | | **418,490** | 392,844 |

The notes on pages 62 to 107 are an integral part of these consolidated accounts.

# Notes to the Accounts

## 1. GENERAL INFORMATION

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

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

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

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000). These consolidated accounts have been approved for issue by the Board of Directors on 16 March 2009.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of preparation

The consolidated accounts 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 which are carried at fair value.

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

The following amendments to standards and new interpretations are mandatory for accounting periods beginning on or after 1 January 2008, but they are not relevant to the Group's operations:

| | |
|---|---|
| HKAS 39 and HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

During the year, the Group has adopted a new policy regarding long service payment. HKAS 19 provides an option under which an entity can adopt a policy of recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity. In current year, the Group has elected this option to recognise all actuarial gains and losses, including those actuarial gains and losses previously included as part of the cumulative unrecognised liabilities, to equity in the consolidated statement of recognised income and expense in the period they arise. In prior years, the cumulative unrecognised actuarial gains and losses, to the extent of the amount in excess of 10% of the present value of the defined benefit obligations, were recognised in the consolidated profit and loss account over the average remaining service lives of employees.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

The Directors consider that the adoption of this option in HKAS 19 has no significant impact to the consolidated accounts in prior years and had this not been applied by the Group for the recognition of actuarial gains and losses during the year, the Group's retained earnings, long service payment liabilities and deferred tax assets would have been increased by HK$7,991,000, decreased by HK$9,561,000 and decreased by HK$1,570,000 as at 31 December 2008 respectively.

The Group has not early adopted the following new or revised standards, amendments to standards and interpretations that have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2009. The adoption of such new or revised standards, amendments to standards and interpretations will have no material impact on the consolidated accounts and will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 32 and HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 (Revised) | First Time Adoption of HKFRS |
| HKFRS 1 and HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations |
| HKFRS 3 (Revised) and HKAS 27 (Revised) | Business Combinations and Consolidated and Separate Financial Statements |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estates |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC)-Int 17 | Distribution of Non-cash Assets to Owners |
| Annual Improvements Project | HKICPA's improvements to HKFRSs published in October 2008 |

### (b) Consolidation

The consolidated accounts include the accounts 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Consolidation (continued)

*(i) Subsidiaries* (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

*(ii) Transactions with minority interests*

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

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the accounts 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 accounts are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

*(ii) Transactions and balances*

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

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

*(iii) Group companies*

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

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

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

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Fixed assets

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

Freehold land is stated at cost without amortisation. Properties are depreciated on a straight-line basis over the unexpired term of the leases of 27 years to 43 years. Leasehold improvements are depreciated on a straight-line basis over the leases of 3 years to 6 years. Other fixed assets are depreciated at rates sufficient to write off their costs over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

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

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

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

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 2(g))*.

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

### (f) Intangible assets

*(i) Goodwill*

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

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

*(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 investments in subsidiaries and non-financial assets

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

### (h) Financial assets

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

*Classification*

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet *(note 2(j) and 2(k))*.

*(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 12 months of the balance sheet date.

*Recognition and measurement*

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Financial assets (continued)

*Recognition and measurement* (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 equity 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.

### (i) Inventories

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

### (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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Cash and cash equivalents

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

### (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.

### (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 directly in equity. In this case, the tax is also recognised in equity.

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 accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) 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 equity in the consolidated statement of recognised income and expense 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 more likely than not 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) Supplier rebate and promotion fees are recognised when the rights to receive payments are established in accordance with the terms of agreements with the vendors.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 Group's accounts in the period in which the dividends are approved by the Company's shareholders.

## 3. FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

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

*(i) Foreign exchange risk*

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has insignificant exposure to foreign exchange risk as substantially all sales and purchases transactions, recognised assets and liabilities are primarily denominated in the functional currency of the operations to which they relate.

*(ii) Credit risk*

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

The majority of the Group's trade receivables are supplier rebate and promotion fees receivables. The Group mitigates its exposure to risk relating to the trade receivables by performing regular reviews of the aging profile of trade receivables. The Group has no significant concentrations of credit risk, with exposure spread over a 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. Rental deposits are also placed with various landlords in Hong Kong and the Chinese Mainland and are due upon the expiry of the tenancy agreements and handover of the leased premises. The Group did not experience any default by the landlords and there is no material concentration of credit risk for rental deposits due to a large number of landlords.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### (a) Financial risk factors (continued)

*(iii) Liquidity risk*

The Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due. To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents 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$438,442,000 (2007: HK$455,352,000) and other payables and accruals of HK$143,400,000 (2007: HK$140,660,000) are contractually maturing within one year.

*(iv) Interest rate risk*

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

If the interest rates had been increased/decreased by 50 basis-point and all other variables were held constant, the Group's net profit would have been increased/decreased by HK$HK$1,729,000 and HK$1,794,000 for the year ended 31 December 2008 and 2007 respectively.

### (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 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 fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows are used to determine fair value for financial instruments.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values.

## 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 assets 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 2(f). The recoverable amounts of goodwill and trademarks are determined based on fair value less costs to sell calculations and royalty relief valuation method. These calculations require the use of estimates *(note 16)*.

### (c) Estimated useful lives of trademarks

Trademarks represent the power of Saint Honore brand which the Company's Directors and 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 option as stated in note 23. 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.

### (e) Income taxes

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

## 5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Revenue | | |
| Merchandise sales revenue | **2,667,513** | 2,455,820 |
| Bakery sales revenue | **655,152** | 461,794 |
| | **3,322,665** | 2,917,614 |
| Other income | | |
| Supplier rebate and promotion fees | **168,410** | 163,439 |
| Service items and miscellaneous income | **55,969** | 45,287 |
| | **224,379** | 208,726 |

The Group is organised into two main business segments:

(a) Convenience Store – operation of chain of convenience stores under the trademark of Circle K

(b) Bakery – operation of chain of bakeries under the trademark of Saint Honore and Bread Boutique

The Group's two business segments operate in two geographical areas, namely Hong Kong and others, and the Chinese Mainland.

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

**Primary reporting format – business segments**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Convenience Store HK$'000** | **Bakery HK$'000** | **Group HK$'000** | Convenience Store HK$'000 | Bakery HK$'000 | Group HK$'000 |
| Total segment revenue | **2,667,513** | **702,732** | **3,370,245** | 2,455,820 | 492,682 | 2,948,502 |
| Inter-segment revenue | **–** | **(47,580)** | **(47,580)** | – | (30,888) | (30,888) |
| Revenue | **2,667,513** | **655,152** | **3,322,665** | 2,455,820 | 461,794 | 2,917,614 |
| Total segment other income | **224,298** | **1,411** | **225,709** | 207,890 | 1,627 | 209,517 |
| Inter-segment other income | **(1,330)** | **–** | **(1,330)** | (791) | – | (791) |
| Other income | **222,968** | **1,411** | **224,379** | 207,099 | 1,627 | 208,726 |
| | **2,890,481** | **656,563** | **3,547,044** | 2,662,919 | 463,421 | 3,126,340 |
| Segment results | **87,220** | **21,803** | **109,023** | 72,861 | 25,646 | 98,507 |
| Finance income, net | | | **5,083** | | | 6,622 |
| Profit before income tax | | | **114,106** | | | 105,129 |
| Income tax expenses | | | **(25,233)** | | | (23,583) |
| Profit for the year | | | **88,873** | | | 81,546 |
| Segment assets | **476,059** | **803,320** | **1,279,379** | 531,498 | 750,195 | 1,281,693 |
| Unallocated assets | | | **238,962** | | | 205,704 |
| Total assets | | | **1,518,341** | | | 1,487,397 |
| Segment liabilities | **514,649** | **215,124** | **729,773** | 528,971 | 208,834 | 737,805 |
| Unallocated liabilities | | | **30,490** | | | 29,944 |
| Total liabilities | | | **760,263** | | | 767,749 |
| Capital expenditure | **44,805** | **40,326** | **85,131** | 44,104 | 686,858 | 730,962 |
| Depreciation | **41,698** | **30,914** | **72,612** | 42,569 | 20,633 | 63,202 |
| Amortisation | **439** | **3,731** | **4,170** | 434 | 3,048 | 3,482 |

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

**Primary reporting format – business segments** (continued)

Segment assets consist primarily of fixed assets, lease premium for land, intangible assets, inventories, receivables and operating cash but exclude deferred tax assets, taxation recoverable and corporate bank deposits.

Segment liabilities comprise operating liabilities but exclude taxation payable and deferred tax liabilities.

Capital expenditure comprises additions to fixed assets *(note 14)* and additions resulting from acquisitions through business combination.

**Secondary reporting format – geographical segments**

| Revenue and other income | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Hong Kong and others | **3,344,768** | 2,969,882 |
| Chinese Mainland | **218,508** | 163,019 |
| | **3,563,276** | 3,132,901 |
| Inter-segment revenue | **(16,232)** | (6,561) |
| | **3,547,044** | 3,126,340 |

| Segment results | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Hong Kong and others | **152,892** | 125,886 |
| Chinese Mainland | **(43,869)** | (27,379) |
| | **109,023** | 98,507 |

Revenue, other income and segment results are allocated based on the geographical area in which the customers are located.

| Total assets | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Hong Kong and others | **1,155,938** | 1,172,796 |
| Chinese Mainland | **123,441** | 108,897 |
| | **1,279,379** | 1,281,693 |
| Unallocated assets | **238,962** | 205,704 |
| | **1,518,341** | 1,487,397 |

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

**Secondary reporting format – geographical segments** (continued)

| Capital expenditure | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Hong Kong and others | **65,673** | 714,703 |
| Chinese Mainland | **19,458** | 16,259 |
| | **85,131** | 730,962 |

Total assets and capital expenditure are allocated based on where the business is operated.

## 6. EXPENSES BY NATURE

| | Group | |
|---|---|---|
| | 2008 HK$'000 | 2007 HK$'000 |
| Amortisation of lease premium for land | **4,170** | 3,482 |
| Auditor's remuneration | | |
| Charge for the year | **1,842** | 1,832 |
| Over provision in prior year | **–** | (57) |
| Changes in inventories | **2,221,812** | 2,024,853 |
| Depreciation of owned fixed assets | **72,612** | 63,202 |
| Employee benefit expense *(note 12)* | **564,903** | 458,670 |
| Loss on disposal of fixed assets *(note)* | **2,703** | 1,510 |
| Operating leases rental for land and buildings | | |
| Minimum lease payment | **292,543** | 248,486 |
| Contingent lease payment | **4,162** | 3,192 |
| Other expenses | **273,274** | 222,663 |
| Total cost of sales, store expenses, distribution costs and administrative expenses | **3,438,021** | 3,027,833 |

*Note:*

Loss on disposal of fixed assets includes gain on disposal of properties amounting to HK$2,202,000 (2007: nil).

## 7. FINANCE INCOME, NET

| | Group | |
|---|---|---|
| | 2008 HK$'000 | 2007 HK$'000 |
| Interest income | **5,083** | 7,367 |
| Interest expenses on bank loans | **–** | (745) |
| | **5,083** | 6,622 |

## 8. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year. 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:

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **27,114** | 23,724 |
| – Overseas profits tax | **2,583** | 2,018 |
| Deferred income tax *(note 19)* | **(4,464)** | (2,159) |
| | **25,233** | 23,583 |

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

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Profit before income tax | **114,106** | 105,129 |
| Calculated at a taxation rate of 16.5% (2007: 17.5%) | **18,827** | 18,399 |
| Effect of different taxation rates in other jurisdiction | **(3,788)** | (4,164) |
| Income not subject to taxation | **(1,848)** | (1,820) |
| Expenses not deductible for tax purposes | **2,262** | 2,649 |
| Tax losses not recognised | **10,307** | 10,254 |
| Effect of previously unrecognised tax losses | **–** | (55) |
| Effect of previously unrecognised temporary differences | **(3)** | (946) |
| Over provision in prior year | **(213)** | (734) |
| Remeasurement of deferred tax – change in tax rate | **(311)** | – |
| | **25,233** | 23,583 |

During the year, as a result of the change in the Hong Kong profits tax rate from 17.5% to 16.5% that was effective from 1 April 2008, deferred tax balances have been remeasured.

## 9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$51,769,000 (2007: HK$49,598,000).

## 10. DIVIDENDS

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Interim dividend, paid, of 1.7 HK cents (2007: 1.7 HK cents) per share | **12,409** | 12,384 |
| Dividend, proposed, of 5.5 HK cents (2007: 5.5 HK cents) per share | **40,145** | 40,111 |
| | **52,554** | 52,495 |

At a meeting held on 16 March 2009, the Directors proposed a dividend of 5.5 HK cents per share. This proposed dividend is not reflected as a dividend payable in these accounts.

## 11. EARNINGS PER SHARE

The calculation of the Group's basic and diluted earnings per share is based on the profit attributable to shareholders of the Company of HK$88,873,000 (2007: HK$86,867,000).

The basic earnings per share is based on the weighted average number of 729,748,000 (2007: 718,874,000) shares in issue during the year.

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

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Profit attributable to shareholders of the Company | **88,873** | 86,867 |
| | **Number of shares** | Number of shares |
| Weighted average number of ordinary shares in issue | **729,748,000** | 718,874,000 |
| Adjustments for: | | |
| Share options | **11,000** | 2,352,000 |
| Weighted average number of ordinary shares for diluted earnings per share | **729,759,000** | 721,226,000 |

## 12. EMPLOYEE BENEFIT EXPENSE

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Wages and salaries | **539,352** | 436,030 |
| Unutilised annual leave | **(568)** | 65 |
| Employee share option benefit | **4,518** | 3,942 |
| Pension costs – defined contribution plan *(note c)* | **20,856** | 17,884 |
| Long service payment costs *(note 25)* | **745** | 749 |
| | **564,903** | 458,670 |

*Notes:*

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

(b) Forfeited contributions totalling HK$1,573,000 (2007: HK$452,000) were utilised during the year leaving nil amount available at the year-end to reduce future contributions.

(c) Contributions totalling HK$4,062,000 (2007: HK$3,769,000) were payable to the independently administered fund at the year-end.

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

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

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

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

### (a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2007 is set out below:

| Name of Director | Fees | Salary | Discretionary bonuses | Other benefits *(note)* | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Dr. Fung Kwok King, Victor | 90 | – | – | – | – | 90 |
| Dr. Fung Kwok Lun, William | 50 | – | – | – | – | 50 |
| Mr. Jeremy Paul Egerton Hobbins | 70 | – | – | – | – | 70 |
| Mr. Yeung Lap Bun, Richard | 50 | 2,400 | 5,007 | 440 | 12 | 7,909 |
| Mr. Li Kwok Ho, Bruno | 50 | 600 | – | 140 | 12 | 802 |
| Ms. Wong Yuk Nor, Louisa | 50 | – | – | 140 | – | 190 |
| Dr. Ch'ien Kuo Fung, Raymond | 110 | – | – | – | – | 110 |
| Mr. Au Man Chung, Malcolm | 90 | – | – | – | – | 90 |
| Mr. Godfrey Ernest Scotchbrook | 70 | – | – | – | – | 70 |
| Mr. Lo Kai Yiu, Anthony | 70 | – | – | – | – | 70 |
| | 700 | 3,000 | 5,007 | 720 | 24 | 9,451 |

*Note:*

Other benefits include leave pay, share option, insurance premium and club membership.

In addition to the Directors' emoluments disclosed above, certain Directors of the Company had emoluments receivable from the immediate holding company and the fellow subsidiary, which total HK$1,654,000 (2007: HK$5,412,000), part of which is in respect of their services to the Company and its subsidiaries. No apportionment has been made as the Directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the immediate holding company and the fellow subsidiary.

No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2008 and 2007.

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

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2007: one) Director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2007: four) individuals during the year are as follows:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Basic salaries, housing allowances, share options, other allowances and benefit in kind | **6,225** | 5,810 |
| Discretionary bonuses | **1,996** | 2,021 |
| Pension costs – defined contribution scheme | **48** | 45 |
| | **8,269** | 7,876 |

The emoluments of the employees fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2008** | 2007 |
| HK$1,000,001 – HK$2,000,000 | **2** | 2 |
| HK$2,000,001 – HK$3,000,000 | **2** | 2 |

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

## 14. FIXED ASSETS

**Group**

| | Freehold land and properties HK$'000 | Leasehold improvements HK$'000 | Equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2007 | | | | | |
| Cost | 754 | 73,851 | 207,474 | 5,291 | 287,370 |
| Accumulated depreciation | (86) | (51,958) | (132,933) | (3,300) | (188,277) |
| Net book amount | 668 | 21,893 | 74,541 | 1,991 | 99,093 |
| Year ended 31 December 2007 | | | | | |
| Opening net book amount | 668 | 21,893 | 74,541 | 1,991 | 99,093 |
| Acquisition of subsidiaries | 74,046 | 24,010 | 36,073 | 6,450 | 140,579 |
| Additions | – | 20,212 | 42,287 | 1,705 | 64,204 |
| Disposals | – | (667) | (1,173) | (161) | (2,001) |
| Depreciation | (1,648) | (19,483) | (39,609) | (2,462) | (63,202) |
| Exchange differences | 379 | 1,118 | 1,137 | 48 | 2,682 |
| Closing net book amount | 73,445 | 47,083 | 113,256 | 7,571 | 241,355 |
| At 31 December 2007 | | | | | |
| Cost | 87,706 | 204,340 | 370,564 | 22,405 | 685,015 |
| Accumulated depreciation | (14,261) | (157,257) | (257,308) | (14,834) | (443,660) |
| Net book amount | 73,445 | 47,083 | 113,256 | 7,571 | 241,355 |
| Year ended 31 December 2008 | | | | | |
| Opening net book amount | 73,445 | 47,083 | 113,256 | 7,571 | 241,355 |
| Additions | – | 38,950 | 43,835 | 2,346 | 85,131 |
| Disposals | (81) | (3,143) | (4,116) | (315) | (7,655) |
| Depreciation | (1,657) | (27,466) | (40,717) | (2,772) | (72,612) |
| Exchange differences | (68) | 1,063 | 1,341 | 77 | 2,413 |
| Closing net book amount | 71,639 | 56,487 | 113,599 | 6,907 | 248,632 |
| At 31 December 2008 | | | | | |
| Cost | 87,622 | 233,917 | 403,407 | 22,316 | 747,262 |
| Accumulated depreciation | (15,983) | (177,430) | (289,808) | (15,409) | (498,630) |
| Net book amount | 71,639 | 56,487 | 113,599 | 6,907 | 248,632 |

As at 31 December 2008 and 2007, freehold land of HK$11,561,000 is located outside Hong Kong.

Depreciation expense of HK$8,618,000 (2007: HK$7,895,000) has been charged in cost of sales, HK$53,884,000 (2007: HK$46,408,000) in store expenses, HK$3,291,000 (2007: HK$3,934,000) in distribution costs and HK$6,819,000 (2007: HK$4,965,000) in administrative expenses.

## 15. LEASE PREMIUM FOR LAND

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Net book value at 1 January | **180,680** | 15,284 |
| Acquisition of subsidiaries | **–** | 168,714 |
| Disposals | **(1,984)** | – |
| Amortisation | **(4,170)** | (3,482) |
| Exchange differences | **348** | 164 |
| Net book value at 31 December | **174,874** | 180,680 |
| In Hong Kong, held on: | | |
| Leases of over 50 years | **36,955** | 41,196 |
| Leases of 10 to 50 years | **97,049** | 97,671 |
| Outside Hong Kong, held on: | | |
| Leases of over 50 years | **700** | 713 |
| Leases of 10 to 50 years | **40,170** | 41,100 |
| | **174,874** | 180,680 |

## 16. INTANGIBLE ASSETS

| | **Goodwill** | **Trademarks** | **Group** |
|---|---|---|---|
| | **HK$'000** | **HK$'000** | **HK$'000** |
| At 31 December 2007 and 2008 | | | |
| Cost and net book amount | 247,465 | 110,000 | 357,465 |

### (a) Impairment test for trademarks

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

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

## 16. INTANGIBLE ASSETS (continued)

### (a) Impairment test for trademarks (continued)

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

| | |
|---|---|
| Revenue growth rate *(note i)* | 9% – 12% |
| Long-term growth rate *(note ii)* | 2% |
| Discount rate *(note iii)* | 11% |

*Notes:*

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

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

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

The Group does not have to recognise an impairment loss as at 31 December 2008 based on the impairment assessment performed.

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

### (b) Impairment test for goodwill

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

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 three-year period. Cash flows beyond the three-year period are extrapolated using the estimated long-term growth rate stated below. The growth rate does not exceed the long-term average growth rate for the bakery business in which the CGU operates.

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

| | |
|---|---|
| Gross margin *(note i)* | 46% – 50% |
| Long-term growth rate *(note ii)* | 2% |
| Discount rate *(note iii)* | 11% |

*Notes:*

(i) The budgeted gross margin over the three-year budget period is approximately 46% to 50% 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 segment.

The Group does not have to recognise an impairment loss as at 31 December 2008 based on the impairment assessment performed.

If the gross margin maintained at 46% during the three-year budget period or the discount rate applied in the fair value less costs to sell calculation had increased by 100 basis-point, the goodwill's recoverable amount would still be greater than its carrying value and no impairment would be noted.

## 17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Investment at cost: | | |
| Unlisted shares | **654,538** | 654,538 |
| Loan to subsidiary | **19,000** | 19,000 |
| | **673,538** | 673,538 |

Loan to subsidiary represents loan of HK$19,000,000 (2007: HK$19,000,000) which is interest bearing at 2% (2007: 2%) per annum, and repayable on 7 October 2010.

As at 31 December 2008, the balances with subsidiaries are unsecured, interest free and repayable on demand, except for the balance of HK$18,300,000 (2007: HK$18,300,000) which is interest bearing at 2% (2007: 2%) per annum.

The following is a list of the subsidiaries of the Company as at 31 December 2008:

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held |
|---|---|---|---|---|
| *Directly held:* | | | | |
| Convenience Retail Asia (BVI) Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 10,000 ordinary shares of US$1 each | 100% |
| Saint Honore Holdings Limited | Bermuda, limited liability company | Investment holding in Hong Kong | 1,000,000 ordinary shares of HK$0.1 each | 100% |
| *Indirectly held:* | | | | |
| Bliset Investment Limited | Hong Kong, limited liability company | Property investment in Hong Kong | 100 ordinary shares of HK$1 each<br>102 non-voting deferred shares of HK$1 each | 100% |
| Bodega Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Bread Boutique Limited | Hong Kong, limited liability company | Bakery chain operator and lease-holder in Hong Kong | 3,000,000 ordinary shares of HK$1 each | 100% |

## 17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES (continued)

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held |
|---|---|---|---|---|
| *Indirectly held:* (continued) | | | | |
| Circle K Convenience Stores (Greater China) Limited | Hong Kong, limited liability company | Convenience stores operator and lease-holder in Hong Kong | 10,000 ordinary shares of HK$100 each | 100% |
| Circle K Convenience Stores (HK) Limited | Hong Kong, limited liability company | Convenience stores operator and lease-holder in Hong Kong | 183,756 ordinary shares of HK$1,000 each | 100% |
| Circle K Convenience Stores Limited | Hong Kong, limited liability company | Lease-holder in Hong Kong | 10,000 ordinary shares of HK$10 each | 100% |
| Circle K Convenience Stores PRC (BVI) Limited | British Virgin Islands, limited liability company | Inactive | 1 ordinary share of US$1 | 100% |
| Circle K Convenience Stores PRC Limited | Hong Kong, limited liability company | Investment holding in PRC | 2 ordinary shares of HK$1 each | 100% |
| Circle K PRC Properties Limited | Hong Kong, limited liability company | Property holding in PRC | 2 ordinary shares of HK$1 each | 100% |
| City Producer Limited | Hong Kong, limited liability company | Dormant | 10,000 ordinary shares of HK$1 each | 100% |
| Convenience Retail Asia Cooperatie U.A. (In liquidation) | Netherlands, cooperative | Investment holding in Netherlands | Membership contribution of EUR1,000 | 100% |
| Convenience Retail Asia B.V. (In liquidation) | Netherlands, limited liability company | Investment holding in Netherlands | 180 ordinary shares of EUR100 each | 100% |
| Convenience Retail Asia (Netherlands) Limited | British Virgin Islands, limited liability company | Investment holding in Netherlands | 1 ordinary share of US$1 | 100% |
| Convenience Retail Dongguan Limited 東莞利亞便利店有限公司* | PRC, limited liability company | Convenience stores operator and lease-holder in PRC | Registered capital of RMB30,000,000 | 100% |

## 17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES (continued)

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held |
|---|---|---|---|---|
| *Indirectly held:* (continued) | | | | |
| Convenience Retail Shenzhen Limited 深圳利亞便利店有限公司* | PRC, limited liability company | Convenience stores operator and lease-holder in PRC | Registered capital of RMB20,000,000 | 100% |
| Convenience Retail Southern China Limited | Hong Kong, limited liability company | Dormant | 2 ordinary shares of HK$1 each | 100% |
| Convenience Retail Southern China Limited 利亞華南便利店有限公司* | PRC, limited liability company | Convenience stores operator and lease-holder in PRC | Registered capital of RMB60,000,000 *(note)* | 73.5% |
| Easywin Limited | British Virgin Islands, limited liability company | Trademark holder in Hong Kong | 1 ordinary share of US$1 | 100% |
| Eltham Agents Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 10 ordinary shares of US$1 each | 100% |
| Everfit Agents Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Evergain Consultants Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Gold Tree Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Golden Mindset Company Limited | Hong Kong, limited liability company | Marketing of festive and bakery products in Hong Kong | 2 ordinary shares of HK$1 each | 100% |
| Great Moment Investment Limited | Hong Kong, limited liability company | Property investment in Hong Kong | 2 ordinary shares of HK$1 each | 100% |
| Green Rich Enterprises Limited | Hong Kong, limited liability company | Investment holding in Hong Kong | 1 ordinary share of HK$1 | 100% |
| Kingdom Wise Limited | Hong Kong, limited liability company | Property investment in Hong Kong | 2 ordinary shares of HK$1 each | 100% |

## 17. INVESTMENTS IN AND LOAN TO SUBSIDIARIES (continued)

| Name | Place of incorporation and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held |
|---|---|---|---|---|
| *Indirectly held:* (continued) | | | | |
| Saint Honore Cake Shop Limited | Hong Kong, limited liability company | Bakery chain operator and lease-holder in Hong Kong | 5 ordinary shares of HK$10 each<br>345,005 non-voting deferred shares of HK$10 each | 100% |
| Saint Honore Cake Shop (Macau) Limited Pastelarias Santa Ana (Macau) Limitada# | Macau, limited liability company | Bakery chain operator and lease-holder in Macau | Quota capital of MOP100,000 | 100% |
| Saint Honore Cake Shop (Shenzhen) Investment Limited | Hong Kong, limited liability company | Dormant | 2 ordinary shares of HK$1 each | 100% |
| Saint Honore Cake Shop (Shenzhen) Limited 聖安娜餅屋(深圳)有限公司* | PRC, limited liability company | Operating food factory in PRC | Registered capital of HK$18,610,000 | 100% |
| Silver Wave Agents Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 | 100% |
| Strong Glory Limited | Hong Kong, limited liability company | Investment holding in PRC | 2 ordinary shares of HK$1 each | 100% |
| Uni-Leptics Limited | Hong Kong, limited liability company | Property investment in Hong Kong | 2 ordinary shares of HK$1 each | 100% |
| Web-Logistic (HK) Limited | Hong Kong, limited liability company | Dormant | 15,600,000 ordinary shares of HK$1 each | 100% |
| 夢工場美食(廣州)有限公司* | PRC, limited liability company | Bakery chain operator and lease-holder in PRC | Registered capital of RMB100,000,000 | 100% |

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

*Note:*

On 17 December 2008, the Group entered into a conditional sale and purchase agreement with a minority shareholder of Convenience Retail Southern China Limited ("CRSC") to acquire an additional 25% of equity interest in CRSC. Upon completion of the transaction, the Group's equity interest in CRSC will be increased to 98.5%. As of the date of this report, the transaction has not yet been completed, and is subject to the approval from the relevant regulatory body in the Chinese Mainland.

## 18. AVAILABLE-FOR-SALE FINANCIAL ASSET

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted investments in Macau | **1,895** | 1,895 |

*Note:*

The investment represents 19.5% equity interest in Circle K Amazens Retalhistas Macau, Limited and the contribution of a shareholders' loan of MOP1,931,000 (approximately HK$1,876,000). The shareholders' loan is unsecured, interest free and repayable on demand.

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

## 19. DEFERRED TAXATION

Movements on the deferred tax liabilities are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At 1 January | **15,396** | 7 |
| Acquisition of subsidiaries | **–** | 17,548 |
| Credited to the consolidated profit and loss account *(note 8)* | **(4,464)** | (2,159) |
| Credited directly to equity *(note 24(a))* | **(1,570)** | – |
| At 31 December | **9,362** | 15,396 |

## 19. DEFERRED TAXATION (continued)

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

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Deferred tax assets** | **Tax losses** | | **Accelerated tax depreciation** | | **Others** | | **Total** | |
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **(1,051)** | (456) | **(2,225)** | – | **(504)** | (95) | **(3,780)** | (551) |
| Acquisition of subsidiaries | **–** | (4) | **–** | (535) | **–** | – | **–** | (539) |
| Credited to the consolidated profit and loss account | **(2,288)** | (591) | **(510)** | (1,690) | **(231)** | (409) | **(3,029)** | (2,690) |
| Credited directly to equity | **–** | – | **–** | – | **(1,570)** | – | **(1,570)** | – |
| At 31 December | **(3,339)** | (1,051) | **(2,735)** | (2,225) | **(2,305)** | (504) | **(8,379)** | (3,780) |

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | **Accelerated tax depreciation** | | **Fair value gain** | | **Others** | | **Total** | |
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **2,705** | 538 | **16,417** | – | **54** | 20 | **19,176** | 558 |
| Acquisition of subsidiaries | **–** | 1,370 | **–** | 16,717 | **–** | – | **–** | 18,087 |
| (Credited)/charged to the consolidated profit and loss account | **(527)** | 797 | **(881)** | (300) | **(27)** | 34 | **(1,435)** | 531 |
| At 31 December | **2,178** | 2,705 | **15,536** | 16,417 | **27** | 54 | **17,741** | 19,176 |

## 19. DEFERRED TAXATION (continued)

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Deferred tax assets | | |
| – Deferred tax assets to be recovered after more than 12 months | **(6,212)** | (2,549) |
| – Deferred tax assets to be recovered within 12 months | **(2,167)** | (1,231) |
| | **(8,379)** | (3,780) |
| Deferred tax liabilities | | |
| – Deferred tax liabilities to be settled after more than 12 months | **17,075** | 19,053 |
| – Deferred tax liabilities to be settled within 12 months | **666** | 123 |
| | **17,741** | 19,176 |

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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Deferred tax assets | **(8,280)** | (3,613) |
| Deferred tax liabilities | **17,642** | 19,009 |

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of subsidiaries in the PRC amounting to HK$33,466,000 (2007: HK$33,706,000) in respect of losses amounting to HK$133,942,000 (2007: HK$105,635,000), which can be carried forward against future taxable income. The tax losses can be carried forward for five years immediately after the respective accounting year.

## 20. TRADE RECEIVABLES

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from suppliers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 31 December 2008, the aging analysis of trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 0-30 days | **27,179** | 23,434 |
| 31-60 days | **4,112** | 3,784 |
| 61-90 days | **1,510** | 1,886 |
| Over 90 days | **2,265** | 1,584 |
| | **35,066** | 30,688 |

As of 31 December 2008, trade receivables of HK$510,000 (2007: HK$615,000) were impaired. The amount of the provision was HK$469,000 as of 31 December 2008 (2007: HK$490,000). 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 2008, trade receivables of HK$7,846,000 (2007: HK$7,128,000) 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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Past due | | |
| 1 to 3 months | **5,622** | 5,670 |
| Over 3 months | **2,224** | 1,458 |
| | **7,846** | 7,128 |

## 20. TRADE RECEIVABLES (continued)

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| HK dollar (HK$) | **29,351** | 26,502 |
| Renminbi (RMB) | **4,716** | 3,716 |
| Patacas (MOP) | **999** | 470 |
| | **35,066** | 30,688 |

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At 1 January | **490** | 242 |
| Acquisition of subsidiaries | **–** | 634 |
| Provision for receivable impairment | **123** | 150 |
| Receivables written off | **(144)** | (27) |
| Unused amounts reversed | **–** | (509) |
| At 31 December | **469** | 490 |

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

## 21. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at bank and in hand | **181,604** | 242,844 | **21,892** | 52,664 |
| Bank deposits | **236,886** | 200,000 | **190,600** | 200,000 |
| Total bank balances and cash | **418,490** | 442,844 | **212,492** | 252,664 |
| Non-current bank deposits | **–** | (50,000) | **–** | (50,000) |
| Cash and cash equivalents | **418,490** | 392,844 | **212,492** | 202,664 |

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$388,708,000 (2007: HK$401,819,000).

The effective interest rate on short-term bank deposits of HK$418,490,000 (2007: HK$392,844,000) was 1.3% (2007: 1.5%) per annum, and these deposits have an average maturity of 44 days (2007: 2 days).

The cash and bank balances are mainly denominated in Hong Kong dollars, except for certain balances of HK$48,619,000 (2007: HK$34,725,000) which are kept in the Chinese Mainland. The remittance of funds out of the Chinese Mainland is subject to rules and regulations of foreign exchange control promulgated by the Chinese Mainland government.

## 22. TRADE PAYABLES

At 31 December 2008, the aging analysis of the trade payables is as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **227,519** | 231,973 |
| 31 – 60 days | **122,619** | 133,527 |
| 61 – 90 days | **53,761** | 62,322 |
| Over 90 days | **34,543** | 27,530 |
| | **438,442** | 455,352 |

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

## 23. SHARE CAPITAL

| | 2008 Shares of HK$0.10 each | | 2007 Shares of HK$0.10 each | |
|---|---|---|---|---|
| | **No. of shares** | **HK$'000** | No. of shares | HK$'000 |
| Authorised: | | | | |
| At 31 December | **2,000,000,000** | **200,000** | 2,000,000,000 | 200,000 |
| Issued and fully paid: | | | | |
| At 1 January | **729,071,974** | **72,907** | 677,142,000 | 67,714 |
| Issue of shares on exercise of share options *(note)* | **844,000** | **85** | 5,292,000 | 529 |
| Issue of shares for acquisition of subsidiaries | **–** | **–** | 46,637,974 | 4,664 |
| At 31 December | **729,915,974** | **72,992** | 729,071,974 | 72,907 |

*Note:*

During the year, 844,000 (2007: 5,292,000) shares (the "Shares") were allotted and issued pursuant to the exercise of share options by the employees of the Company.

**Share options**

*(i) Share Option Scheme*

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

## 23. SHARE CAPITAL (continued)

**Share options** (continued)

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

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price HK$** | Number of options | Weighted average exercise price HK$ |
| At 1 January | **19,586,000** | **3.15** | 6,954,000 | 2.65 |
| Granted | **–** | **–** | 14,516,000 | 3.35 |
| Lapsed | **(388,000)** | **2.98** | (718,000) | 3.25 |
| Expired | **(78,000)** | **2.06** | – | – |
| Exercised | **(328,000)** | **1.83** | (1,166,000) | 2.62 |
| At 31 December | **18,792,000** | **3.18** | 19,586,000 | 3.15 |
| Exercisable | **6,188,000** | **2.76** | 4,964,000 | 2.62 |

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.79 (2007: HK$3.49). The options outstanding at 31 December 2008 and 2007 had a weighted average remaining contractual life of 3.61 years and 4.51 years respectively.

## 23. 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$ | **2008 Number of options** | 2007 Number of options |
|---|---|---|---|
| 20 May 2008 | 1.69 | **–** | 308,000 |
| 30 September 2008 | 2.225 | **–** | 54,000 |
| 29 March 2009 | 2.535 | **342,000** | 372,000 |
| 6 August 2009 | 2.40 | **358,000** | 366,000 |
| 4 May 2010 | 2.86 | **768,000** | 842,000 |
| 14 September 2010 | 2.53 | **1,794,000** | 1,794,000 |
| 10 March 2011 | 2.905 | **1,226,000** | 1,370,000 |
| 29 August 2011 | 2.93 | **566,000** | 614,000 |
| 30 March 2012 | 3.00 | **1,454,000** | 1,526,000 |
| 3 May 2012 | 3.39 | **3,440,000** | 3,440,000 |
| 3 May 2013 | 3.39 | **3,440,000** | 3,440,000 |
| 3 May 2014 | 3.39 | **3,440,000** | 3,440,000 |
| 19 November 2012 | 3.46 | **524,000** | 540,000 |
| 19 November 2013 | 3.46 | **720,000** | 740,000 |
| 19 November 2014 | 3.46 | **720,000** | 740,000 |
| | | **18,792,000** | 19,586,000 |

The fair value of options granted are determined by using the Black-Scholes valuation model. During the year, no share option is granted and the weighted average fair value of options granted was nil (2007: HK$0.94) per option. The significant inputs into the models for the share options granted in 2007 were as follows:

| | 2007 |
|---|---|
| Expected volatility | 30% |
| Expected life | 5.4 years |
| Risk free rate | 4.1% |
| Expected dividends | 2% |

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

## 24. RESERVES

### (a) Group

| | Share premium HK$'000 | Merger reserve HK$'000 | Capital reserve HK$'000 | Employee share-based compensation reserve HK$'000 | Exchange reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2007 | 125,556 | 177,087 | 13,433 | 4,646 | 1,445 | 139,149 | 461,316 |
| Issue of new shares | 13,637 | – | – | – | – | – | 13,637 |
| Acquisition of subsidiaries | 139,914 | – | – | – | – | – | 139,914 |
| Employee share option benefit | 928 | – | – | 3,006 | – | 8 | 3,942 |
| Exchange differences | – | – | – | – | 2,831 | – | 2,831 |
| Acquisition of additional interest in subsidiary | – | – | – | – | – | (5,212) | (5,212) |
| Profit attributable to shareholders of the Company | – | – | – | – | – | 86,867 | 86,867 |
| Dividends | – | – | – | – | – | (48,600) | (48,600) |
| At 31 December 2007 | 280,035 | 177,087 | 13,433 | 7,652 | 4,276 | 172,212 | 654,695 |
| Representing: | | | | | | | |
| Reserves | | | | | | | 614,584 |
| Proposed dividend | | | | | | | 40,111 |
| | | | | | | | 654,695 |
| At 1 January 2008 | 280,035 | 177,087 | 13,433 | 7,652 | 4,276 | 172,212 | 654,695 |
| Issue of new shares | 1,397 | – | – | – | – | – | 1,397 |
| Employee share option benefit | 182 | – | – | 4,077 | – | 259 | 4,518 |
| Actuarial loss on post employment benefit recognised in equity | | | | | | | |
| – gross | – | – | – | – | – | (9,561) | (9,561) |
| – tax | – | – | – | – | – | 1,570 | 1,570 |
| Exchange differences | – | – | – | – | 4,402 | – | 4,402 |
| Profit attributable to shareholders of the Company | – | – | – | – | – | 88,873 | 88,873 |
| Dividends | – | – | – | – | – | (52,552) | (52,552) |
| At 31 December 2008 | 281,614 | 177,087 | 13,433 | 11,729 | 8,678 | 200,801 | 693,342 |
| Representing: | | | | | | | |
| Reserves | | | | | | | 653,197 |
| Proposed dividend | | | | | | | 40,145 |
| | | | | | | | 693,342 |

## 24. 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 2007 | 125,556 | 12,792 | 4,646 | 49,932 | 192,926 |
| Issue of new shares | 13,637 | – | – | – | 13,637 |
| Acquisition of subsidiaries | 139,914 | – | – | – | 139,914 |
| Employee share option benefit | 928 | – | 3,006 | 8 | 3,942 |
| Profit attributable to shareholders of the Company | – | – | – | 49,598 | 49,598 |
| Dividends | – | – | – | (48,600) | (48,600) |
| At 31 December 2007 | 280,035 | 12,792 | 7,652 | 50,938 | 351,417 |
| Representing: | | | | | |
| Reserves | | | | | 311,306 |
| Proposed dividend | | | | | 40,111 |
| | | | | | 351,417 |
| At 1 January 2008 | 280,035 | 12,792 | 7,652 | 50,938 | 351,417 |
| Issue of new shares | 1,397 | – | – | – | 1,397 |
| Employee share option benefit | 182 | – | 4,077 | – | 4,259 |
| Profit attributable to shareholders of the Company | – | – | – | 51,769 | 51,769 |
| Dividends | – | – | – | (52,552) | (52,552) |
| At 31 December 2008 | 281,614 | 12,792 | 11,729 | 50,155 | 356,290 |
| Representing: | | | | | |
| Reserves | | | | | 316,145 |
| Proposed dividend | | | | | 40,145 |
| | | | | | 356,290 |

## 25. 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 amounts recognised in the consolidated balance sheet are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Present value of unfunded obligations | **22,533** | 15,016 |
| Net unrecognised actuarial losses | **–** | (836) |
| Liability in the consolidated balance sheet | **22,533** | 14,180 |

Movements in the liability recognised in the consolidated balance sheet are as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At 1 January | **14,180** | 8,091 |
| Acquisition of subsidiaries | **–** | 6,248 |
| Expenses recognised in the consolidated profit and loss account | | |
| – as shown below | **745** | 749 |
| Benefit paid | **(1,953)** | (908) |
| Actuarial loss recognised in equity | **9,561** | – |
| At 31 December | **22,533** | 14,180 |

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Current service cost | **190** | 203 |
| Interest cost | **555** | 475 |
| Net actuarial losses recognised | **–** | 71 |
| Total, included in employee benefit expense *(note 12)* | **745** | 749 |

## 25. LONG SERVICE PAYMENT LIABILITIES (continued)

Of the total charge, HK$7,000 (2007: nil), HK$317,000 (2007: HK$235,000), HK$24,000 (2007: HK$17,000) and HK$397,000 (2007: HK$497,000) were included in cost of sales, store expenses, distribution costs and administrative expenses respectively.

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

| | **2008** | 2007 |
|---|---|---|
| Discount rate | **1.2%** | 3.75% to 4.25% |
| Long-term rate of salary increases | | |
| – Full time staff | **2.5%** | 3% to 3.25% |
| – Part time staff | **2.5%** | 2.5% to 3.25% |
| Long-term rate of increase of maximum amount of long service payment/wages and minimum mandatory provident fund relevant income | **2.5%** | 2.5% to 3% |

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Cash generated form operations

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Profit for the year | **88,873** | 81,546 |
| Adjustments for | | |
| – Income tax expenses | **25,233** | 23,583 |
| – Interest income | **(5,083)** | (7,367) |
| – Interest expenses | **–** | 745 |
| – Depreciation of owned fixed assets | **72,612** | 63,202 |
| – Employee share option benefit | **4,518** | 3,942 |
| – Amortisation of lease premium for land | **4,170** | 3,482 |
| – Loss on disposal of fixed assets | **2,703** | 1,510 |
| – Long service payment costs | **745** | 749 |
| – Net loss on disposal of financial assets | **–** | 1,417 |
| – Foreign exchange gain on operating activities | **(22)** | (376) |
| | **193,749** | 172,433 |
| Changes in working capital | | |
| – Inventories | **(7,805)** | (16,295) |
| – Trade receivables, rental deposits, other receivables, deposits and prepayments | **(43,591)** | 346 |
| – Amount due from immediate holding company | **227** | (179) |
| – Trade payables, other payables and accruals | **(14,170)** | 70,560 |
| – Long service payment liabilities | **(1,953)** | (908) |
| – Cake coupons | **(2,215)** | 4,331 |
| | **124,242** | 230,288 |

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Acquisition of subsidiaries

On 22 February 2007, the Group acquired 100% interest in Saint Honore Holdings Limited, which is incorporated in Bermuda and is principally engaged in the manufacturing of bakery products and operation of retail chain of bakeries.

The purchase consideration is comprised of:

| | HK$'000 |
|---|---|
| Cash paid | 494,181 |
| Direct costs relating to the acquisition | 9,010 |
| Fair value of shares issued | 144,578 |
| | 647,769 |
| Fair value of net assets acquired – shown as below | (400,304) |
| Goodwill | 247,465 |

The assets and liabilities arising from the acquisition are as follows:

| | Fair value HK$'000 | Carrying amount HK$'000 |
|---|---|---|
| Net tangible assets acquired | | |
| Cash and cash equivalents | 155,128 | 155,128 |
| Leasehold land and land use rights | 168,714 | 72,583 |
| Property, plant and equipment | 140,579 | 135,985 |
| Trademarks | 110,000 | 27,600 |
| Rental deposits paid | 10,942 | 10,942 |
| Deferred income tax assets | 539 | 539 |
| Inventories | 11,847 | 11,847 |
| Trade receivables | 6,464 | 6,464 |
| Deposits, prepayments and other receivables | 13,072 | 13,072 |
| Other financial assets | 8,147 | 8,147 |
| Trade payables | (26,175) | (26,175) |
| Other payables and liabilities | (174,179) | (174,179) |
| Tax payable | (342) | (342) |
| Rental deposits received | (97) | (97) |
| Provision for long service payments | (6,248) | (6,248) |
| Deferred tax liabilities | (18,087) | (1,370) |
| | 400,304 | 233,896 |
| Purchase consideration settled in cash | | 503,191 |
| Cash and cash equivalents acquired | | (155,128) |
| Cash outflow on acquisition | | 348,063 |

## 27. COMMITMENTS

### (a) Capital commitments

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided for | **7,109** | 7,324 |
| Authorised but not contracted for | **12,761** | 12,032 |
| | **19,870** | 19,356 |

### (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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Not later than one year | **265,360** | 227,274 |
| Later than one year and not later than five years | **282,505** | 217,042 |
| Later than five years | **11,442** | 10,293 |
| | **559,307** | 454,609 |

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.

## 28. RELATED PARTY TRANSACTIONS

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

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

**(a) Immediate holding company**

| | *Note* | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Management fee and reimbursement of office and administrative expenses | *(i)* | **3,521** | 20,814 |
| Rental payable | *(ii)* | **287** | 924 |

**(b) Fellow subsidiaries**

| | *Note* | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Management fee and reimbursement of office and administrative expenses | *(i)* | **17,597** | – |
| Rental payable | *(ii)* | **5,966** | 4,204 |
| Net purchases | *(iii)* | **8,795** | 8,377 |

**(c) Key management personnel compensation**

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Fees | **700** | 700 |
| Discretionary bonuses | **6,167** | 7,028 |
| Salaries, share options and other allowances | **9,792** | 9,530 |
| Pension costs – defined contribution scheme | **72** | 69 |
| | **16,731** | 17,327 |

## 28. RELATED PARTY TRANSACTIONS (continued)

**(d) Year-end balances with related parties**

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Amounts due from/(to): | | |
| – Immediate holding company | **–** | 227 |
| – Fellow subsidiaries | **(3,556)** | (2,926) |

The balances with the related parties are unsecured, interest free and repayable on demand.

**(e)** The Company provides corporate guarantee to certain banks for the banking facilities of a subsidiary of HK$25,888,000 (2007: HK$50,888,000). As of 31 December 2008, the banking facilities of the subsidiary amounting to HK$1,817,000 (2007: nil) were utilised.

*Notes:*

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

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

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

## 29. ULTIMATE HOLDING COMPANY

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

## 30. COMPARATIVE FIGURES

Certain comparative information in the consolidated account has been reclassified to conform to the current year's presentation.

# Five Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the five years ended 31 December 2008.

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 | 2006<br>HK$'000 | 2005<br>HK$'000 | 2004<br>HK$'000<br>(Restated) |
|---|---|---|---|---|---|
| Revenue | **3,322,665** | 2,917,614 | 2,231,217 | 1,995,206 | 1,736,491 |
| Profit attributable to shareholders of the Company | **88,873** | 86,867 | 75,054 | 73,578 | 66,276 |
| Total assets | **1,518,341** | 1,487,397 | 978,279 | 879,449 | 779,120 |
| Total liabilities | **(760,263)** | (767,749) | (457,422) | (397,864) | (343,228) |
| Minority interests | **8,256** | 7,954 | 8,173 | 2,912 | 6,613 |
| Shareholders' funds | **766,334** | 727,602 | 529,030 | 484,497 | 442,505 |

*Note:*

2004 figures have been restated on the adoption of new/revised accounting standards. Certain comparatives have been reclassified to conform with current year presentation.