Convenience Retail Asia

Convenience Retail Asia Limited
利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00831

Circle K

SAINT HONORE

指 FINGER 點 SHOPPING

Annual Report 2016

A Fung Retailing Company

PRINTED ON POST-CONSUMER WASTE RECYCLED PAPER

Circle K was awarded the "Joint Energy Saving Award" in the "Retail China Store (2nd Group)" category of the CLP GreenPlus Recognition Awards for the company's strong energy-saving performance.

Contents

Corporate Information

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

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

Independent Non-executive Directors
Malcolm AU Man Chung +*
Anthony LO Kai Yiu #*
ZHANG Hongyi #+*
Sarah Mary LIAO Sau Tung +

Group Chief Compliance and Risk Management Officer
Jason YEUNG Chi Wai

Company Secretary
Maria LI Sau Ping

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Grand Cayman KY1-1001
Cayman Islands
(with effect from 15 November 2016)

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Siu Lek Yuen
Shatin
New Territories
Hong Kong

Website
www.cr-asia.com

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

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

Auditor
PricewaterhouseCoopers
Certified Public Accountants

Principal Banker
The Hongkong and Shanghai
Banking Corporation Limited

\# *Nomination Committee members*
\+ *Remuneration Committee members*
* *Audit Committee members*

Highlights

Financial Highlights

	Change	**2016 HK$'000**	2015 HK$'000
Revenue	+3.0%	**4,871,437**	4,728,151
Core operating profit	+4.7%	**169,953**	162,247
Profit attributable to shareholders of the Company			
Continuing Operations	+4.1%	**139,627**	134,177
Included Discontinued Operations	-12.3%	**139,627**	159,178
Basic earnings per share (HK cents)			
Continuing Operations	+3.9%	**18.50**	17.80
Included Discontinued Operations	-12.4%	**18.50**	21.12
Dividend per share (HK cents)			
Final	Nil	**13.00**	13.00
Special	+350.0%	**27.00**	6.00
Full year			
Basic	+2.5%	**16.50**	16.10
Special	+350.0%	**27.00**	6.00

Operation Highlights

- Despite weak retail market sentiment, the convenience store and bakery businesses remained stable, achieving satisfactory comparable store sales growth in Hong Kong
- Core operating profit increased by 4.7%, which was mainly attributable to effective marketing campaigns by Circle K and improved performance by Saint Honore
- Net profit decreased by 12.3% because of the one-off disposal gain of the Guangzhou convenience store business in 2015
- With signs of rental adjustments in the commercial property market, the Group intends to recommence store network expansion in the coming year while maintaining a cautious approach due to macroeconomic uncertainties
- The Board of Directors has resolved to declare a final dividend of 13 HK cents per share and a special dividend of 27 HK cents per share
- The Group maintains a strong financial position with net cash of HK$543 million and no bank borrowings. Subject to shareholders' approval of the final and special dividends, the Group expects to maintain a strong financial position with net cash of HK$241 million and no bank borrowings after distribution of dividends

Number of Stores as of 31 December 2016

Circle K Stores	
Hong Kong	331
Franchised Circle K Stores	
Guangzhou	71
Macau	30
Zhuhai	16
Subtotal	**117**
Total number of Circle K Stores	**448**
Saint Honore Cake Shops	
Hong Kong	89
Macau	9
Guangzhou	39
Shenzhen	2
Total number of Saint Honore Cake Shops	**139**
Total number of Stores under Convenience Retail Asia	**587**

Chairman's Statement

Dr Victor FUNG Kwok King
Chairman

Financial Overview

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), achieved turnover of HK$4,871 million, core operating profit of HK$170 million and net profit of HK$140 million in 2016.

Sales grew by approximately 3%, which was mainly driven by solid comparable store sales growth.

Core operating profit increased by 4.7% to HK$170 million compared to last year. The primary reasons for the increase were satisfactory growth in comparable store sales in Hong Kong and improved performance by the Saint Honore operations. These also had a positive impact on net profit for Continuing Operations, which rose by 4.1% to HK$140 million.

Net profit including Discontinued Operations decreased by 12.3% to HK$140 million, mainly because of the one-off gain of HK$25 million for the disposal of the Guangzhou convenience store business in 2015.

Basic earnings per share for Continuing Operations increased by 3.9%, from 17.8 HK cents to 18.5 HK cents, while basic earnings per share including Discontinued Operations decreased by 12.4%, from 21.12 HK cents to 18.5 HK cents.

As at 31 December 2016, the Group had a net cash balance of HK$543 million with no bank borrowings.

The Board of Directors has resolved to declare a final dividend of 13 HK cents per share. In view of the Group's sizeable cash reserve, the Board has further resolved to declare a special dividend of 27 HK cents per share, which will be distributed out of the Company's share premium. Subject to shareholders' approval of the final and special dividends, the Group expects to maintain a strong financial position with net cash of HK$241 million and no bank borrowings after the distribution of dividends.

Review of the Hong Kong Retail Market

Hong Kong retail continued to be impacted by global economic uncertainty and decreasing numbers of Chinese Mainland tourists, who compose roughly three quarters of the city's visitors. Tourism from the Chinese Mainland dropped by 6.7% in 2016[1], coinciding with a retail sales decrease of 7.1% in volume and 8.1% in value year on year[2]. However, there was stable demand from local customers for daily consumable products, resulting in a year-on-year increase in sales value in the supermarket category (including convenience stores) of 0.8%[2].

Operating costs remained high throughout the year, but one bright spot was the commercial rental market, which has begun to trend downward. Hong Kong continues to enjoy low unemployment, creating pressure on retailers to seek and retain quality staff as well as increased labour cost.

Company Initiatives in the Hong Kong Operations

During the year under review, Circle K placed strong focus on introducing timely promotions that capitalise on popular products, characters and consumer trends. Chief among these was "OK Stamp It", a new customer loyalty programme executed with an O2O (online-to-offline) strategy and mechanism that gives customers an easy, exciting way to make purchases and earn rewards with each transaction. This innovative new app provides extra value and privileges with "wow" offerings while also providing the Group with customer insights and deeper engagement. As at the end of 2016, nearly 500,000 customers had signed up as "OK Stamp It" members.

The Group emphasises market differentiation for its retail brands by offering innovative products and services that add quality and convenience to customers' lives. Examples include a successful premium redemption programme for Monchhichi, a very well known Japanese toy monkey, and a new multi-temperature drink zone with hot, cold and ambient beverages for any time of the year.

FingerShopping.com continues to go from strength to strength, posting significant growth in both gross merchandise value (GMV) and membership compared to 2015. The site, which was recently named one of the "2016 Top 10 eCommerce Websites" by GS1 Hong Kong and Retail Asia Expo, is particularly strong in the Beauty and Personal Care category, but it has also been making inroads in the lucrative Baby and Family category, where GMV and stock-keeping units have significantly increased compared to 2015.

Notes:

1. *Published by the Hong Kong Tourism Board on 23 January 2017.*

2. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 3 February 2017.*

Review of the Saint Honore Cake Shop Operations

Despite a weak retail environment in Hong Kong, Saint Honore was still able to drive sales growth among comparable stores. The Group has now fully implemented a digital CRM programme, which enables it to connect and engage with customers on a more personal level. Staff recruitment and retention is another key area for Saint Honore as the business strives to enhance its service and customer loyalty.

In 2016, the Group completed its production conversion from chilled to frozen dough across all markets, which will enable better procurement and more scalable, efficient production. This project has already resulted in increased capacity and considerable savings in labour cost. The Group also made further investments in Saint Honore's supply chain infrastructure.

On the Chinese Mainland, a store upgrade and modernisation programme is well underway to support Saint Honore's positioning as a premium brand in the bakery and cake market. In addition, operational efficiency savings at the store and office levels have contributed to solid improvement in the financial performance of Saint Honore's Chinese Mainland retail operations compared with the past few years.

Corporate Governance and Sustainability

Corporate governance and sustainability lie at the heart of the Group's strategic planning and day-to-day operations. The Group is a member of the Fung Retailing Group, and as such it is committed to the principles of the United Nations Global Compact on human rights, labour standards, anti-corruption efforts, and environmental protection and sustainability. It also holds itself and its suppliers to high standards of governance, which are outlined in the Group's Supplier Code of Conduct.

The Group is committed to minimising the impact of its operations on the environment by enhancing operational efficiencies and implementing eco-friendly measures. The Group also ensures its compliance with all applicable environmental and related regulations.

The Group goes to great effort to educate employees on the "4Rs" of reducing, reusing, recycling and refraining, and encourages staff to protect the environment and promote environmental awareness both individually and through company-sponsored activities.

In 2016, Circle K Convenience Stores (HK) Limited was pleased to receive the "Joint Energy Saving Award" at the CLP GreenPlus Recognition Awards, which recognised the company for its energy-saving performance for the third consecutive year.

Outlook

The Group remains cautious about macroeconomic uncertainties around the world and how they may impact Hong Kong in 2017. Rising interest rates, the depreciating RMB, and political considerations in Asia, Europe and the US all could have ramifications for the local retail environment in the coming months.

Operating costs such as labour and raw materials continue to escalate at moderate levels, but commercial rentals are experiencing a correction. Therefore, it can be expected that the Group will expand its store network in prime and secondary areas at a faster pace, and negotiate more favourable lease renewal terms for existing stores. Top-line results over the past few years have been driven mainly by comparable store sales growth, but with the adjustment in the rental market, store network growth could make a larger contribution in 2017.

The Group will continue to reinvent its businesses in order to differentiate its brands from the competition and nurture loyal customer bases. This will also help gain comparable store sales growth momentum heading into 2017. Sound category management, trendy promotions, effective customer relationship management, enhanced supply chain efficiency, and new value-added services that add convenience to the lives of customers will also play key roles.

As at the end of 2016, "OK Stamp It" and Saint Honore's digital CRM platform had recruited nearly 500,000 and 150,000 members respectively. These programmes are leading the way for the development of the Group's omni-channel retailing in Hong Kong, and the Group intends to give them strong pushes by investing more in membership recruitment and adding exciting new elements to the platforms in 2017.

As always, management will continue to emphasise its "HEARTS" employee engagement and retention programme to ensure that Circle K and Saint Honore are staffed with the best, most talented people in the industry.

I would like to close by giving my sincere appreciation to the Group's management and employees, who worked hard to overcome many challenges in a difficult year and place our business in the strongest possible position for the years to come.

Victor FUNG Kwok King
Chairman

Hong Kong, 21 March 2017

Management Discussion and Analysis

Mr Richard YEUNG Lap Bun
Chief Executive Officer

Financial Review

The Board is pleased to report the financial results of the Group for the year ended 31 December 2016.

The Group's turnover for the year increased to HK$4,871 million, representing growth of 3% when compared to 2015.

In 2016, turnover for the convenience store business in Hong Kong was HK$3,850 million, representing a year-on-year increase of 4.3%. This was mainly attributable to an increase in comparable convenience store sales of 5.2% against 2015. Turnover for the Saint Honore Cake Shop business was stagnant at HK$1,072 million, with low-single-digit comparable store sales growth in Hong Kong.

Gross margin and other income as a percentage of turnover increased by 0.5% despite keen competition in the retail market and high manufacturing costs. Operating expenses as a percentage of turnover increased from 32.7% to 33.1% against 2015 as a result of inflationary operating costs and escalating rentals, although the latter rose by a lower percentage in comparison to recent years. In spite of persistently high operating costs, improvement in the Saint Honore operations enhanced the Group's performance relative to last year.

Financial Review (continued)

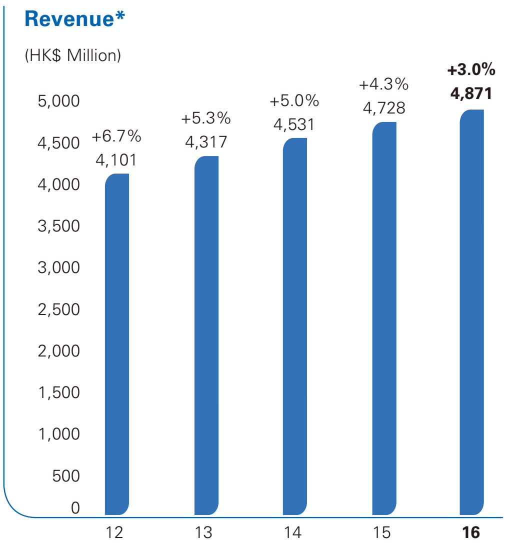
As a result, the Group's core operating profit and net profit for Continuing Operations increased by 4.7% to HK$170 million and by 4.1% to HK$140 million respectively compared to last year. Net profit dropped by 12.3% to HK$140 million due to the one-off gain of HK$25 million for the disposal of the Guangzhou convenience store business in 2015.

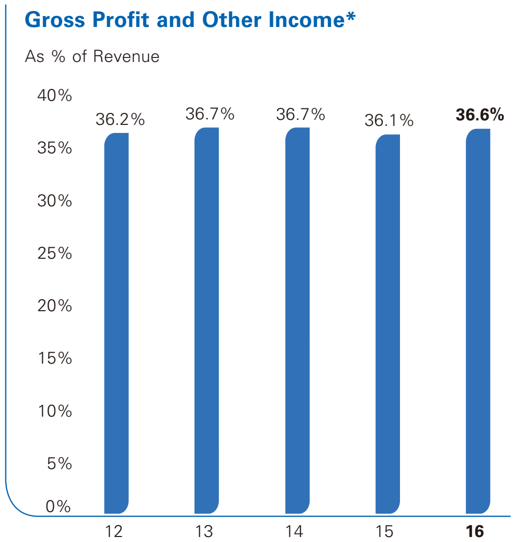
For 2016, basic earnings per share for Continuing Operations increased by 3.9%, from 17.8 HK cents to 18.5 HK cents, and basic earnings per share including Discontinued Operations decreased by 12.4%, from 21.12 HK cents to 18.5 HK cents.

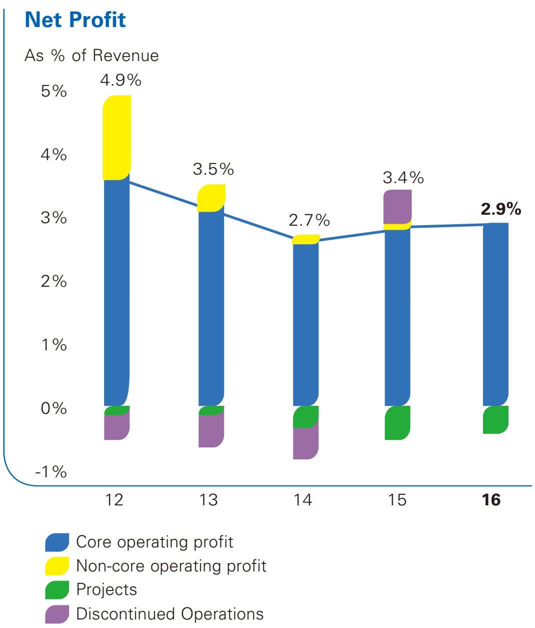
As at 31 December 2016, the Group had a net cash balance of HK$543 million – which was mainly generated from daily business operations – and no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and on the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held either in Hong Kong dollars or renminbi. The Group had limited foreign exchange exposure in renminbi as a result of its business operations on the Chinese Mainland, except for certain renminbi bank deposits held in Hong Kong, which are subject to foreign exchange risk. The Group is subject to interest rate risks on the interest income earned from bank deposits. The Group will continue its policy of placing surplus cash in bank deposits denominated in its operating currencies, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.

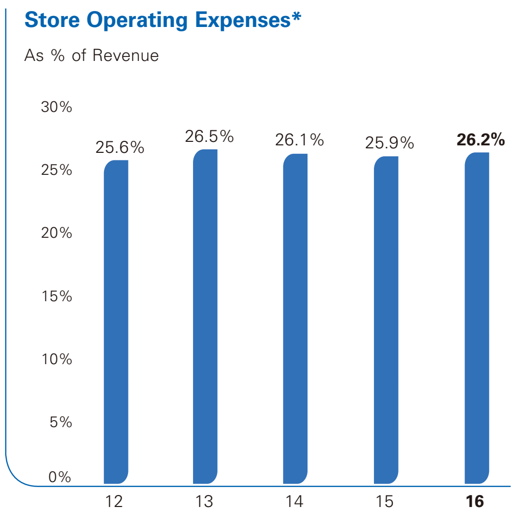
The Board of Directors has resolved to declare a final dividend of 13 HK cents per share. In view of the Group's sizeable cash reserve, the Board has further resolved to declare a special dividend of 27 HK cents per share, which will be distributed out of the Company's share premium. Subject to shareholders' approval of the final and special dividends, the Group expects to maintain a strong financial position with net cash of HK$241 million and no bank borrowings following the distribution of dividends.

Financial Review (continued)



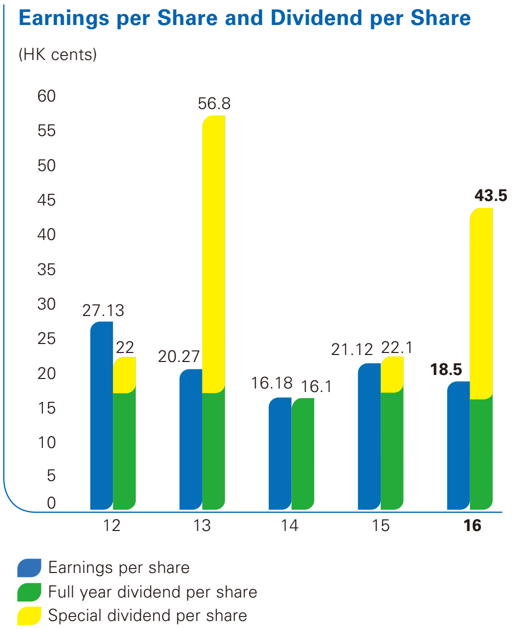


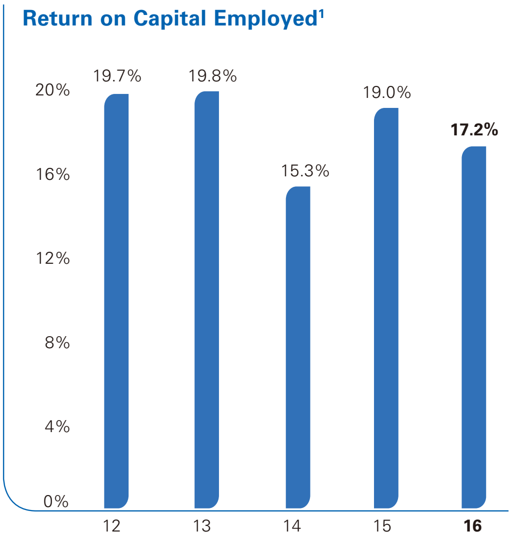


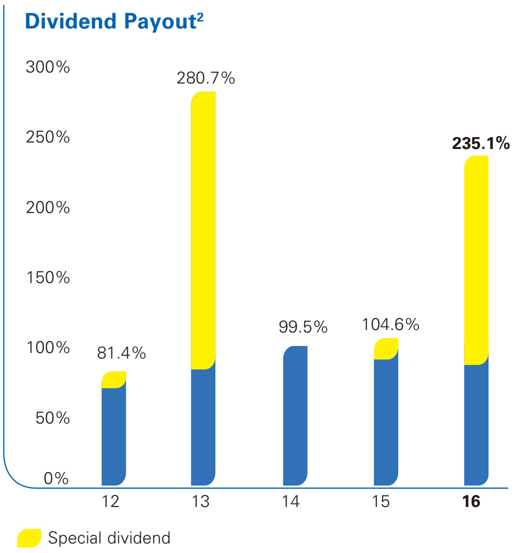


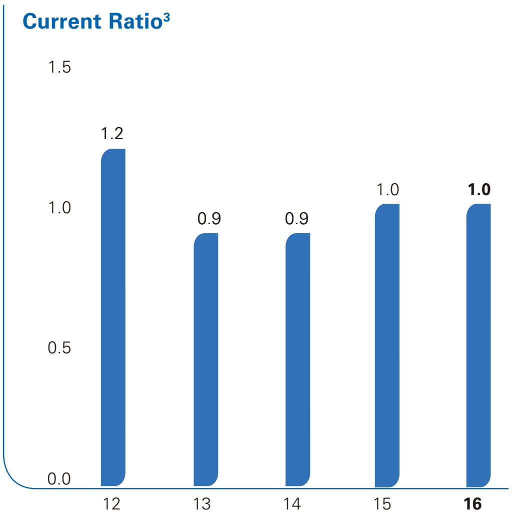
** For Continuing Operations*

Financial Review (continued)









Notes:

1. *Net profit/capital employed*
2. *Dividend per share/earnings per share*
3. *Current assets/current liabilities*

Business Model and Corporate Strategy

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

The Group officially launched FingerShopping.com in 2013. FingerShopping.com is a distinctive O2O (online-to-offline) shopping platform featuring genuine, quality merchandise that is available via secure, convenient payment channels. It is backed by an extensive retail network of more than 300 Circle K convenience stores, excellent customer service and the Group's comprehensive logistics expertise. Customers place orders online, and more than 90% of them choose to pick up and pay for purchases in a selected Circle K store.

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

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

Business Model and Corporate Strategy (continued)

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

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

Operations Review – Hong Kong

In 2016, the retail industry in Hong Kong continued to face challenges such as high raw material, labour and rental costs – although the latter showed signs of correction during the year under review – as well as a further decline in visitors from the Chinese Mainland.

During the year, Circle K opened 19 new stores and closed 16 stores in Hong Kong for a net increase of three stores. The total number of stores at year-end was 331 compared to 328 at the end of 2015.

Saint Honore Cake Shop opened 10 new stores and closed 10 stores in Hong Kong maintaining 89 stores at year-end.

Employees

As at 31 December 2016, the Group had a total of about 6,600 employees, with 5,000 or 76%, based in Hong Kong and 1,600 or 24%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 50% of the Group's total headcount. In 2016, the Group's total staff cost was HK$814 million compared with HK$794 million in 2015.

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

Employees (continued)

To further strengthen the HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme, the Activity Organising Board continued to conduct a number of activities across key areas: creating a happy working environment, caring for employees' families and ensuring work-life balance.

To celebrate the 110th anniversary of the Fung Group, the Group held an Open House Party at its Shatin office on 27 August. Colleagues, their families and friends, and Group Chairman Dr Victor Fung all enjoyed posing for photos, face painting, art jamming, and sampling free beverages and bakery items from Circle K and Saint Honore. Attendees also tried their hand at catching "real" Pokemon GO characters throughout the office.

Chairman Dr Victor Fung and many of the Group's colleagues, their families and friends had a great time at the Open House party celebrating Fung Group's 110th anniversary.

During the 110th anniversary celebrations, Fung Group management hosted a cocktail reception with colleagues and business partners to commemorate the occasion.

Operations Review – Circle K

Marketing and Promotion

One of the primary ways the Group differentiates itself in a very competitive retail industry is by regularly introducing innovative products, services and promotions that capitalise on popular items and trends. Effectively marketing such offerings is necessary to attract customers, become a preferred brand and build a strong foundation for growth.

In August 2016, Circle K launched "OK Stamp It", a loyalty programme where customers earn and redeem e-Stamps for reward gifts at the same time as they pay for items at Circle K stores. After downloading a mobile application, customers can register as a VIP member with their Octopus card number and start accumulating e-Stamps and OK dollars with each purchase. This innovative new app offers extra value and privileges with "wow" offerings while also providing the Group with customer insights and deeper engagement. "OK Stamp It" has been a huge success with nearly 500,000 members joining from the time of its launch through the end of the year, and it will be one of the Group's key marketing and promotional focuses for 2017.

Premium promotions represent another way the Group has successfully built customer affinity. Launched in the third quarter of the year, the "do re mi Monchhichi" redemption programme, which offered figurines of the beloved Japanese character Monchhichi, effectively increased store traffic and sales.

Circle K's "OK Stamp It" loyalty programme enables customers to instantly earn and redeem e-Stamps for rewards upon payment.

Circle K's "do re mi Monchhichi" promotion boosted sales and was featured on Google's Hong Kong YouTube Ads Leaderboard.

Operations Review – Circle K (continued)

Category Management

Category management helps retailers meet customer needs by adapting product offerings according to changing preferences. One of the Group's main category management initiatives in 2016 was the introduction of "do re mi Monchhichi"-themed food and confectionery products such as Super Soft Sandwiches and toy candies, which also coincided with the launch of the popular "OK Stamp It" programme. Another was the launch of the "Multi-Temperature Drink Zone", which features hot, cold and ambient beverages to satisfy customers' needs in all seasons.

Convenience services play a key role in category management, providing convenience for customers across multiple aspects of life. For example, Circle K now offers rental payment service for the Hong Kong Housing Authority at store counters. In addition, the Group capitalised on the mobile payment trend by introducing new Apple Pay and Android Pay promotions with strategic commercial bank partners.

Circle K introduced the Multi-Temperature Drink Zone, giving a choice of hot, cold and ambient drinks year-round to meet different customers' needs.

The Group introduced convenient new Apple Pay and Android Pay mobile payment options at Circle K stores.

Operations Review – Circle K (continued)

Customer Service Excellence

The Group is extremely proud of its strong track record in quality customer service, one of the keys for long-term success in the retail industry. Each year the Group makes substantial investments in the training of frontline staff to deliver impeccable service to its valued customers. The Group's "HEARTS" employee engagement programme plays an important role in this by striving to promote a happy, engaging and rewarding workplace that not only provides work satisfaction, but also creates warm, helpful interactions between frontline staff and customers.

In 2016, these efforts were recognised when Circle K won the Hong Kong Retail Management Association (HKRMA) 20th Anniversary Mystery Shopper Programme's "Service Retailer of the Year – Category Leader with over 200 Outlets" award. The Group was also delighted that three frontline staff received recognition at the HKRMA's Service & Courtesy Awards 2016 for their excellent performance in customer service.

Circle K's frontline staff received recognition for its excellent customer service at the Hong Kong Retail Management Association's Service & Courtesy Awards 2016.

Operations Review – Saint Honore Cake Shop

In 2016, the total number of Saint Honore stores in Hong Kong and Macau remained unchanged at 98, with the Group adding 10 shops and closing 10. At year-end, Saint Honore's total store network in Guangzhou and Shenzhen amounted to 41 locations.

During the year, Saint Honore persevered in a difficult retail environment to achieve low-single-digit comparable store sales growth in Hong Kong. The company accomplished this while also streamlining operations, upgrading and modernising certain stores, and continuing to build on the brand's reputation for innovation and high quality.

The year saw the launches of several successful products. Birthday cake sales grew by double digits on the back of popular new varieties such as Ovaltine, Mango and Matcha Dome cakes. Family-sized packaged bread also received a boost with the introduction of French milk bread, indicating a customer shift toward more nutritious offerings. Such products helped Saint Honore win the "My Favourite Cake Shop" award from U Magazine at the "U Favourite Food Awards 2016". In customer service, Saint Honore officially launched its digital CRM programme to deepen its connection and engagement with loyal customers.

The company finalised leases at stores in strategic locations such as Causeway Bay and Jordan, taking advantage of the more favourable conditions stemming from the recent correction in commercial property rentals.

The Hong Kong operations were proud to be recognised at the HKRMA's Service & Courtesy Awards 2016, as well as Metro Daily's Metro Creative Awards 2016 for "Best Endorser".

Saint Honore's new "FIT魯邦種" healthy European soft breads helped drive growth in bread sales, while the "Meilleurs Ouvriers de France" cake line created by a French master chef was named the Number 1 in Guangdong Province by Dianping.com.

Operations Review – Saint Honore Cake Shop (continued)

In Guangzhou, Saint Honore took great strides toward narrowing business losses and reinforcing its premium brand positioning. Initiatives focused on enhancing operational efficiency and cost control; unveiling refurbished signature stores designed to appeal to a younger, trendier demographic; and successfully launching two marketing campaigns. The latter included the introduction of "FIT魯邦種" bread, which is European soft bread with health-conscious appeal that drove a strong year-on-year increase in bread sales, and the Meilleurs Ouvriers de France cake, which was named the Number 1 cake in Guangdong Province by Dianping.com.

This was also a significant year for Saint Honore's factory operations in Shenzhen, where the company completed a two-year programme of implementing semi-automated facilities and professional manufacturing areas to shift the production of chilled dough to frozen dough. As a result of this initiative, both the Hong Kong and Macau bread sections were able to improve production efficiency and reduce labour costs dramatically. These improvements are also expected to help the Group achieve a five-day production model and substantially increase production capacity.

Supply Chain Management and Logistics

Bringing fresh, quality products to customers across Hong Kong, Macau and the Chinese Mainland requires a highly efficient supply chain, from supplier to factory and finally to store shelves. In 2016, the Group took a number of initiatives to further enhance its supply chain management and logistics as well as its workplace environments. For example, Circle K strengthened its shipping logistics management to gain a wider global sourcing footprint and extended purchasing coverage to include countries across Europe in addition to Asia.

During the year, Saint Honore introduced an advanced GPS system application for its domestic and cross-border transport fleet to better manage delivery performance. This has helped the company respond quickly to delivery crews and assess team performance with more accurate data analysis. Saint Honore also relocated its distribution centre in Guangzhou, which has helped the company consolidate activities under one roof in a cost-effective manner as well as boost speed and efficiency to support store operations.

It is important to note that the Group only partners with suppliers who comply with its Supplier Code of Conduct, which clearly outlines principles and practices relating to labour, ethical conduct, work safety and environmental protection.

FingerShopping.com

FingerShopping.com now features over 22,000 stock-keeping units across more than 1,500 brands. In 2016, the site achieved significant growth in both gross merchandise value (GMV) and membership compared to last year. As at the end of 2016, FingerShopping.com had recruited nearly 340,000 members. With very high pick-up and payment rates at Circle K Hong Kong and Circle K Macau, FingerShopping.com embodies a successful O2O business model.

Beauty and Personal Care continues to be the site's anchor category, representing over 70% of total GMV and total quantity sold as at 31 December 2016. The Baby and Family category also showed strong growth in 2016, with GMV and total stock-keeping units growing more than threefold year on year.

Among the Group's key initiatives for FingerShopping.com in 2016 were two O2O promotional programmes designed to promote additional synergy with Circle K. One involved distributing coupons and complimentary offers in Circle K stores to help convert offline customers into online shoppers, while the other saw the two businesses collaborate for the "OK Stamp It" digital CRM platform. Other important developments included the extension of delivery and pick-up services to Macau.

FingerShopping.com was recognised for exemplary performance in user experience and retail sales at the Top 10 eCommerce Websites Awards, jointly organised by GS1 Hong Kong and Retail Asia Expo.

Health and Safety

The Group considers employee safety to be one of its top priorities, and it regularly inspects facilities to ensure that its stringent guidelines are being met. All new employees are introduced to basic work safety and hygiene guidelines, and they are provided with relevant equipment and clothing wherever necessary.

Food safety is always regarded as a key business risk and an area of paramount importance for management. The Group regularly reviews its food safety management processes and closely monitors relevant aspects of the business as part of its day-to-day operations, proactively identifying and handling issues in a timely manner.

Managers and employees at the Hong Kong distribution centre are currently receiving on-going training in "5S" practices – which emphasise the principles of "sort, straighten, shine, standardise and sustain" – to improve workplace organisation, culture and safety. Professional consultants are training senior staff in this important skill set in order to help them pass on valuable knowledge to the wider company.

Both of Saint Honore's factories in Shenzhen and Hong Kong are ISO 9001-accredited, while the Shenzhen factory also carries HACCP food safety accreditation.

Corporate Social Responsibility

The Group's Corporate Social Responsibility (CSR) Steering Committee, which is led by the Chief Executive Officer and Chief Operating Officer, continues to oversee CSR-related policy and performance. This includes but is not limited to environmental, social, governance and people aspects. The Steering Committee also supervises a Working Committee, which comprises employees from different business units and spearheads various corporate initiatives throughout the organisation.

In April 2016, Circle K Hong Kong took action to support its long-term business partner, Kumamoto Prefecture in Japan, following a pair of earthquakes that devastated the region. The Group mobilised all Circle K stores in Hong Kong to conduct a large-scale community fundraising campaign, raising approximately HK$250,000 from generous customers and staff. An additional contribution by Fung (1906) Foundation Limited brought the total donation amount to HK$500,000, which was used to assist Kumamoto Prefecture's rebuild and recovery.

Following the earthquakes that devastated valued partner Kumamoto Prefecture in April 2016, the Group and Fung (1906) Foundation raised HK$500,000 to assist rebuild and recovery efforts.

Corporate Social Responsibility (continued)

For the third consecutive year, Circle K Hong Kong participated in the Community Chest Wheelock "Swim for a Million" at Repulse Bay, a valuable fundraising event supporting local youth services. Also, to advance environmental awareness and care for the community among staff, the Group hosted the "Green Marketplace" and "Green Walk" in co-operation with World Green Organisation, promoting organic products and encouraging walking for a more eco-friendly lifestyle.

Over the years, CSR has become a very popular and rewarding endeavour for employees and their families across the Group. The Group was proud that Circle K Convenience Stores (HK) Limited and Saint Honore Cake Shop Limited both received "Family Friendly Employer", "Special Mention (Gold)" and "Breastfeeding Support" awards in the Family-Friendly Employers Award Scheme 2015/2016. In addition, Circle K Convenience Stores (HK) Limited and Saint Honore Cake Shop Limited were once again pleased to receive the "10 Years Plus Caring Company Logo" and "5 Years Plus Caring Company Logo" statuses, respectively, from the Hong Kong Council of Social Service in 2015/2016.

Further environmental, social and governance information pertaining to the Group will be provided in a separate report on the Company's website.

In 2016 the Group won "Family Friendly Employer", "Special Mention (Gold)" and "Breastfeeding Support" awards in the Family-Friendly Employers Award Scheme 2015/2016, as well as the "10 Years Plus Caring Company Logo" (Circle K) and "5 Years Plus Caring Company Logo" (Saint Honore) from the Hong Kong Council of Social Service.

Future Prospects

The past year saw the continuation of a correction period for Hong Kong retailing. Chinese Mainland tourist spending softened, local consumer sentiment dampened, operating expenses escalated and online retail disrupted the industry. However, the Group still found itself in solid shape entering 2017.

The trend of downward adjustment in the commercial property market should allow the Group to accelerate new store openings in the coming year. Also, pressures on operating expenses such as rentals and labour are expected to be lower compared with the past few years.

The "OK Stamp It" venture has been a great success, and it will be a key promotional platform moving forward. The Group will invest more in the programme's membership recruitment and add exciting new functions, including social sharing, fun features and game elements. With Saint Honore completing its final phase of conversion to frozen dough, production efficiency should continue to increase while costs decrease. All in all, the Group believes it is well positioned for the future.

The majority of the world is digitally connected at all times, and customers are changing faster than most retailers are. Products and services must be fresh, fun, convenient and ideally shareable. Also, instead of volume, retailers must now depend on selling premium products at value-for-money pricing to drive transactions and grow market share. Many of the Group's new initiatives are geared toward this brave new world of fast transactions and even faster rewards.

To ensure long-term growth in the coming year and beyond, the Group will place a lot of focus on expanding its internet+ initiatives, analysing how people interact with and influence one another, and then developing new products and services that fit those paradigms.

The Group will continue to grow its O2O retailing business by adapting to how customers want to buy, and then driving high-quantity and high-quality transactions in stores. Growing the Group's digital CRM base will also be important for creating more awareness of its brands and helping grow brand preference. In sum, the Group is deep into the process of reinventing virtually everything it does to win the customers of today and tomorrow.

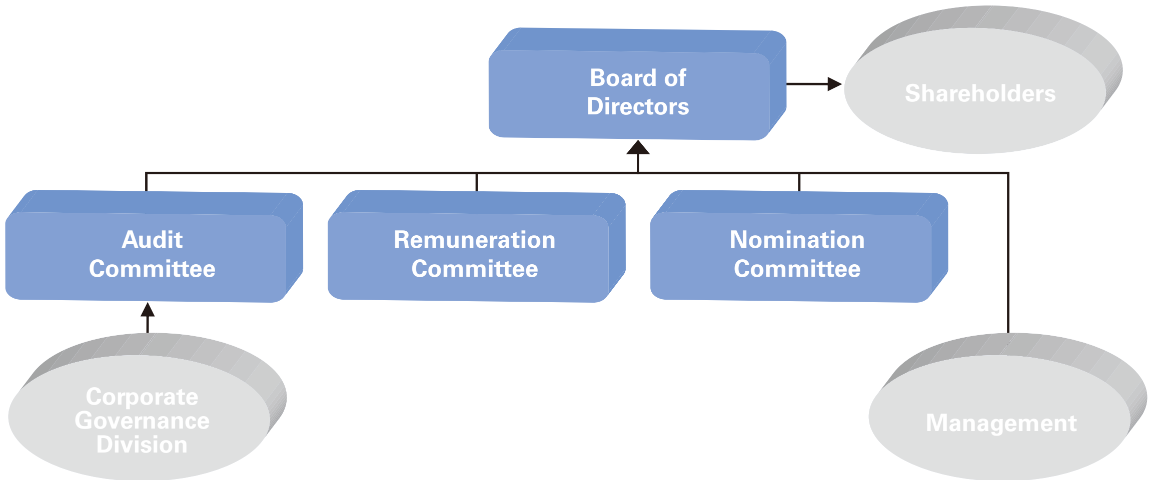
In addition to the organic growth, the Group will continue to work on merger and acquisition opportunities as an important component of its strategic growth plan.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 21 March 2017

Corporate Governance Report

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



The Board

Board Composition

The Board is structured to ensure it is of a high calibre and has a balance of skills, experience and diversity of perspectives desirable for effective leadership of the Group. As at 31 December 2016, the Board comprised the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and four Non-executive Directors. Biographical details and relevant relationships of the Board members are set out in the Directors and Senior Management Profile section on pages 45 to 50.

Chairman and Chief Executive Officer

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

The Board (continued)

Roles and Responsibilities of the Board and Delegation to Management

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

- Recommendations on Directors' appointment or re-appointment;
- Composition and terms of reference of Board committees;
- Major acquisitions and disposals;
- Remuneration of individual Executive Directors, Non-executive Directors and senior management;
- Annual budgets;
- Annual and interim reports;
- Major capital and borrowing transactions;
- Oversight of risk management and internal control systems, reviewing their effectiveness and ensuring relevant statutory and regulatory compliance; and
- Other significant operational and financial matters.

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

The Board (continued)

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

Day-to-day operational responsibilities are delegated by the Board to management. Major responsibilities include:

- Preparation of annual and interim financial statements for Board approval before public reporting;
- Execution of business strategies and initiatives adopted by the Board;
- Monitoring of budgets;
- Implementation and monitoring of effective and adequate risk management and internal control systems; and
- Compliance with relevant statutory requirements, rules and regulations.

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

Board and Committee Meetings

The Board held four meetings in 2016 (with an average attendance rate of directors of 93%). The Chairman holds meetings annually with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

The dates of the 2016 Board meetings and committee meetings were determined in the third quarter of 2015 to facilitate maximum attendance of Directors. Amendments to this schedule were notified to the Directors within a reasonable time before a regular Board meeting/committee meeting.

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

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

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

The Board (continued)

Board and Committee Meetings (continued)

Details of the attendance at the meetings held in 2016 are set out in the following table:

	No. of meetings **attended**/held				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Non-executive Directors:					
Victor FUNG Kwok King *(Group Chairman and Chairman of Nomination Committee)*	**4**/4	–	–	**1**/1	**1**/1
William FUNG Kwok Lun	**4**/4	–	**1**/1	–	**1**/1
Godfrey Ernest SCOTCHBROOK	**4**/4	**4**/4	–	–	**1**/1
Jeremy Paul Egerton HOBBINS	**3**/4	–	**1**/1	–	**1**/1
Benedict CHANG Yew Teck	**4**/4	**4**/4	–	–	**1**/1
Independent Non-executive Directors:					
Anthony LO Kai Yiu *(Chairman of Audit Committee)*	**4**/4	**4**/4	–	**1**/1	**0**/1
Malcolm AU Man Chung *(Chairman of Remuneration Committee)*	**3**/4	**3**/4	**1**/1	–	**0**/1
ZHANG Hongyi	**4**/4	**4**/4	**1**/1	**1**/1	**1**/1
Sarah Mary LIAO Sau Tung	**3**/4	–	**1**/1	–	**1**/1
Executive Directors:					
Richard YEUNG Lap Bun *(Chief Executive Officer)*	**4**/4	–	–	–	**1**/1
PAK Chi Kin *(Chief Operating Officer)*	**4**/4	–	–	–	**1**/1
Group Chief Compliance and Risk Management Officer:					
Jason YEUNG Chi Wai [1]	**4**/4	**4**/4	**1**/1	**1**/1	**1**/1
Average Attendance Rate of Directors	93%	95%	100%	100%	82%
Dates of Meeting in 2016	15 March 17 May 11 August 10 November	15 March 17 May 11 August 10 November	15 March	15 March	17 May

Notes:

(1) Attended Board and committee meetings as a non-member.

(2) Certain directors did not attend the Annual General Meeting and some of the meetings of the Board and Audit Committee due to other business commitments or being abroad. The Company Secretary updated the relevant directors on the matters discussed at the meetings and provided them with the minutes of the meetings.

The Board (continued)

Independence of Non-executive Directors

The Company has received from each Independent Non-executive Director an annual written confirmation of his/her independence in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors to be independent during the year ended 31 December 2016.

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

Appointment and Re-appointment of Directors

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

No new Director was appointed during the year ended 31 December 2016.

Non-executive Directors were appointed for an initial term of three years and will continue in office thereafter subject to termination by not less than three months' prior notice in writing by either party to the other. In addition, all Directors including the Non-executive Directors are required to retire from office by rotation and are subject to re-election by shareholders at the Annual General Meeting (the "AGM") at least once every three years pursuant to the Company's Articles of Association. This is also in accordance with the Corporate Governance Code (the "CG Code") and Corporate Governance Report, as amended and effective from 1 January 2016, contained in Appendix 14 of the Listing Rules.

The Board (continued)

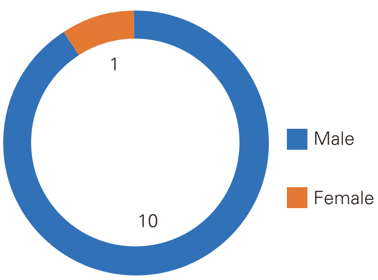
Board Diversity

The Company recognises and embraces the benefits of having a diverse Board. A Board Diversity Policy has been adopted by the Board. In reviewing Board composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, skills, regional and industry experience, background, race, age, culture and gender, so as to maintain an appropriate range and balance of skills, experience and background on the Board. In identifying suitable candidates, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

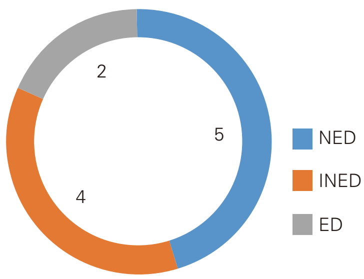
Based on the latest review, the Nomination Committee considers the Board to be diverse in respect of the aforesaid evaluation criteria. The Nomination Committee has considered but decided not to set any measurable objectives for implementing the Board Diversity Policy. The Nomination Committee will continue to ensure that diversity is taken into consideration when assessing Board composition.

An analysis of the Board's current composition is set out in the following charts:

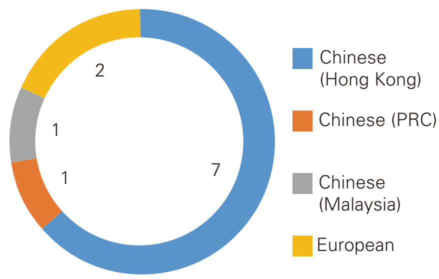
Gender



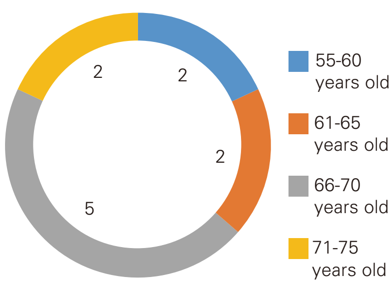
Designation



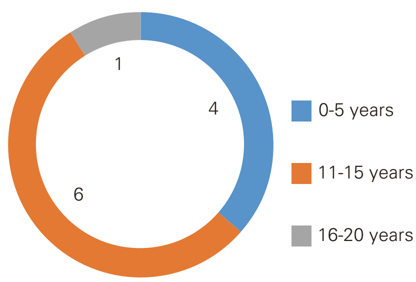
Ethnicity



Age Group



Length of Service on Board



With regard to the Directors' skills, regional and industry experience as well as background, please refer to their biographical details set out in the Directors and Senior Management Profile section on pages 45 to 50.

The Board (continued)

Board Evaluation

The Board recognises the importance of conducting regular evaluation of its performance to ensure the effectiveness of its functioning.

The Board has been conducting annual evaluation since 2013. A questionnaire is sent to each Director seeking his/her view on issues including the overall performance of the Board, Board composition, conduct of Board meetings and provision of information to the Board.

The responses to the questionnaire are analysed and discussed at the Board meeting. Any suggestions made by the Directors are duly considered and will be implemented as appropriate to enhance corporate governance practices.

Potential Conflict of Interest

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

Information and Continuous Professional Development

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

All Directors are kept informed on a timely basis of major changes that may affect the Group's business, including relevant rules and regulations. Management provides the Directors with a monthly financial summary of the Group giving a balanced and understandable assessment of the Group's performance, position and prospects. Apart from the said monthly financial summary, the Directors are provided with information and briefings on specific issues when necessary to facilitate the making of informed decisions.

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

The Directors are encouraged to participate in continuous professional development to enhance and refresh their knowledge and skills for discharging their duties and responsibilities.

All Directors are required to provide the Company with their training records on an annual basis. For the year ended 31 December 2016, all Directors have attended the training sessions arranged by the Company, or have attended and/or given speech at external seminars/training sessions.

The Board (continued)

Other Matters Concerning Directors

Written procedures are put in place for Directors to seek independent professional advice in performing their duties at the Company's expense. No request was made by any Director for such independent professional advice in 2016.

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

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

Independent Reporting of Corporate Compliance Function

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

Board Committees

The Board has established the following committees with defined terms of reference (available on the Company's corporate website), which are in line with the CG Code:

- Audit Committee
- Remuneration Committee
- Nomination Committee

All the committees comprise a majority of Independent Non-executive Directors. Each of the Audit Committee and Remuneration Committee is chaired by an Independent Non-executive Director, and the Nomination Committee is chaired by the Non-executive Chairman. Such committees are provided with sufficient resources to discharge their duties and have access to independent professional advice if considered necessary at the Company's expense.

Board Committees (continued)

Audit Committee

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

Anthony LO Kai Yiu * – *Committee Chairman*
Malcolm AU Man Chung *
Godfrey Ernest SCOTCHBROOK +
Benedict CHANG Yew Teck +
ZHANG Hongyi *

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

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

The Audit Committee met four times in 2016 (with an average attendance rate of 95%) to consider and review with senior management, the Company's internal auditor under the Corporate Governance Division ("CGD") and external auditor various matters as set out in the Audit Committee's terms of reference, which included the following:

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

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

Board Committees (continued)

Audit Committee (continued)

Whistleblowing Arrangements

Under the Group's Whistleblowing Policy, employees can report any concern, including actual or potential misconduct, possible impropriety or fraud in financial reporting, accounting, risk management and internal control matters, to either senior management or the Group Chief Compliance and Risk Management Officer. Any shareholders or stakeholders can also report similar concerns by writing in confidence to the Group Chief Compliance and Risk Management Officer at the Company's principal place of business in Hong Kong. No incident of fraud or misconduct that has material effect on the Company's financial statements and overall operations was reported by employees, shareholders or stakeholders in 2016.

External Auditor's Independence

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

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

For the year ended 31 December 2016, the following fees paid or payable to the external auditor have been endorsed by the Audit Committee:

	Fees HK$'000
Audit services	1,926
Non-audit services (including agreed-upon procedures regarding interim financial information and tax services)	1,456
Total	3,382

Board Committees (continued)

Audit Committee (continued)

External Auditor's Independence (continued)

Prior to the commencement of the audit of the Company's financial statements for the year ended 31 December 2016, the Audit Committee received written confirmation from the external auditor on their independence as required by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Audit Committee is satisfied with the review of audit fees and scope, effectiveness of the audit process, independence and objectivity of the external auditor, PricewaterhouseCoopers ("PwC"), and has recommended to the Board the re-appointment of PwC as the Company's external auditor for the financial year ending 31 December 2017 at the forthcoming AGM.

Remuneration Committee

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

Malcolm AU Man Chung * – *Committee Chairman*
William FUNG Kwok Lun +
Jeremy Paul Egerton HOBBINS +
ZHANG Hongyi *
Sarah Mary LIAO Sau Tung *

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

The duties of the Remuneration Committee include:

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

The Remuneration Committee met once in 2016 (with a 100% attendance rate) to consider possible alternative incentive to Directors and employees, and the grant of share options to 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 determined by the Board and approved by the shareholders from time to time with reference to the level of fees paid by other companies listed on the Stock Exchange with similar business nature and market capitalisation, time and effort spent in discharging duties and level of complexity of work involved. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company meetings.

Details of Directors' emoluments of the Company are set out in note 12 to the consolidated financial statements on pages 107 to 108.

Nomination Committee

The Nomination Committee was established in 2012 and its current members include:

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

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

The duties of the Nomination Committee include:

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

The Nomination Committee met once in 2016 (with a 100% attendance rate) to review the aforesaid matters.

Company Secretary

Ms Maria Li Sau Ping has been the Company Secretary of the Company since 2007. She reports to the Group Chairman on Board governance matters and is responsible for ensuring that Board policies and procedures are followed. All Board members have access to her advice and services. She arranges comprehensive and tailored induction programme for new Directors prior to their appointment and provides updates to the Directors on relevant new legislation or regulatory requirements from time to time. Directors' trainings have been organised on a regular basis to assist Directors' continuous professional development. In 2016, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

Directors' and Relevant Employees' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines in line with the Model Code.

Specific confirmation of compliance has been obtained from each Director and each relevant employee. No incident of non-compliance by Directors and relevant employees was noted by the Company in 2016.

Directors' Interests

Details of Directors' interests in the shares of the Company and its associated corporations are set out in the Directors' Report on pages 59 to 60.

Directors' and Auditor's Responsibilities for Financial Statements

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor to the shareholders are set out on pages 65 and 70 to 71 respectively.

Risk Management and Internal Control

In a dynamic business environment, it is crucial for the Group to identify, assess and manage external and internal risks in a timely and systematic manner.

The Board is responsible for the Group's risk management and internal control systems and for reviewing their effectiveness and adequacy with the assistance of the Audit Committee. The risk management and internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and provide reasonable but not absolute assurance against material misstatement, loss or fraud. The Audit Committee reports to the Board on any material issues and makes relevant recommendations.

Risk Management and Internal Control (continued)

The Board has delegated to management the design, implementation and ongoing monitoring of the risk management and internal control systems. Qualified personnel throughout the Group maintain and monitor these systems on an ongoing basis.

The main features of the Group's risk management and internal control framework are set out as follows:

Control Environment

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

Governance Structure

The Group maintains a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. Risk identification, assessment and mitigation are performed across the business.

There are three layers of roles and responsibilities for managing risks and internal controls:

Role	Accountability	Responsibilities
Oversight	Board as a whole, reviews are conducted through Audit Committee	• Oversight of corporate governance, financial reporting, risk management and internal control systems • Fostering a risk awareness culture
Risk and control owner	Management and business units	• Day-to-day execution and monitoring of internal controls and risk management procedures • Formulation and implementation of policies and operating guidelines • Balance between business operation efficiency and exercising internal controls
Risk monitoring and communication	Corporate Compliance Group	• Evaluation of risk management and internal control systems to identify areas for improvement • Monitoring of corporate governance disclosure and compliance with the Listing Rules and statutory requirements • Undertaking of investigations

Risk Management and Internal Control (continued)

Management of Key Risks

The Group's risk management process is embedded in its strategy formulation, business planning, investment decisions, internal controls and day-to-day operations.

The following are considered key risks faced by the Group and are managed as such:

1. *Operational Risk Management*

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

   Contingency and business continuity plans are also examined periodically to evaluate their effectiveness.

2. *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. Management closely monitors actual financial performance of the Group on a monthly basis.

   The Group adopts a principle of minimising financial risks. Details of the Group's financial risk management (encompassing foreign exchange risk, credit risk, liquidity risk and interest rate risk) are set out in note 3 to the consolidated financial statements on pages 94 to 96.

3. *Reputational Risk Management*

   The reputation of the Group is built on its long-established standards of ethics in conducting business. Guidelines of the Group's business ethical practices as endorsed by the Board are set out in the Code of Conduct and Business Ethics (available on the Company's corporate website). All Directors, officers and employees are expected to comply with the code at all times. The code is posted on the Company's intranet for ease of reference and as a constant reminder to all employees.

   The Group places great emphasis on employees' ethical standards and integrity in all aspects of its operations. The Group takes a zero-tolerance approach to bribery and is committed to complying with all applicable anti-bribery laws. Any ethical concerns raised under the Whistleblowing Policy will be investigated independently.

   In 2016, no incident of non-compliance with the Code of Conduct and Business Ethics that had significant impact on the Group's operations was reported.

Risk Management and Internal Control (continued)

Management of Key Risks (continued)

4. *Regulatory Compliance Risk Management*

   The Corporate Compliance Group comprises CGD and the Corporate Secretarial Division. Under the supervision of the Group Chief Compliance and Risk Management Officer and in conjunction with the Group's external advisors, the team regularly reviews adherence to relevant laws and regulations, compliance with the Listing Rules, public disclosure requirements and the Group's standards of compliance practices.

Internal Audit

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

The Audit Committee approved CGD's current Three-Year Internal Audit Plan (2014 to 2016) that is linked to the Group's Three-Year Business Plan. The Internal Audit Plan is based on a risk assessment methodology and covers the Group's major operations over a three-year period. The scope of the internal audit review covers material financial, operational and compliance controls, as well as risk management policies and procedures. A summary of the key recommendations is presented at the Audit Committee meetings. The implementation of all agreed recommendations is being followed up on a quarterly basis and the progress of implementation is reported to the Audit Committee at each committee meeting.

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

In addition, prior to the issuance of the interim report, CGD requests the management to assess and confirm the effectiveness and adequacy of the risk management and internal control systems for the first six months of the financial year, and to bring to CGD's attention any changes in such systems or any other material issues.

External Audit

The external auditor, PwC, performs independent statutory audit on the Group's financial statements. To facilitate the audit, representatives of PwC attend all the meetings of the Audit Committee. PwC also reports to the Audit Committee any significant weaknesses in the Group's internal control procedures which might come to their attention during the course of the audit. PwC noted no significant internal control weaknesses in their audit for the financial year ended 31 December 2016.

Risk Management and Internal Control (continued)

Handling and Dissemination of Inside Information

The Company handles and disseminates inside information in accordance with the requirements of the Securities and Futures Ordinance and the Listing Rules.

With regard to the procedures and internal controls for the handling and dissemination of inside information, the Company:

- has adopted the Policy on Inside Information to ensure potential inside information is captured and confidentiality of such information is maintained until timely disclosure is made.

- has included in the Code of Conduct and Business Ethics a prohibition on dealing in the Company's securities whilst in possession of inside information.

- has established and implemented measures such as pre-clearance on dealing in the Company's securities by the Directors and relevant employees, notification of regular blackout periods and securities dealing restrictions to the Directors and relevant employees, as well as identification of projects by code names.

- has established and implemented procedures for responding to external enquiries about the Group's affairs.

Overall Assessment

The Audit Committee, with delegated authority from the Board and the assistance of CGD, conducted an annual review of the effectiveness and adequacy of the Group's risk management and internal control systems for the year ended 31 December 2016 which has been confirmed by senior management by the completion of an Internal Control Self-Assessment Checklist in each material business unit across the Group.

Based on the above and the assessment made by CGD, and also taking into account the results of the work conducted by the external auditor for the purpose of their audit, the Audit Committee considered that for the year ended 31 December 2016:

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

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

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

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2016.

Shareholders' Rights

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

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

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

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

Changes in Constitutional Documents

The Board confirmed that there were no significant changes in the Company's constitutional documents during the year ended 31 December 2016 which affected the Company's operations and reporting practices. The constitutional documents are available for viewing on the Company's and the Stock Exchange's websites.

Investor Relations and Communication

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

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

Key calendar events for shareholders' attention and share information, including market capitalisation as at 31 December 2016, are set out in the Information for Investors section on page 51.

Annual General Meeting

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

The most recent AGM of the Company was held at Ground Floor, Hong Kong Spinners Industrial Building, Phases I and II, 800 Cheung Sha Wan Road, Kowloon, Hong Kong on 17 May 2016 at 4:00 p.m. The notice of AGM, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders at least 20 clear business days prior to the meeting. Separate resolutions were proposed in respect of each substantially separate issue.

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

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

Investor Relations and Communication (continued)

Annual General Meeting (continued)

The major items discussed and the percentages of votes cast in favour of the resolutions were:

Ordinary resolutions passed	Percentage of votes cast
• To receive and adopt the audited consolidated financial statements and reports of the Directors and the Auditor of the Company and its subsidiaries for the year ended 31 December 2015	100%
• To declare final and special dividends	100%
• To re-elect Dr Victor Fung Kwok King as Director	99.64%
• To re-elect Mr Zhang Hongyi as Director	100%
• To re-elect Mr Benedict Chang Yew Teck as Director	99.64%
• To re-elect Mr Pak Chi Kin as Director	99.64%
• To re-appoint PwC as Auditor and authorise the Board to fix their remuneration	99.64%
• To give a general mandate to the Directors to allot and issue additional shares not exceeding 20% of the number of issued shares of the Company	71.05%
• To give a general mandate to the Directors to repurchase shares of the Company not exceeding 10% of the number of issued shares of the Company	100%
• To extend the general mandate given to the Directors to allot and issue additional shares of an amount not exceeding the total number of shares repurchased by the Company	74.77%

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

Directors and Senior Management Profile

Executive Directors

Richard YEUNG Lap Bun – *Chief Executive Officer*

Mr Yeung, aged 60, has over 20 years of experience in general management, food distribution and supply chain management and has been a Director of the Company since 1 November 2000. He is currently the Chief Executive Officer of the Group responsible for overseeing the Group's operations, marketing, logistics and supply chain management, and is actively involved in new business development on the Chinese Mainland. Prior to joining the Group in October 1998, he spent about ten years in senior positions at HAVI Food Services Group, managing the supply chain of McDonald's Restaurants in various countries in Asia. Mr Yeung graduated from the University of Hawaii with a Bachelor of Business Administration degree. Mr Yeung also holds a Master's degree in Business Administration from the California State University of Los Angeles and is a Certified Public Accountant of the American Institute of Certified Public Accountants. He is also a director of Fung Retailing Limited, a substantial shareholder of the Company.

PAK Chi Kin – *Chief Operating Officer*

Mr Pak, aged 58, has over 20 years of experience in the retailing and food distribution business and has been a Director of the Company since 10 March 2011. He is currently the Chief Operating Officer of the Group responsible for overseeing the Circle K operations of Hong Kong and providing strategic guidance, leadership support and advice to the operations of the Group jointly with the Chief Executive Officer. Prior to joining the Group in May 1999, Mr Pak was the senior manager at HAVI Food Services Group in charge of the distribution of food products and logistics services to McDonald's Restaurants. Mr Pak graduated from The University of Hong Kong with a Bachelor's degree of Science in Engineering, and also holds a Master's degree of Science in Engineering from The University of Hong Kong. Mr Pak is a member of the executive committee of the Hong Kong Retail Management Association.

Non-executive Directors

Victor FUNG Kwok King – *Chairman*

Dr Fung, aged 71, brother of Dr William Fung Kwok Lun, has been a Non-executive Director of the Company since 3 January 2001. Dr Fung is Group Chairman of the Fung Group, a Hong Kong-based multinational group which comprises major operating groups engaging in trading, logistics, distribution and retailing. They include publicly-listed Li & Fung Limited, Global Brands Group Holding Limited, Trinity Limited and the Company. Dr Fung has become Honorary Chairman of Li & Fung Limited after stepping down as its Group Chairman since May 2012. He is also a director of King Lun Holdings Limited, Fung Holdings (1937) Limited and Fung Retailing Limited, which are substantial shareholders of the Company. Dr Fung holds Bachelor's and Master's degrees in Electrical Engineering from the Massachusetts Institute of Technology, and a Doctorate in Business Economics from Harvard University. He is an independent non-executive director of Chow Tai Fook Jewellery Group Limited (Hong Kong) and Koç Holding A.Ş. (Turkey). Formerly, he was an independent non-executive director of Baosteel Group Corporation (October 2005 – January 2013), BOC Hong Kong (Holdings) Limited (June 2002 – June 2014) and China Petrochemical Corporation (April 2012 – January 2016). In July 2015, Dr Fung was appointed Chairman of the Advisory Board of the Asia Global Institute at The University of Hong Kong, a new multi-disciplinary think-tank to assume and carry forward the mission and operations of Fung Global Institute, of which Dr Fung was Founding Chairman (July 2010 – June 2015). In public service, Dr Fung is a member of the Chinese People's Political Consultative Conference, a member of the Economic Development Commission of the Hong Kong Government and Chairman of the Steering Committee on the Hong Kong Scholarship for Excellence Scheme. Dr Fung was appointed advisor of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority in July 2016. Formerly, he was Chairman of the Hong Kong Trade Development Council (1991–2000), the Hong Kong representative on the APEC Business Advisory Council (1996–2003), Chairman of the Hong Kong Airport Authority (1999–2008), Chairman of The Council of The University of Hong Kong (2001–2009), Chairman of the Greater Pearl River Delta Business Council (2004–2013), a member of the Commission on Strategic Development of the Hong Kong Government (2005–2012), Chairman of the International Chamber of Commerce (2008–2010), a member of WTO Panel on Defining the Future of Trade (2012–2013) and a vice chairman of China Centre for International Economic Exchanges (2009–2014). In 2003 and 2010, the Hong Kong Government awarded Dr Fung the Gold Bauhinia Star and the Grand Bauhinia Medal respectively for his distinguished service to the community.

William FUNG Kwok Lun

Dr Fung, SBS, OBE, JP, aged 68, brother of Dr Victor Fung Kwok King, has been a Non-executive Director of the Company since 3 January 2001. Dr Fung is Group Chairman of Li & Fung Limited, Chairman and non-executive director of Global Brands Group Holding Limited and a non-executive director of Trinity Limited, all within the Fung Group. He is also a director of the substantial shareholders of the Company, King Lun Holdings Limited, Fung Holdings (1937) Limited and Fung Retailing Limited. Dr Fung held key positions at major trade and business organisations. He is the past Chairman of the Hong Kong General Chamber of Commerce (1994–1996), the Hong Kong Exporters' Association (1989–1991) and the Hong Kong Committee for the Pacific Economic Cooperation (1993–2002). He has been awarded the Silver Bauhinia Star by the Hong Kong Government in 2008. Dr Fung graduated from Princeton University with a Bachelor of Science degree in Engineering and holds a Master's degree in Business Administration from the Harvard Graduate School of Business. He was awarded the degrees of Doctor of Business Administration, *honoris causa* by the Hong Kong University of Science and Technology and by The Hong Kong Polytechnic University. Currently, Dr Fung is an independent non-executive director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited, The Hongkong and Shanghai Hotels, Limited and Singapore Airlines Limited.

Non-executive Directors (continued)

Godfrey Ernest SCOTCHBROOK

Mr Scotchbrook, aged 70, prior to re-designation as Non-executive Director of the Company on 3 August 2005, was an Independent Non-executive Director since November 2002. Mr Scotchbrook presently serves as an independent director of Del Monte Pacific Limited (a company engaged in the production, marketing and distribution of premium branded food and beverage products) and an independent non-executive director of Boustead Singapore Limited (a company engaged in engineering services and geo-spatial technology) in Singapore. Mr Scotchbrook is the Founder of Scotchbrook Communications Ltd., a firm specialising in investor relations, issues management, corporate positioning and public affairs; and is a veteran in corporate governance. He is a Fellow of the Hong Kong Management Association and also of the British Chartered Institute of Public Relations.

Jeremy Paul Egerton HOBBINS

Mr Hobbins, aged 69, has been a Non-executive Director of the Company since 29 October 2004. Mr Hobbins is an executive director and Chief Executive Officer of Trinity Limited and was a director of various companies within the Fung Group. He joined the Fung Group in 1999 and was Group Managing Director of Fung Retailing Limited, a substantial shareholder of the Company, previous Deputy Chairman of Fung Distribution International Limited, and a director of Fung Holdings (1937) Limited, a substantial shareholder of the Company. Prior to joining the Fung Group, Mr Hobbins has held a number of management positions in a variety of companies including Chief Executive of Inchcape Marketing Services – Asia Pacific and its listed subsidiary in Singapore, Chief Executive of Inchcape Buying Services based in Hong Kong, President of the Campbell Soup Company, United Kingdom, and President of Ault Foods, Canada. He had also held a number of senior management positions in Procter & Gamble, Hutchison Whampoa and Cadbury Schweppes where he started his career in brand management.

Benedict CHANG Yew Teck

Mr Chang, aged 63, has been a Non-executive Director of the Company since 1 July 2012. He was the group managing director of Integrated Distribution Services Group Limited which was privatised on 29 October 2010, and had been a director of Integrated Distribution Services Group Limited from October 2003 to April 2011. He is currently a director of Fung Holdings (1937) Limited, a substantial shareholder of the Company and has been a non-executive director of Li & Fung Limited from February 2011 to May 2014. Mr Chang graduated from the University of Surrey, United Kingdom, with a Bachelor of Science Degree (First Class Honours) in Marine Engineering. He is also a member of the Advisory Board of the School of Information Systems, Singapore Management University. He was the Chairman of the Advisory Board of the Asian Institute of Supply Chains & Logistics of the Chinese University of Hong Kong from September 2006 to March 2015.

Independent Non-executive Directors

Malcolm AU Man Chung

Mr Au, aged 67, has been an Independent Non-executive Director of the Company since 3 January 2001. Mr Au holds a Bachelor of Science degree in Chemical Engineering and a Master of Science degree in Food Science both from the University of Wisconsin, the United States of America and a Master of Business Administration degree from the University of Toronto, Canada. Mr Au is also an independent non-executive director of Hong Kong listed China-Hongkong Photo Products Holdings Limited.

Anthony LO Kai Yiu

Mr Lo, aged 68, has been an Independent Non-executive Director of the Company since 3 August 2005. Mr Lo is Chairman of Shanghai Century Capital Limited and has over 30 years of experience in accounting, banking, finance and investments. Mr Lo also serves as an independent non-executive director of Hong Kong listed Playmates Holdings Limited, Tristate Holdings Limited and Lam Soon (Hong Kong) Limited. He is also an independent non-executive director of The Taiwan Fund, Inc., a company listed on the New York Stock Exchange. Mr Lo is former Chairman and Co-Chief Executive Officer of Shanghai Century Acquisition Corporation (a company formerly listed on the American Stock Exchange). He retired as independent non-executive director of Mecox Lane Limited, a company listed on NASDAQ, and Hong Kong listed IDT International Limited in June 2014 and August 2015 respectively. 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.

ZHANG Hongyi

Mr Zhang, aged 71, has been an Independent Non-executive Director of the Company since 1 July 2012. Mr Zhang is a Senior Economist and a Fellow of the Hong Kong Institute of Bankers, graduated from Peking Institute of Foreign Trade and retired from Bank of China. He is currently a Council Member of China Development Institute (Shenzhen) and an independent non-executive director of Bank of East Asia (China) Limited. He previously served as the President of Shenzhen Branch of Bank of China, Vice Mayor of Shenzhen Municipal Government, Deputy C.E.O. of Hong Kong & Macau Regional Office of Bank of China, Chairman of Nanyang Commercial Bank, Limited, Chairman of Hua Chiao Commercial Bank Ltd., Vice Chairman of BOC Credit Card (International) Limited, General Manager of Macau branch of Bank of China, Managing Director of Banco Tai Fung, Chairman of Nam Tung Trust & Investment Co. Ltd., Chairman of Nantong Bank Ltd. (Zhuhai), Executive Vice President of China Development Institute (Shenzhen), a director of Henderson (China) Investment Company Limited, an independent non-executive director of Shenzhen Rural Commercial Bank Limited, Shenzhen Overseas Chinese Town Co., Ltd. (listed on the Shenzhen Stock Exchange) and Ping An Insurance (Group) Company of China, Ltd. (listed on Hong Kong and Shanghai Stock Exchanges), and a non-executive director of Inter-Citi Minerals Inc. (listed on the Canadian Stock Exchange).

Independent Non-executive Directors (continued)

Sarah Mary LIAO Sau Tung

Dr Liao, aged 65, has been appointed as Independent Non-executive Director of the Company with effect from 1 April 2014. Dr Liao is currently the Master of New College of The University of Hong Kong and was Senior Advisor to the Vice-Chancellor on Sustainability in 2008–2014. She was a member of the Chinese Council for International Cooperation on Environment and Development from 2009–2016 and is on the Board of Trustees of the Environmental Defense Fund since 2009. Dr Liao was formerly the Secretary for the Environment, Transport and Works of the Hong Kong Government in 2002–2007. Prior to her Government appointment, Dr Liao was in the consultancy business and amongst her many projects she was engaged as the environmental consultant to the Beijing's Olympic Bid and Organising Committee in 2000–2008. Formerly, Dr Liao was a director (July 2008 – April 2012) of Westport Innovations Inc. which is listed on the Toronto Stock Exchange and NASDAQ. Dr Liao is a Fellow of the Royal Society of Chemistry and the Hong Kong Institute of Engineers. She was awarded the Member of the British Empire (MBE); and Justice of Peace and the Gold Bauhinia Star by the Hong Kong Government.

Group Chief Compliance and Risk Management Officer

Jason YEUNG Chi Wai

Mr Yeung, aged 62, was appointed as the Group Chief Compliance and Risk Management Officer of the Company in July 2015. He is also the Group Chief Compliance and Risk Management Officer of Fung Holdings (1937) Limited, a substantial shareholder of the Company and its publicly-listed companies in Hong Kong. He has extensive experience in handling legal, compliance and regulatory matters, and worked previously in both the public and private sectors practising corporate, commercial and securities law. Prior to joining the Fung Group, he was Deputy Chief Executive (Personal Banking) of Bank of China (Hong Kong) Limited with responsibility for the overall performance of the personal banking businesses of Bank of China (Hong Kong) Limited. Mr Yeung graduated from The University of Hong Kong with a Bachelor's degree in Social Sciences. He also graduated from The College of Law, United Kingdom and holds a Bachelor's degree in Law and a Master's degree in Business Administration from The University of Western Ontario, Canada.

Senior Management

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

Mrs Chan, aged 54, has over 28 years of experience in the food and beverage and retail chain industry. She is currently responsible for the Saint Honore operations in Hong Kong and Macau overseeing marketing and category, retail operations, products and site development management. She also took up the advisory role for the Group's cake shop operation on the Chinese Mainland. Mrs Chan holds a Master's 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's 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. She acted as the member of the Corporate Advisory Board of School of Business and Management of the Hong Kong University of Science and Technology during the period 2000-2009.

Sam HUI Chi Ho – *Chief Financial Officer*

Mr Hui, aged 41, being Chief Financial Officer of the Group since 2009, is responsible for overseeing the Group's finance and accounting functions, including mergers and acquisitions, treasury, investor relations, financial planning and analysis, risk management and financial reporting. Prior to joining the Group in 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's degree (First Class Honours) in Business Administration majoring in Accounting, and also holds a Master's degree in Business Administration from The University of Hong Kong. He has completed certain Senior Executive Programmes held by Massachusetts Institute of Technology Sloan School of Management and Harvard University respectively. Mr Hui is a Fellow member of the Hong Kong Institute of Certified Public Accountants and also a member of CFA Institute.

Information for Investors

Listing Information

Listing	Hong Kong Stock Exchange
Stock code	00831

Key Dates

21 March 2017	Announcement of 2016 Final Results
9 May 2017	Record date for right to attend Annual General Meeting
15 May 2017	Annual General Meeting
22 May to 23 May 2017 (both days inclusive)	Closure of Register of Members for Final and Special Dividends
23 May 2017	Record date for entitlement to Final and Special Dividends
2 June 2017	Despatch of dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2016	755,300,974 shares
Market capitalisation as at 31 December 2016	HK$2,794,614,000
Earnings per share for 2016	
Interim	6.87 HK cents
Full year	18.50 HK cents
Dividend per share for 2016	
Interim	3.50 HK cents
Final	13.00 HK cents
Special	27.00 HK cents
Full year	43.50 HK cents

Share Registrar and Transfer Offices

Principal:
Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House
Cricket Square, Grand Cayman KY1-1001
Cayman Islands
(with effect from 15 November 2016)

Hong Kong Branch:
Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

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Hong Kong

Website

www.cr-asia.com

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2016.

Principal Activities, Business Review 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 in Hong Kong under the brand name of Circle K and bakeries under the brand name of Saint Honore in Hong Kong, Macau and on the Chinese Mainland. The Group also started an e-commerce business in 2013 and operates an online retailing platform of FingerShopping.com. Further review and analysis of these business activities, including the risks and uncertainties facing the Group and likely future developments in the Group's businesses, are set out in the Chairman's Statement and Management Discussion and Analysis sections on pages 5 to 8 and pages 9 to 24 of this Annual Report respectively. These review and analysis form part of this Report.

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

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on pages 72 to 73.

The Board of Directors had declared an interim dividend of 3.5 HK cents per share, totalling HK$26,413,000, which was paid on 8 September 2016.

The Board of Directors recommended the payment of a final dividend of 13 HK cents per share (to be distributed out of the Company's retained earnings), totalling HK$98,189,000 and a special dividend of 27 HK cents per share (to be distributed out of the Company's share premium), totalling HK$203,931,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 24 and note 30 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$179,000.

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in note 13 to the consolidated financial statements.

Share Capital and Shares Issued

Details of the movements in share capital of the Company together with the shares issued during the year are set out in note 23 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company at 31 December 2016 calculated under the Companies Law of the Cayman Islands amounted to HK$569,649,000 (2015: HK$565,828,000).

Pre-emptive Rights

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

Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2016 are set out in note 31 to the consolidated financial statements.

Ten-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last ten financial years is set out on page 136.

Purchase, Sale or Redemption of Listed Securities

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

Share Options

On 10 May 2010, the 2010 Share Option Scheme was approved and adopted by the shareholders at the annual general meeting of the Company for the purpose of providing incentives and/or rewards to eligible persons as defined in the Scheme following expiration of the previous share option scheme.

A summary of the major terms of the 2010 Share Option Scheme are as follows:

(i) *Purpose of the Share Option Scheme*

The purpose of the Share Option 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 Share Option 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 of or supplier of goods or services to the Group or any Affiliate or any employee of the business alliance, joint venture partner of or supplier of goods or services to the Group or any Affiliate.

(iii) *Maximum number of shares*

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

The total number of shares available for issue, save for those already granted, under the 2010 Share Option Scheme is 37,238,597, representing approximately 4.9% of the issued share capital of the Company as at the date of this Report.

(iv) *Limit for each participant*

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

(v) *Option period*

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

Share Options (continued)

(vi) Amount payable on application or acceptance

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

(vii) Subscription price

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

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

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

Share Options (continued)

Details of the movements of share options under the 2010 Share Option Scheme during the year ended 31 December 2016 are as follows:

Grantees	Number of share options						Exercise price	Grant date	Exercisable period
	As at 1 January 2016	Granted (Note 1)	Exercised (Note 2)	Lapsed	Expired	As at 31 December 2016	HK$		
Directors									
Richard Yeung Lap Bun	2,000,000	–	–	–	–	2,000,000	3.22	10 March 2011	1 April 2014–31 March 2017
	2,000,000	–	–	–	–	2,000,000	5.53	28 February 2014	1 April 2017–31 March 2020
Pak Chi Kin	1,000,000	–	–	–	–	1,000,000	3.22	10 March 2011	1 April 2014–31 March 2017
	2,000,000	–	–	–	–	2,000,000	5.53	28 February 2014	1 April 2017–31 March 2020
Continuous contract employees	2,730,000	–	(560,000)	–	–	2,170,000	3.22	10 March 2011	1 April 2014–31 March 2017
	436,000	–	–	–	–	436,000	5.40	28 March 2013	1 April 2014–31 March 2017
	10,954,000	–	–	(254,000)	–	10,700,000	5.53	28 February 2014	1 April 2017–31 March 2020
	594,000	–	–	(198,000)	–	396,000	5.10	19 March 2015	1 April 2017–31 March 2020
	–	236,000	–	–	–	236,000	2.86	16 March 2016	1 April 2017–31 March 2020
Other participants	1,960,000	–	(100,000)	–	–	1,860,000	3.22	10 March 2011	1 April 2014–31 March 2017
	66,000	–	–	–	–	66,000	3.71	8 March 2012	1 April 2014–31 March 2017
	34,000	–	–	(34,000)	–	–	5.40	28 March 2013	1 April 2014–31 March 2017
	1,778,000	–	–	–	–	1,778,000	5.53	28 February 2014	1 April 2017–31 March 2020
	22,000	–	–	–	–	22,000	5.10	19 March 2015	1 April 2017–31 March 2020
	25,574,000	236,000	(660,000)	(486,000)	–	24,664,000			

Share Options (continued)

Notes:

1. *During the year, share options to subscribe for a total of 236,000 shares were granted on 16 March 2016. The closing price of the shares immediately before the date on which the options were granted was HK$2.71.*

2. *Share options to subscribe for 560,000 shares and 100,000 shares were exercised by continuous contract employees and other participants respectively during the year. The weighted average closing market price per share immediately before the dates on which the options were exercised were approximately HK$4.07 and HK$3.85 respectively.*

3. *No share options under the 2010 Share Option Scheme were cancelled during the year.*

4. *The above options granted are recognised as expenses in the consolidated financial statements in accordance with the Company's accounting policy as set out in this Report.*

5. *The value of the options granted during the year is HK$57,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$2.86 at the grant date, exercise price shown above, standard deviation of expected share price returns of 24.6%, expected life of options of three years, expected dividend paid out rate of 3.6% and annual risk-free interest rate of 1.0%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.*

Save as disclosed above, as at 31 December 2016, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates had been granted any other share options.

Directors

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

Non-executive Directors
Victor FUNG Kwok King
William FUNG Kwok Lun
Malcolm AU Man Chung*
Anthony LO Kai Yiu*
ZHANG Hongyi*
Sarah Mary LIAO Sau Tung*
Godfrey Ernest SCOTCHBROOK
Jeremy Paul Egerton HOBBINS
Benedict CHANG Yew Teck

Executive Directors
Richard YEUNG Lap Bun
PAK Chi Kin

* *Independent Non-executive Directors*

Directors (continued)

In accordance with Article 87 of the Company's Articles of Association, Mr Malcolm Au Man Chung, Dr Sarah Mary Liao Sau Tung, Mr Godfrey Ernest Scotchbrook and Mr Jeremy Paul Egerton Hobbins will retire at the forthcoming annual general meeting. Mr Malcolm Au Man Chung, Dr Sarah Mary Liao Sau Tung and Mr Godfrey Ernest Scotchbrook being eligible, will offer themselves for re-election while Mr Jeremy Paul Egerton Hobbins has decided not to stand for re-election and will retire from the Board with effect from the conclusion of the forthcoming annual general meeting.

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.

The Company has received from each Independent Non-executive Director an annual written confirmation of his/her independence in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). After assessment by the Nomination Committee, the Board is of the view that they meet the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all of the Independent Non-executive Director is independent to the Company.

Directors' Service Contracts

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

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

Save as disclosed, none of the Directors (including those who are proposed for re-election at the forthcoming annual general meeting) has any service contract 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 Transactions, Arrangements and Contracts

No transactions, arrangements or 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 or an entity connected with such Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year except as disclosed under "Connected Transactions" stated below and note 29 "Related Party Transactions" to the consolidated financial statements.

Permitted Indemnity Provisions

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2016. The Company has maintained liability insurance to provide appropriate cover for the Directors of the Company and its subsidiaries.

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

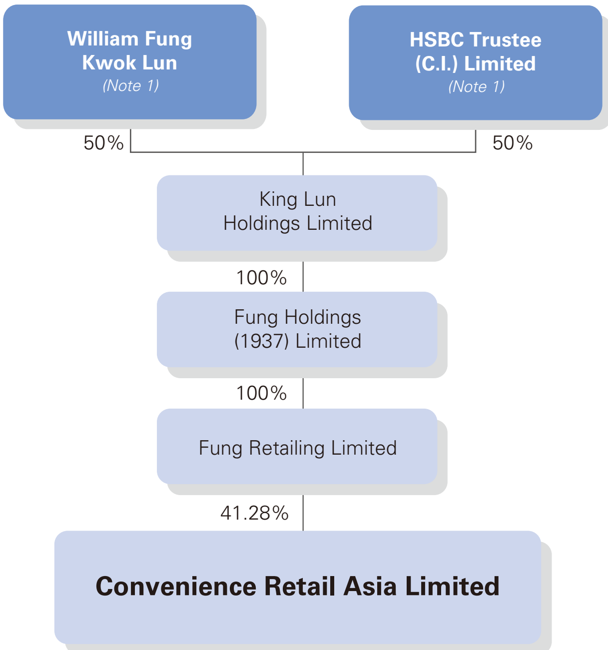
As at 31 December 2016, the Directors and chief executives of the Company and their associates had the following interests in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules and/or the Code for Securities Transactions by Directors and Relevant Employees adopted by the Company:

Long positions in shares and underlying shares of the Company

	Number of shares					
Name of Directors	Personal interests	Family interests	Corporate/ Trust interests	Equity derivatives (share options)	Total interests	Approximate percentage of interests
Victor Fung Kwok King	–	–	311,792,000 *(Note 1)*	–	311,792,000	41.28%
William Fung Kwok Lun	–	–	311,792,000 *(Note 1)*	–	311,792,000	41.28%
Richard Yeung Lap Bun	20,396,000	–	–	4,000,000 *(Note 2)*	24,396,000	3.23%
Pak Chi Kin	1,044,000	–	–	3,000,000 *(Note 2)*	4,044,000	0.54%
Jeremy Paul Egerton Hobbins	180,000	–	–	–	180,000	0.02%

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

As at 31 December 2016, the interests of Dr Victor Fung Kwok King and Dr William Fung Kwok Lun in the shares of the Company are summarised in the following chart:



Notes:

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

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

Save as disclosed above, as at 31 December 2016, none of the Directors, chief executives and their associates had any other interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations. Besides, at no time during the year, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

Interests and Short Positions of Shareholders in Shares and Underlying Shares

Other than the interests of the Directors or chief executives of the Company as disclosed above, at 31 December 2016, the following persons had notified the Company of their interests in shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Interests in shares of the Company

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	311,792,000	Trustee *(Note 1)*	41.28%
King Lun Holdings Limited	311,792,000	Interest of controlled corporation *(Note 1)*	41.28%
Arisaig Asia Consumer Fund Limited ("Arisaig ACF")	82,580,000	Beneficial owner	10.93%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	82,580,000	Investment manager *(Note 2)*	10.93%
Arisaig Partners (Asia) Pte Ltd ("Arisaig Asia")	82,580,000	Investment manager *(Note 2)*	10.93%
Arisaig Partners (Holdings) Ltd.	82,580,000	Interest of controlled corporation *(Note 2)*	10.93%
Skye Partners Limited	82,580,000	Interest of controlled corporation *(Note 2)*	10.93%
International Financial Services Limited	82,580,000	Interest of controlled corporation *(Note 2)*	10.93%
IFS Trustees	82,580,000	Interest of controlled corporation *(Note 2)*	10.93%
Aberdeen Asset Management Plc and its associates (together the "Aberdeen Group")	91,014,000	Investment manager *(Note 3)*	12.05%
Aberdeen Global	63,912,000	Investment manager *(Note 3)*	8.46%
The Capital Group Companies, Inc.	51,330,000	Interest of controlled corporation	6.80%
Dempsey Hill Asia Master Fund ("Dempsey Hill Asia")	46,530,000	Beneficial owner *(Note 4)*	6.16%
Dempsey Hill Capital Pte Ltd ("Dempsey Hill Capital")	46,530,000	Investment manager *(Note 4)*	6.16%
Lim Thiam Soon ("Mr Lim")	46,530,000	Interest of controlled corporation *(Note 4)*	6.16%

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

Interests in shares of the Company (continued)

Notes:

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

2. *These shares were held by Arisaig ACF, and Arisaig Mauritius and Arisaig Asia are the fund manager and the sub-investment manager of Arisaig ACF respectively. Arisaig Mauritius and Arisaig Asia are wholly-owned by Arisaig Partners (Holdings) Ltd., which is in turn wholly-owned by Skye Partners Limited. IFS Trustees and International Financial Services Limited are the trustees of the trusts, each of which owns one-third of Skye Partners Limited. Therefore Arisaig Mauritius, Arisaig Asia, Arisaig Partners (Holdings) Ltd., Skye Partners Limited, IFS Trustees and International Financial Services Limited are deemed to have interests in the shares of the Company held by Arisaig ACF. Mr Lindsay William Ernest Cooper has transferred his shareholding to IFS Trustees.*

3. *The Aberdeen Group held the shares on behalf of accounts (under discretionary or segregated mandates) managed by the Aberdeen Group. 63,912,000 shares were held by Aberdeen Global of which the Aberdeen Group is the investment manager and investment advisers.*

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

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any other interests or short positions in shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

Sufficiency of Public Float

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

Major Customers and Suppliers

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

–	the largest supplier	29%
–	five largest suppliers combined	50%

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

Continuing Connected Transactions

During the year, the Group had various transactions with related parties (details are set out in note 29 to the consolidated financial statements on pages 130 to 132), such as certain reimbursement of office and administrative expenses between the Group and FH 1937 (the controlling shareholder of the Company) and its associates, also constituted connected transactions of the Company which are fully exempted under Rule 14A.98 of the Listing Rules. In addition, the following transactions are expected to continue on an on-going basis and constitute continuing connected transactions (exempt from independent shareholders' approval requirements) of the Company:

		HK$'000
1.	Purchases of various products (being both food and non-food products) from FH 1937 and its associates *(Note 1)*	10,375
2.	Properties leasing and/or licensing arrangements with FH 1937 and its associates *(Note 2)*	13,229
3.	Sales of various products (being both food and non-food products) to FH 1937 and its associates *(Note 3)*	11,022

Notes:

1. *This refers to the purchases of various products (being both food and non-food products) by the Group from FH 1937 and its associates under a master agreement signed on 20 November 2015 for a term of three years from 1 January 2016 to 31 December 2018 (details of which were disclosed in the announcement dated 20 November 2015).*

2. *This refers to the leasing of properties and/or granting of licence for the right to use properties (or any part thereof) by FH 1937 and its associates to the Group under a master agreement signed on 20 November 2015 for a term of three years from 1 January 2016 to 31 December 2018 (details of which were disclosed in the announcement dated 20 November 2015).*

3. *This refers to the sales of various products (being both food and non-food products) by the Group to FH 1937 and its associates under a master agreement signed on 20 November 2015 for a term of three years from 1 January 2016 to 31 December 2018 (details of which were disclosed in the announcement dated 20 November 2015).*

Connected Transactions (continued)

Continuing Connected Transactions (continued)

The pricing and the terms of the above transactions have been determined in accordance with the pricing policies and guidelines as set out in the respective announcement. Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are considered to have material interest in the abovementioned continuing connected transactions by virtue of their deemed interests in FH 1937.

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

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

(b) on normal commercial terms or better; and

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Contracts with Controlling Shareholders

Save as disclosed under "Connected Transactions" above and note 29 "Related Party Transactions" to the consolidated financial statements, no other contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries were entered into or existed during the year.

Management Contracts

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

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which gives a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2016, the Directors have selected suitable and relevant accounting policies and applied them consistently as stated in note 2 to the consolidated financial statements; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Auditor

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

On behalf of the Board
Victor FUNG Kwok King
Chairman

Hong Kong, 21 March 2017

Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Convenience Retail Asia Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 135, which comprise:

- The consolidated balance sheet as at 31 December 2016;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters identified in our audit is related to the impairment of goodwill and trademarks with indefinite lives.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and trademarks with indefinite lives *Refer to note 4b, 4c and note 16 to the consolidated financial statements* The Group carried goodwill and trademarks balances of HK$247 million and HK$110 million, respectively, as of 31 December 2016, which relates to the acquisition of the Saint Honore bakery business. The Group is required to, at least annually, perform impairment assessment of the goodwill and trademarks. Goodwill has been allocated to one of the Group's cash generating units ("CGUs") within the bakery segment for the purpose of performing impairment assessment. The recoverable amount of the underlying CGU is determined by fair value less cost to sell calculations which are based on future discounted cash flows. The recoverable amount of the trademarks is determined using the royalty relief valuation method which is based on the present value of the hypothetical royalty income from licensing out the trademarks. Based on management's assessment, which considered the sufficiency of headroom, they have concluded that no impairment charge in relation to goodwill or trademarks is required in the current financial year. We focused on this area as management's assessment involved significant estimates and judgements, including the sales growth rate, gross profit margin, net profit margin, perpetual growth rate, royalty rate and discount rates applied in the calculation.	We evaluated the methodologies (fair value less cost to sell calculations and royalty relief valuation method) adopted by management and tested the accuracy of the underlying calculations using internal valuation experts to assist us. We evaluated management's future cash flow forecasts by comparing the historical actual results of management's past budgets to assess the quality of management's forecasting. We also evaluated the key assumptions used in the calculations, including sales growth rates, gross profit margin, net profit margin, perpetual growth rate, royalty rate and discount rates. When evaluating these key assumptions, we discussed with management and compared the assumptions used the calculations to their future business plans. We also assessed the reasonableness of the assumptions based on external market data, industry outlook reports and economic growth forecasts from a number of sources. We assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually and in aggregate, would result in the goodwill and trademarks being impaired. We found the Group's judgements and assumptions used in the impairment assessments to be supported by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yee, Shia Yuen.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

Consolidated Profit and Loss Account

For the year ended 31 December 2016

	Note	**2016 HK$'000**	2015 HK$'000
Continuing Operations			
Revenue	*5*	**4,871,437**	4,728,151
Cost of sales	*6*	**(3,196,622)**	(3,124,522)
Gross profit		**1,674,815**	1,603,629
Other income	*5*	**107,605**	102,831
Store expenses	*6*	**(1,276,294)**	(1,225,140)
Distribution costs	*6*	**(144,099)**	(125,398)
Administrative expenses	*6*	**(192,074)**	(193,675)
Core operating profit		**169,953**	162,247
Non-core operating gain/(loss)	*6*	**93**	(618)
Operating profit		**170,046**	161,629
Interest income	*7*	**2,154**	3,358
Profit before income tax		**172,200**	164,987
Income tax expenses	*8*	**(32,573)**	(30,810)
Profit for the year from Continuing Operations		**139,627**	134,177
Discontinued Operations			
Profit for the period from Discontinued Operations	*27*	**–**	25,001
Profit attributable to shareholders of the Company		**139,627**	159,178

	Note	2016 HK$'000	2015 HK$'000
Earnings per share (HK cents)			
Basic earnings per share	9		
Continuing Operations		**18.50**	17.80
Included Discontinued Operations		**18.50**	21.12
Diluted earnings per share	9		
Continuing Operations		**18.48**	17.75
Included Discontinued Operations		**18.48**	21.06

The notes on pages 80 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 **HK$'000**	2015 HK$'000
Profit attributable to shareholders of the Company	**139,627**	159,178
Other comprehensive loss:		
Item that may be reclassified subsequently to profit or loss		
Exchange differences	**(5,326)**	(5,171)
Total comprehensive income attributable to shareholders of the Company	**134,301**	154,007
Total comprehensive income attributable to shareholders of the Company arises from:		
Continuing Operations	**134,301**	127,369
Discontinued Operations	**–**	26,638
	134,301	154,007

The notes on pages 80 to 135 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Assets			
Non-current assets			
Fixed assets	*13*	**337,475**	334,875
Investment properties	*14*	**27,174**	28,585
Lease premium for land	*15*	**35,130**	37,906
Intangible assets	*16*	**357,465**	357,465
Available-for-sale financial asset	*17*	**1,895**	1,895
Rental and other long-term deposits		**87,120**	74,361
Deferred tax assets	*18*	**15,916**	14,075
		862,175	849,162
Current assets			
Inventories	*19*	**217,029**	185,358
Rental deposits		**59,114**	53,794
Trade receivables	*20*	**60,883**	48,495
Other receivables, deposits and prepayments		**97,377**	80,527
Bank and restricted deposits	*21*	**892**	957
Cash and cash equivalents	*21*	**541,942**	567,114
		977,237	936,245
Total assets		**1,839,412**	1,785,407

Consolidated Balance Sheet (continued)

As at 31 December 2016

	Note	**2016 HK$'000**	2015 HK$'000
Equity			
Share capital	*23*	**75,530**	75,464
Reserves	*24*	**734,192**	763,070
Total equity		**809,722**	838,534
Liabilities			
Non-current liabilities			
Long service payment liabilities	*25*	**11,182**	11,505
Deferred tax liabilities	*18*	**10,033**	9,870
		21,215	21,375
Current liabilities			
Trade payables	*22*	**618,295**	539,783
Other payables and accruals		**205,260**	212,039
Taxation payable		**10,803**	7,430
Cake coupons		**174,117**	166,246
		1,008,475	925,498
Total equity and liabilities		**1,839,412**	1,785,407

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 80 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital reserves HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total equity HK$'000
At 1 January 2015	75,115	364,289	177,087	18,474	11,062	7,388	136,746	790,161
Profit attributable to shareholders of the Company	–	–	–	–	–	–	159,178	159,178
Exchange differences	–	–	–	–	–	(5,171)	–	(5,171)
Total comprehensive income for the year	–	–	–	–	–	(5,171)	159,178	154,007
Issue of new shares	349	10,885	–	–	–	–	–	11,234
Employee share option benefit	–	2,072	–	–	2,139	–	358	4,569
Dividends paid	–	–	–	–	–	–	(121,437)	(121,437)
	349	12,957	–	–	2,139	–	(121,079)	(105,634)
At 31 December 2015	75,464	377,246	177,087	18,474	13,201	2,217	174,845	838,534

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2016

	Attributable to shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Capital reserves HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total equity HK$'000
At 1 January 2016	75,464	377,246	177,087	18,474	13,201	2,217	174,845	838,534
Profit attributable to shareholders of the Company	–	–	–	–	–	–	139,627	139,627
Exchange differences	–	–	–	–	–	(5,326)	–	(5,326)
Total comprehensive income for the year	–	–	–	–	–	(5,326)	139,627	134,301
Issue of new shares	66	2,059	–	–	–	–	–	2,125
Employee share option benefit	–	392	–	–	3,972	–	193	4,557
Transfer to capital reserves	–	–	–	842	–	–	(842)	–
Dividends paid	–	–	–	–	–	–	(169,795)	(169,795)
	66	2,451	–	842	3,972	–	(170,444)	(163,113)
At 31 December 2016	75,530	379,697	177,087	19,316	17,173	(3,109)	144,028	809,722

The notes on pages 80 to 135 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Continuing Operations			
Cash flows from operating activities			
Cash generated from operations	*26*	**243,125**	193,426
Hong Kong profits tax paid		**(24,280)**	(33,205)
Overseas income tax paid		**(6,612)**	(5,640)
Net cash generated from operating activities		**212,233**	154,581
Cash flows from investing activities			
Purchase of fixed assets		**(70,128)**	(84,180)
Proceeds from disposal of fixed assets		**336**	899
Interest received		**2,264**	3,842
Decrease in bank deposits		**–**	6,280
Net proceeds from disposal of Discontinued Operations		**–**	81,100
Net cash (used in)/generated from investing activities		**(67,528)**	7,941
Cash flows from financing activities			
Proceeds from issuance of shares		**2,125**	11,234
Dividends paid		**(169,795)**	(121,437)
Fund transfer to Discontinued Operations		**–**	(14,349)
Net cash used in financing activities		**(167,670)**	(124,552)
(Decrease)/Increase in cash and cash equivalents from Continuing Operations		**(22,965)**	37,970
Increase in cash and cash equivalents from Discontinued Operations		**–**	3,348
(Decrease)/Increase in cash and cash equivalents		**(22,965)**	41,318
Cash and cash equivalents at 1 January		**567,114**	528,177
Effect of foreign exchange rate changes		**(2,207)**	(2,381)
Cash and cash equivalents at 31 December	*21*	**541,942**	567,114

The notes on pages 80 to 135 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Convenience Retail Asia Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the operation of chains of convenience stores in Hong Kong under the brand name of Circle K and bakeries under the brand name of Saint Honore in Hong Kong, Macau and on the Chinese Mainland. The Group also started an e-commerce business in 2013 and operates an online retailing platform of FingerShopping.com.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office was Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and changed to P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands with effect from 15 November 2016. The address of its principal place of business is 15th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong.

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

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2017.

On 25 August 2015, the Group has disposed of certain subsidiaries which are principally engaged in the operation of the convenience store business in Guangzhou and the operation is presented as Discontinued Operations. Details of the Discontinued Operations are set out in note 27 to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

As at 31 December 2016, the Group had net current liabilities of HK31,238,000 (2015: net current assets HK$10,747,000). In preparing these financial statements, the Group's management has taken into account all information that could reasonably be expected to be available and has ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. As of 31 December 2016, the Group had banking facilities available amounting to HK$130,736,000 (2015: HK$125,736,000). Under these circumstances, the Group's management is of the opinion that the Group will be able to meet its liabilities as and when they fall due within the next twelve months and therefore have prepared the financial statements on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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

The Group has adopted the following new and amended standards and improvements of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2016 and relevant to its operations:

HKAS 1 Amendment	Disclosure Initiative
HKAS 16 and HKAS 38 Amendments	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 Amendments	Agriculture: Bearer Plants
HKAS 27 Amendment	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 Amendments	Investment Entities: Applying the Consolidation Exception
HKFRS 11 Amendment	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual Improvements Projects	Annual Improvements 2012-2014 Cycle

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

The Group has not early adopted the following new and amended standards of HKFRS that have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2017.

HKAS 7 Amendment	Disclosure Initiative
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 15	Revenue from Contracts with Customers
HKFRS 16	Leases

None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except HKFRS 16 "Leases".

HKFRS 16 will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated balance sheet. The Group is in the process of assessing to what extent the operating lease commitments as disclosed in note 28b will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(ii) Transactions with non-controlling interests

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

(iii) Discontinued Operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated profit and loss account, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Fixed assets and lease premium for land

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

Freehold land is stated at cost without amortisation. Leasehold land classified as finance lease and properties are depreciated on a straight-line basis over the unexpired term of the leases of 29 years to 43 years. Lease premium for land are accounted for as operating leases and amortised in the consolidated profit and loss account on a straight-line basis over the unexpired term of the leases of 24 years to 39 years. Leasehold improvements are depreciated on a straight-line basis over the leases of 3 years to 10 years. Other fixed assets are depreciated at rates sufficient to write off their costs over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

Equipment, furniture and fixtures	10% to $33^1/_3$ %
Motor vehicles	15% to 25%

No depreciation is provided for construction in progress until it is completed and ready for use.

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 2h)*.

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

(f) Investment properties

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

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

Investment properties are depreciated on a straight-line basis over the unexpired term of the leases of 25 years to 40 years.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment properties (continued)

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

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

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

(g) Intangible assets

(i) Goodwill

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

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

(ii) Trademarks

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

(h) Impairment of non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets

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

Classification

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Recognition and measurement

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

Gains or losses arising from changes in fair value of financial assets at fair value through profit or loss are presented in the consolidated profit and loss account in the period in which they arise. Dividend income from the financial assets at fair value through profit or loss and available-for-sale equity instruments is recognised in the consolidated profit and loss account in other income when the Group's right to receive payments is established.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Impairment

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

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

(j) Inventories

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

(k) Trade and other receivables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

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

(m) Share capital

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

(n) Trade payables

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

(o) Current and deferred income tax

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Current and deferred income tax (continued)

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

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

(p) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Profit sharing and bonus plans

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

(iii) Pension obligations

The Group pays contributions to an independently administered fund on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. Contributions to the fund by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the fund are held separately from those of the Group in the independently administered fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iv) Long service payment liabilities

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

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

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

(v) Share-based compensation

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

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

(q) Provisions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Core operating profit

Core operating profit is the result generated from the Group's convenience store, bakery and e-commerce businesses excluding interest income, income tax expenses, corporate exchange gain or loss and gain or loss on disposal of property which are of capital nature or non-operating related.

(s) Revenue recognition

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

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

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

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

(t) 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.

(u) Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

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

(ii) Credit risk

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

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

Retail sales are usually paid in cash. The Group mitigates its exposure to risk relating to cash at bank and bank deposits by placing them with renowned financial institutions registered in Hong Kong and on the Chinese Mainland. All bank deposits and majority of cash and cash equivalents are placed in banks with high credit rankings. Rental deposits are also placed with various landlords in Hong Kong and on 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, bank deposits and banking facilities considered to be adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. All of the Group's financial liabilities, including trade payables of HK$618,295,000 (2015: HK$539,783,000) and other payables and accruals of HK$205,260,000 (2015: HK$212,039,000) 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 0.5% with all other variables held constant, the Group's net profit would have been increased/decreased by HK$1,612,000 (2015: HK$1,643,000) for the year ended 31 December 2016.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the total shareholders' equity as shown in the consolidated balance sheet. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long-term.

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

Financial instruments are measured in the consolidated balance sheet at fair value by level of the following fair value measurement hierarchy:

(i) Quoted prices in active markets for identical assets or liabilities (level 1)

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)

(iii) Inputs for the asset or liability that are not based on observable market data (level 3)

The Group's financial asset that is measured at fair value as at 31 December 2016 and 2015 are as follows:

	2016 **HK$'000**	2015 HK$'000
Available-for-sale financial asset (level 3)	**1,895**	1,895

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

(d) Group's valuation processes

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of fixed assets

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

(b) Estimated impairment of intangible assets

The Group tests annually whether goodwill and trademarks have suffered any impairment, in accordance with the accounting policy stated in note 2g. The recoverable amounts of goodwill and trademarks are determined based on fair value less costs to sell calculations and royalty relief valuation method. These calculations require the use of estimates *(note 16)*.

(c) Estimated useful lives of trademarks

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

(d) Employee benefits – share-based payments

The determination of the fair value of the share options granted requires estimates in determining the expected volatility of the share price, the dividends expected on the shares and the risk-free interest rate for the life of the options as stated in note 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Income taxes

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

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

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

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

	2016 **HK$'000**	2015 HK$'000
Revenue		
Merchandise sales revenue	**3,849,880**	3,692,768
Bakery sales revenue	**1,000,079**	1,015,707
e-commerce revenue	**21,478**	19,676
	4,871,437	4,728,151
Other income		
Service items and miscellaneous income	**107,605**	102,831

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

Segment information

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

The management considers the business from both a product/service and geographic perspective. From a product/service perspective, management assesses the performance of convenience store, bakery and e-commerce businesses. For convenience store segment, revenues are mainly derived from a broad range of merchandise sales. For bakery segment, revenues are mainly comprised of bakery and festival products. For e-commerce segment, revenues are mainly derived from the provision of online trading platform. Geographically, the management considers the performance of retailing business in Hong Kong and others, and on the Chinese Mainland.

The segment information provided to the management for the reportable segments for the years ended 31 December 2016 and 2015 are as follows:

	2016				
	Convenience Store	Bakery		e-commerce	
Continuing Operations	HK & Others HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	HK HK$'000	Group HK$'000
Total segment revenue	3,849,880	999,287	128,890	21,478	4,999,535
Inter-segment revenue	–	(128,098)	–	–	(128,098)
Revenue from external customers	3,849,880	871,189	128,890	21,478	4,871,437
Total segment other income	100,659	8,644	1,708	90	111,101
Inter-segment other income	(1,284)	(2,212)	–	–	(3,496)
Other income	99,375	6,432	1,708	90	107,605
	3,949,255	877,621	130,598	21,568	4,979,042
Core operating profit/(loss)	157,122	35,541	(2,162)	(20,548)	169,953
Depreciation and amortisation	(26,155)	(33,511)	(6,832)	(1,153)	(67,651)

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

Segment information (continued)

	2015				
	Convenience Store	Bakery		e-commerce	
Continuing Operations	HK & Others HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	HK HK$'000	Group HK$'000
Total segment revenue	3,692,768	1,001,731	139,072	19,676	4,853,247
Inter-segment revenue	–	(125,096)	–	–	(125,096)
Revenue from external customers	3,692,768	876,635	139,072	19,676	4,728,151
Total segment other income	95,049	10,098	760	24	105,931
Inter-segment other income	(883)	(2,217)	–	–	(3,100)
Other income	94,166	7,881	760	24	102,831
	3,786,934	884,516	139,832	19,700	4,830,982
Core operating profit/(loss)	158,896	35,429	(10,533)	(21,545)	162,247
Depreciation and amortisation	(26,502)	(29,659)	(7,647)	(1,167)	(64,975)

The revenue from external parties is derived from numerous external customers and the revenue reported to the management is measured in a manner consistent with that of the consolidated profit and loss account. The management assesses the performance of the operating segments based on a measure of core operating profit.

The reconciliation of the total reportable segments' core operating profit to the profit before income tax can be referred to the consolidated profit and loss account, as the reconciliation items are not included in the measure of the segments' performance by the management.

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

Segment information (continued)

The segment assets and liabilities as at 31 December 2016 and 2015 are as follows:

	2016				
	Convenience Store	Bakery		e-commerce	
	HK & Others	HK & Others	Chinese Mainland	HK	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment assets	**701,993**	**782,427**	**54,219**	**11,247**	**1,549,886**
Total segment assets include:					
Additions to segment non-current assets	**30,238**	**45,198**	**6,207**	**76**	**81,719**
Total segment liabilities	**695,912**	**289,135**	**17,152**	**6,655**	**1,008,854**

	2015				
	Convenience Store	Bakery		e-commerce	
	HK & Others	HK & Others	Chinese Mainland	HK	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment assets	546,980	733,945	70,700	10,504	1,362,129
Total segment assets include:					
Additions to segment non-current assets	38,344	39,091	7,130	1,976	86,541
Total segment liabilities	620,988	281,110	14,975	12,500	929,573

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

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

Segment information (continued)

Reportable segment assets are reconciled to total assets as follows:

	2016 **HK$'000**	2015 HK$'000
Segment assets for reportable segments	**1,549,886**	1,362,129
Unallocated:		
Deferred tax assets	**15,916**	14,075
Corporate bank deposits	**273,610**	409,203
Total assets per consolidated balance sheet	**1,839,412**	1,785,407

Reportable segment liabilities are reconciled to total liabilities as follows:

	2016 **HK$'000**	2015 HK$'000
Segment liabilities for reportable segments	**1,008,854**	929,573
Unallocated:		
Deferred tax liabilities	**10,033**	9,870
Taxation payable	**10,803**	7,430
Total liabilities per consolidated balance sheet	**1,029,690**	946,873

The Group is domiciled in Hong Kong. The total of its revenue of Continuing Operations from external customers in Hong Kong is HK$4,591,667,000 (2015: HK$4,440,800,000), and the total of its revenue from other countries is HK$279,770,000 (2015: HK$287,351,000) for the year ended 31 December 2016.

The total of non-current assets other than available-for-sale financial asset and deferred tax assets located in Hong Kong is HK$757,951,000 (2015: HK$742,623,000), and the total of these non-current assets located in other countries is HK$86,413,000 (2015: HK$90,569,000) as at 31 December 2016.

6. EXPENSES BY NATURE FROM CONTINUING OPERATIONS

	2016 **HK$'000**	2015 HK$'000
Amortisation of lease premium for land *(note 15)*	**1,232**	1,459
Auditor's remuneration		
Audit services	**1,926**	1,926
Non-audit services	**556**	681
Cost of inventories sold	**2,962,349**	2,888,265
Delivery charges	**83,543**	69,553
Depreciation of owned fixed assets *(note 13)*	**65,446**	62,722
Depreciation of investment properties *(note 14)*	**973**	794
Employee benefit expense *(note 11)*	**813,538**	793,769
Losses on disposal of fixed assets	**2,390**	3,726
Operating leases rental for land and buildings		
Minimum lease payment	**494,994**	467,595
Contingent lease payment	**5,553**	5,718
Utilities	**84,119**	89,531
Foreign exchange losses/(gains)	**1,223**	(342)
Other expenses	**291,154**	283,956
Total cost of sales, store expenses, distribution costs, administrative expenses and non-core operating gain/(loss)	**4,808,996**	4,669,353

7. INTEREST INCOME FROM CONTINUING OPERATIONS

	2016 **HK$'000**	2015 HK$'000
Interest income on bank deposits	**2,154**	3,358

8. INCOME TAX EXPENSES FROM CONTINUING OPERATIONS

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2016 and 2015. 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:

	2016	2015
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**28,263**	29,144
Overseas profits tax	**6,190**	5,279
Deferred income tax credit *(note 18)*	**(1,880)**	(3,613)
	32,573	30,810

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

	2016	2015
	HK$'000	HK$'000
Profit before income tax	**172,200**	164,987
Calculated at a taxation rate of 16.5%	**28,413**	27,223
Effect of different taxation rates in other jurisdictions	**13**	(2,148)
Income not subject to taxation	**(3,220)**	(2,360)
Expenses not deductible for tax purposes	**2,692**	865
Tax losses not recognised	**4,323**	6,377
Reversal of previously recognised temporary differences	**239**	282
Under provision in prior year	**113**	571
	32,573	30,810

9. EARNINGS PER SHARE

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

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

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

	2016 **HK$'000**	2015 HK$'000
Profit attributable to shareholders of the Company		
Continuing Operations	**139,627**	134,177
Discontinued Operations	**–**	25,001
	139,627	159,178
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**754,785,127**	753,645,119
Adjustment for:		
Share options	**613,142**	2,346,352
Weighted average number of ordinary shares for diluted earnings per share	**755,398,269**	755,991,471

10. DIVIDENDS

	2016 HK$'000	2015 HK$'000
Interim dividend, proposed of 3.5 HK cents (2015: 3.1 HK cents) per share	**26,413**	23,393
Final dividend, proposed of 13 HK cents (2015: 13 HK cents) per share	**98,189**	98,103
Special dividend, proposed of 27 HK cents (2015: 6 HK cents) per share	**203,931**	45,278
	328,533	166,774

At a meeting held on 21 March 2017, the Directors proposed a final dividend of 13 HK cents per share (to be distributed out of the Company's retained earnings) and a special dividend of 27 HK cents per share (to be distributed out of the Company's share premium). These proposed dividends are not reflected as dividends payable in these consolidated financial statements.

11. EMPLOYEE BENEFIT EXPENSE FROM CONTINUING OPERATIONS

	2016 HK$'000	2015 HK$'000
Wages and salaries	**778,923**	760,701
Unutilised annual leave	**461**	164
Employee share option benefit	**4,557**	4,569
Pension costs – defined contribution plan *(note b & c)*	**29,214**	27,951
Long service payment costs *(note 25)*	**383**	384
	813,538	793,769

Notes:

(a) The employee benefit expense includes directors' and senior management's emoluments *(note 12)*.

(b) Forfeited contributions totalling HK$3,492,000 (2015: HK$2,275,000) were utilised during the year leaving nil (2015: nil) available at the year-end to reduce future contributions.

(c) Contributions totalling HK$4,842,000 (2015: HK$4,762,000) were payable to the independently administered fund at the year-end.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2016 is set out below:

Name of Director	Fees	Salary	Discretionary Bonuses	Estimated money value of other benefits *(note i)*	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Victor Fung Kwok King	310	–	–	–	–	310
William Fung Kwok Lun	250	–	–	–	–	250
Jeremy Paul Egerton Hobbins	250	–	–	–	–	250
Richard Yeung Lap Bun *(note ii)*	200	3,600	7,138	610	18	11,566
Pak Chi Kin	200	2,400	1,427	636	18	4,681
Malcolm Au Man Chung	380	–	–	–	–	380
Godfrey Ernest Scotchbrook	270	–	–	–	–	270
Anthony Lo Kai Yiu	390	–	–	–	–	390
Benedict Chang Yew Teck	270	–	–	–	–	270
Zhang Hongyi	370	–	–	–	–	370
Sarah Mary Liao Sau Tung	250	–	–	–	–	250
	3,140	6,000	8,565	1,246	36	18,987

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

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2015 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary Bonuses HK$'000	Estimated money value of other benefits *(note i)* HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Victor Fung Kwok King	310	–	–	–	–	310
William Fung Kwok Lun	250	–	–	–	–	250
Jeremy Paul Egerton Hobbins	250	–	–	–	–	250
Richard Yeung Lap Bun *(note ii)*	200	3,600	6,106	619	18	10,543
Pak Chi Kin	200	2,400	1,221	633	18	4,472
Malcolm Au Man Chung	380	–	–	–	–	380
Godfrey Ernest Scotchbrook	270	–	–	–	–	270
Anthony Lo Kai Yiu	390	–	–	–	–	390
Benedict Chang Yew Teck	270	–	–	–	–	270
Zhang Hongyi	370	–	–	–	–	370
Sarah Mary Liao Sau Tung	250	–	–	–	–	250
	3,140	6,000	7,327	1,252	36	17,755

Notes:

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

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

(iii) No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2016 and 2015.

(iv) During the year, no emoluments have been paid by the Group to the Directors as remuneration to accept office as director, or as remuneration in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertakings (2015: nil).

(v) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company 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 (2015: nil).

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

(b) Five highest paid individuals

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

	2016 **HK$'000**	2015 HK$'000
Salaries, housing allowances, share options, other allowances and benefit in kind	**6,096**	6,050
Discretionary bonuses	**1,347**	1,182
Pension costs – defined contribution plan	**54**	54
	7,497	7,286

The emoluments of the above individuals fell within the band between HK$2,000,001 and HK$3,000,000 during the years of 2016 and 2015.

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

(c) Senior management's emoluments

The emoluments of the senior management included two Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two senior executives fell within the band between HK$2,000,001 and HK$3,000,000 during the years of 2016 and 2015.

13. FIXED ASSETS

	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 2015					
Cost	205,274	285,044	522,208	21,153	1,033,679
Accumulated depreciation	(37,964)	(227,564)	(415,111)	(15,265)	(695,904)
Net book amount	167,310	57,480	107,097	5,888	337,775
Year ended 31 December 2015					
Opening net book amount	167,310	57,480	107,097	5,888	337,775
Continuing Operations					
Additions	–	33,444	51,263	575	85,282
Transfer to investment properties *(note 14)*	(182)	–	–	–	(182)
Disposals	–	(2,512)	(2,113)	–	(4,625)
Depreciation *(note 6)*	(5,040)	(20,942)	(35,224)	(1,516)	(62,722)
Exchange differences	(188)	(359)	(346)	(33)	(926)
Discontinued Operations					
Additions	–	1,084	469	–	1,553
Disposals	–	(505)	(32)	–	(537)
Depreciation	(19)	(1,847)	(2,379)	(98)	(4,343)
Exchange differences	(8)	(14)	(363)	(14)	(399)
Disposal of Discontinued Operations	(468)	(4,849)	(10,341)	(343)	(16,001)
Closing net book amount	161,405	60,980	108,031	4,459	334,875
At 31 December 2015					
Cost	204,052	268,395	509,034	18,855	1,000,336
Accumulated depreciation	(42,647)	(207,415)	(401,003)	(14,396)	(665,461)
Net book amount	161,405	60,980	108,031	4,459	334,875

13. FIXED ASSETS (continued)

	Land and properties HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2016						
Opening net book amount	161,405	60,980	108,031	4,459	–	334,875
Additions	–	22,909	42,650	892	5,492	71,943
Disposals	–	(353)	(2,261)	(105)	–	(2,719)
Depreciation *(note 6)*	(5,029)	(23,583)	(35,289)	(1,545)	–	(65,446)
Exchange differences	(237)	(445)	(465)	(31)	–	(1,178)
Closing net book amount	156,139	59,508	112,666	3,670	5,492	337,475
At 31 December 2016						
Cost	203,797	281,340	533,014	18,124	5,492	1,041,767
Accumulated depreciation	(47,658)	(221,832)	(420,348)	(14,454)	–	(704,292)
Net book amount	156,139	59,508	112,666	3,670	5,492	337,475

As at 31 December 2016, leasehold land of HK$93,305,000 (2015: HK$96,567,000) and HK$9,776,000 (2015: HK$10,048,000) included in land and properties are located in Hong Kong and outside Hong Kong respectively.

As at 31 December 2016 and 2015, freehold land of HK$11,561,000 included in land and properties is located outside Hong Kong.

Depreciation expense of HK$14,396,000 (2015: HK$12,743,000) has been charged in cost of sales, HK$41,587,000 (2015: HK$40,793,000) in store expenses, HK$2,335,000 (2015: HK$2,491,000) in distribution costs and HK$7,128,000 (2015: HK$6,695,000) in administrative expenses.

14. INVESTMENT PROPERTIES

	2016 HK$'000	2015 HK$'000
At 1 January	**28,585**	22,567
Transfer from fixed assets *(note 13)*	**–**	182
Transfer from lease premium for land *(note 15)*	**–**	6,710
Depreciation *(note 6)*	**(973)**	(794)
Exchange differences	**(438)**	(80)
Net book value at 31 December	**27,174**	28,585
At 31 December		
Cost	**36,037**	36,517
Accumulated depreciation	**(8,863)**	(7,932)
Net book value	**27,174**	28,585

Depreciation expense of HK$973,000 (2015: HK$794,000) has been charged in administrative expenses.

The fair value of investment properties reflects rental income from current leases and assumptions about rental income from future leases in light of the current market conditions. The fair value of the properties is approximately HK$127,000,000 as at 31 December 2016 (2015: HK$127,000,000) based on management's estimation with reference to the latest market transaction. The fair value measurement at 31 December 2016 is using significant other observable inputs, which is categorised within level 2 of the fair value measurement hierarchy.

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:

	2016 **HK$'000**	2015 HK$'000
At 1 January	**37,906**	60,199
Continuing Operations		
Transfer to investment properties *(note 14)*	**–**	(6,710)
Amortisation *(note 6)*	**(1,232)**	(1,459)
Exchange differences	**(1,544)**	(1,447)
Discontinued Operations		
Amortisation	**–**	(300)
Exchange differences	**–**	(142)
Disposal of Discontinued Operations	**–**	(12,235)
At 31 December	**35,130**	37,906

16. INTANGIBLE ASSETS

	Goodwill HK$'000	Trademarks HK$'000	Group HK$'000
At 31 December 2016 and 2015			
Cost and net book amount	247,465	110,000	357,465

(a) Impairment test for trademarks

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

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

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

Revenue growth rate *(note i)*	6%-9%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	11%

Notes:

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

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

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

The Group does not have to recognise any impairment loss as at 31 December 2016 based on the impairment assessment performed.

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

16. INTANGIBLE ASSETS (continued)

(b) Impairment test for goodwill

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

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

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

Gross margin *(note i)*	47%-48%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	11%

Notes:

(i) The budgeted gross margin over the five-year budget period is approximately 47%-48% and is estimated by management with reference to the past performance and its expectations for the market development.

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

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

The Group does not have to recognise any impairment loss as at 31 December 2016 based on the impairment assessment performed.

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

17. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2016	2015
	HK$'000	HK$'000
Unlisted investment in Macau	**1,895**	1,895

Note:

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

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

18. DEFERRED TAXATION

Movements on the net deferred tax assets are as follows:

	2016	2015
	HK$'000	HK$'000
At 1 January	**(4,205)**	(756)
Credited to the consolidated profit and loss account *(note 8)*	**(1,880)**	(3,613)
Exchange differences	**202**	164
At 31 December	**(5,883)**	(4,205)

18. DEFERRED TAXATION (continued)

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

Deferred tax assets	Tax losses		Accelerated tax depreciation		Others		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(12,663)**	(8,481)	**(2,269)**	(2,980)	**43**	(808)	**(14,889)**	(12,269)
(Credited)/Charged to the consolidated profit and loss account	**(2,009)**	(4,346)	**182**	711	**(64)**	(271)	**(1,891)**	(3,906)
Charged directly to other comprehensive income	**–**	–	**–**	–	**–**	1,122	**–**	1,122
Exchange differences	**202**	164	**–**	–	**–**	–	**202**	164
At 31 December	**(14,470)**	(12,663)	**(2,087)**	(2,269)	**(21)**	43	**(16,578)**	(14,889)

Deferred tax liabilities	Accelerated tax depreciation		Fair value gain		Others		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**3,567**	3,026	**6,904**	7,152	**213**	1,335	**10,684**	11,513
Charged/(Credited) to the consolidated profit and loss account	**259**	541	**(248)**	(248)	**–**	–	**11**	293
Credited directly to other comprehensive income	–	–	**–**	–	**–**	(1,122)	**–**	(1,122)
At 31 December	**3,826**	3,567	**6,656**	6,904	**213**	213	**10,695**	10,684

18. DEFERRED TAXATION (continued)

	2016 HK$'000	2015 HK$'000
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**(15,798)**	(14,757)
Deferred tax assets to be recovered within 12 months	**(780)**	(132)
	(16,578)	(14,889)
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	**10,231**	10,220
Deferred tax liabilities to be settled within 12 months	**464**	464
	10,695	10,684

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:

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**(15,916)**	(14,075)
Deferred tax liabilities	**10,033**	9,870

The Group did not recognise deferred income tax assets amounting to HK$20,132,000 (2015: HK$16,439,000) in respect of tax losses amounting to HK$101,550,000 (2015: HK$80,207,000) that can be carried forward against future taxable income. These unrecognised tax losses have no expiry dates except for the unrecognised tax losses as below:

	2016 HK$'000	2015 HK$'000
Less than 1 year	**1,922**	1,175
1–5 years	**37,799**	36,670
	39,721	37,845

Deferred income tax liabilities of HK$676,000 (2015: HK$318,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of a subsidiary. Such unremitted earnings are to be reinvested and amounted to HK$13,517,000 at 31 December 2016 (2015: HK$6,367,000).

19. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Raw materials and packing materials	**24,977**	23,061
Finished goods	**192,052**	162,297
	217,029	185,358

The cost of sales for the year ended 31 December 2016 amounted to HK$3,196,622,000 (2015: HK$3,124,522,000), which included inventories written off of HK$5,969,000 (2015: HK$7,523,000).

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/customers 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 2016, the aging analysis by invoice date of trade receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
0–30 days	**48,035**	35,899
31–60 days	**5,464**	4,098
61–90 days	**3,113**	4,457
Over 90 days	**4,271**	4,041
	60,883	48,495

The amount of the provision was HK$434,000 as of 31 December 2016 (2015: HK$255,000). The individually impaired receivables are mainly due from suppliers/customers, which are in financial difficulties. It was assessed that a portion of the receivables is expected to be recovered.

20. TRADE RECEIVABLES (continued)

As of 31 December 2016, trade receivables of HK$12,848,000 (2015: HK$12,596,000) 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:

	2016 **HK$'000**	2015 HK$'000
Past due		
Up to 3 months	**8,577**	8,555
Over 3 months	**4,271**	4,041
	12,848	12,596

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

	2016 **HK$'000**	2015 HK$'000
HK dollar (HK$)	**54,156**	43,209
Renminbi (RMB)	**4,852**	4,162
Patacas (MOP)	**1,875**	1,124
	60,883	48,495

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

	2016 **HK$'000**	2015 HK$'000
At 1 January	**255**	637
Provision for receivable impairment	**197**	40
Receivables written off	**(18)**	(31)
Disposal of Discontinued Operations	**–**	(391)
At 31 December	**434**	255

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

	2016 HK$'000	2015 HK$'000
Cash at bank and in hand	**268,107**	157,672
Bank deposits	**273,835**	409,442
Cash and cash equivalents	**541,942**	567,114
Restricted bank deposits	**892**	957
Total cash and bank balances	**542,834**	568,071

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$472,122,000 (2015: HK$503,249,000).

As at 31 December 2016, bank and restricted bank deposits of HK$274,727,000 (2015: HK$410,399,000) bear effective interest rate of approximately 0.6% (2015: 1.0%) per annum. These deposits have an average maturity of 28 days (2015: 30 days).

As at 31 December 2016, certain cash and bank balances of HK$38,036,000 (2015: HK$38,351,000) are kept on the Chinese Mainland. The remittance of funds out of the Chinese Mainland is subject to rules and regulations of foreign exchange control promulgated by the Chinese Mainland government.

At 31 December 2016, the Group's total bank balances and cash are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
HK dollar (HK$)	**478,727**	511,677
Renminbi (RMB)	**38,235**	40,760
Patacas (MOP)	**25,872**	15,634
	542,834	568,071

22. TRADE PAYABLES

At 31 December 2016, the aging analysis by invoice date of the trade payables is as follows:

	2016	2015
	HK$'000	HK$'000
0–30 days	**396,688**	307,212
31–60 days	**135,554**	142,299
61–90 days	**54,987**	54,578
Over 90 days	**31,066**	35,694
	618,295	539,783

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

23. SHARE CAPITAL

	2016		2015	
	Shares of HK$0.10 each		Shares of HK$0.10 each	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
At 31 December	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
At 1 January	**754,640,974**	**75,464**	751,151,974	75,115
Issue of shares on exercise of share options *(note)*	**660,000**	**66**	3,489,000	349
At 31 December	**755,300,974**	**75,530**	754,640,974	75,464

Note:

During the year, 660,000 (2015: 3,489,000) shares were allotted and issued pursuant to the exercise of share options.

23. SHARE CAPITAL (continued)

Share options

(i) 2010 Share Option Scheme

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

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

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

	2016		2015	
	Number of options	**Weighted average exercise price HK$**	Number of options	Weighted average exercise price HK$
At 1 January	**25,574,000**	**4.82**	29,893,000	4.65
Granted	**236,000**	**2.86**	726,000	5.10
Lapsed	**(486,000)**	**5.35**	(1,556,000)	5.35
Exercised	**(660,000)**	**3.22**	(3,489,000)	3.22
At 31 December	**24,664,000**	**4.83**	25,574,000	4.82
Exercisable	**7,532,000**	**3.35**	8,226,000	3.35

For the year ended 31 December 2016, the weighted average share price at the date of share options exercised was HK$4.03 (2015: HK$4.84). The options outstanding at 31 December 2016 and 2015 had a weighted average remaining contractual life of 2.3 years and 3.3 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$	**2016 Number of options**	2015 Number of options
1 April 2017	3.22	**7,030,000**	7,690,000
1 April 2017	3.71	**66,000**	66,000
1 April 2017	5.40	**436,000**	470,000
1 April 2020	5.53	**16,478,000**	16,732,000
1 April 2020	5.10	**418,000**	616,000
1 April 2020	2.86	**236,000**	–
		24,664,000	25,574,000

The fair value of options granted are determined by using the Black-Scholes valuation model. During the year, the weighted average fair value of options granted was HK$0.35 (2015: HK$0.61) per option. The significant inputs into the models for the share options granted in 2016 were as follows:

Expected volatility	**24.6%**
Expected life	**3 years**
Risk free rate	**1.0%**
Expected dividends	**3.6%**

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

	Share premium HK$'000	Merger reserve HK$'000	Capital reserves HK$'000	Employee share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2015	364,289	177,087	18,474	11,062	7,388	136,746	715,046
Profit attributable to shareholders of the Company	–	–	–	–	–	159,178	159,178
Exchange differences	–	–	–	–	(5,171)	–	(5,171)
Issue of new shares	10,885	–	–	–	–	–	10,885
Employee share option benefit	2,072	–	–	2,139	–	358	4,569
Dividends paid	–	–	–	–	–	(121,437)	(121,437)
At 31 December 2015	377,246	177,087	18,474	13,201	2,217	174,845	763,070
At 1 January 2016	**377,246**	**177,087**	**18,474**	**13,201**	**2,217**	**174,845**	**763,070**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**139,627**	**139,627**
Exchange differences	**–**	**–**	**–**	**–**	**(5,326)**	**–**	**(5,326)**
Issue of new shares	**2,059**	**–**	**–**	**–**	**–**	**–**	**2,059**
Employee share option benefit	**392**	**–**	**–**	**3,972**	**–**	**193**	**4,557**
Transfer to capital reserves	**–**	**–**	**842**	**–**	**–**	**(842)**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(169,795)**	**(169,795)**
At 31 December 2016	**379,697**	**177,087**	**19,316**	**17,173**	**(3,109)**	**144,028**	**734,192**

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

	2016 **HK$'000**	2015 HK$'000
At 1 January	**11,505**	13,738
Expenses recognised in the consolidated profit and loss account – as shown below	**383**	384
Benefit paid	**(706)**	(2,617)
At 31 December	**11,182**	11,505

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

	2016 **HK$'000**	2015 HK$'000
Current service cost	**144**	143
Interest cost	**239**	241
Total, included in employee benefit expense *(note 11)*	**383**	384

Of the total charge, HK$60,000 (2015: HK$64,000), HK$233,000 (2015: HK$243,000), HK$32,000 (2015: HK$27,000) and HK$58,000 (2015: HK$50,000) were included in cost of sales, store expenses, distribution costs and administrative expenses respectively.

25. LONG SERVICE PAYMENT LIABILITIES (continued)

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

	2016	2015
Discount rate	**1.7%**	1.7%
Long-term rate of salary increases		
Full time staff	**2.5%**	2.5%
Part time staff	**2.5%**	2.5%
Long-term rate of increase of maximum amount of long service payment/wages and minimum mandatory provident fund relevant income	**2.5%**	2.5%

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash generated from Continuing Operations

	2016 HK$'000	2015 HK$'000
Profit for the year	**139,627**	134,177
Adjustments for:		
Income tax expenses	**32,573**	30,810
Interest income	**(2,154)**	(3,358)
Depreciation of owned fixed assets	**65,446**	62,722
Depreciation of investment properties	**973**	794
Amortisation of lease premium for land	**1,232**	1,459
Employee share option benefit	**4,557**	4,569
Losses on disposal of fixed assets	**2,390**	3,726
Long service payment costs	**383**	384
Foreign exchange losses/(gains)	**112**	(2,134)
	245,139	233,149
Changes in working capital		
Inventories	**(31,671)**	(9,769)
Trade receivables, rental deposits, other receivables, deposits and prepayments	**(47,427)**	(13,555)
Trade payables, other payables and accruals	**69,919**	(17,390)
Long service payment liabilities	**(706)**	(2,617)
Cake coupons	**7,871**	8,140
Amount due to Discontinued Operations	**–**	(4,532)
	243,125	193,426

27. DISCONTINUED OPERATIONS

On 25 August 2015 ("Completion Date"), the Group completed its disposal of the entire interests of the wholly-owned subsidiaries namely, Circle K Convenience Stores PRC Limited, Circle K PRC Properties Limited, New Success Ventures Limited and Convenience Consultancy Services Limited (collectively the "Discontinued Operations") to Fung Holdings (1937) Limited ("FH 1937") at a cash consideration of HK$104.5 million (subject to adjustment). The consideration was adjusted to HK$99 million after Completion Date with reference to the combined working capital of the Discontinued Operations as at the Completion Date. The Discontinued Operations was principally engaged in the operation of the convenience store business in Guangzhou. Accordingly, the results of convenience store business together with the related gain on disposal have been presented as Discontinued Operations in the consolidated financial statements for the year ended 31 December 2015.

The consolidated results of Discontinued Operations are presented in the consolidated profit and loss account and consolidated cash flow statement in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Results of the Discontinued Operations have been included in the Consolidated Profit and Loss Account as follows:

	For the period ended 25 August 2015 HK$'000
Revenue	153,532
Cost of sales*	(95,216)
Gross profit	58,316
Other income*	1,392
Store expenses*	(59,089)
Distribution costs	(6,816)
Administrative expenses*	(16,885)
Core operating loss	(23,082)
Interest income	83
Loss for the period	(22,999)
Gain on disposal of Discontinued Operations before income tax	49,747
Income tax expense	(1,747)
Gain on disposal of Discontinued Operations after income tax	48,000
Profit for the period from Discontinued Operations	25,001

* Amounts before elimination of transactions between Continuing Operations and Discontinued Operations of HK$12,403,000.

Details of the financial information of the Discontinued Operations for the period from 1 January 2015 to 25 August 2015 were set out in 2015 Annual Report.

28. COMMITMENTS

(a) Capital commitments

The Group had commitments to make payments in respect of the acquisition of fixed assets. Capital expenditure contracted but not yet provided as at 31 December 2016 is HK$3,075,000 (2015: HK$5,664,000).

(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:

	2016 **HK$'000**	2015 HK$'000
Not later than one year	**410,700**	404,288
Later than one year and not later than five years	**331,420**	323,813
Later than five years	**4,112**	1,585
	746,232	729,686

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.

The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2016 **HK$'000**	2015 HK$'000
Not later than one year	**2,542**	5,709
Later than one year and not later than five years	**1,139**	2,979
	3,681	8,688

29. RELATED PARTY TRANSACTIONS

Fung Retailing Limited ("FRL") is a substantial shareholder of the Company, which owns 41.28% of the Company's shares. All of the related party transactions of the Group are entered into with FH 1937 (the holding company of FRL and a substantial shareholder of the Company), its subsidiaries and associates.

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

(a) Related party transactions

	Note	**2016 HK\$'000**	2015 HK\$'000
Income			
Service income and reimbursement of office and administrative expenses	*(i)*		
Subsidiaries/fellow subsidiaries of a substantial shareholder		**1,735**	2,011
Associates of a substantial shareholder		**21**	75
Rental and service income	*(ii)*		
Subsidiary/fellow subsidiary of a substantial shareholder		**1,264**	452
Associate of a substantial shareholder		**2**	67
Sales of food products	*(iii)*		
Subsidiaries of a substantial shareholder		**10,953**	5,809
Associate of a substantial shareholder		**69**	–
Expenses			
Reimbursement of office and administrative expenses	*(iv)*		
Subsidiaries/fellow subsidiaries of a substantial shareholder		**2,036**	3,644
Associates of a substantial shareholder		**2,715**	1,082
Rental payable	*(v)*		
Subsidiary/fellow subsidiaries of a substantial shareholder		**3,645**	2,584
Associates of a substantial shareholder		**9,584**	9,018
Net purchases	*(vi)*		
Subsidiaries of a substantial shareholder		**5,231**	3,892
Associates of a substantial shareholder		**5,144**	13,001

29. RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel compensation

	2016 HK$'000	2015 HK$'000
Fees	**3,140**	3,140
Bonuses	**9,387**	8,311
Salaries and other allowances	**9,600**	10,948
Employee share option benefit	**1,524**	1,651
Pension costs – defined contribution plan	**72**	84
	23,723	24,134

(c) Year-end balances with related parties

	2016 HK$'000	2015 HK$'000
Amounts due from:		
Subsidiaries of a substantial shareholder	**2,674**	487
Associates of a substantial shareholder	**6**	10
Amounts due to:		
Subsidiaries/fellow subsidiaries of a substantial shareholder	**(674)**	(1,252)
Associates of a substantial shareholder	**(622)**	(3,189)

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

(d) The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK$32,888,000 (2015: HK$32,888,000). As of 31 December 2016, the banking facilities of the subsidiaries amounting to HK$2,152,000 (2015: HK$7,152,000) were utilised.

29. RELATED PARTY TRANSACTIONS (continued)

(e) Reference is made to the agreements made between the Company and FH 1937 in connection with the continuing connected transactions (details of which are set out in the Directors' Report), Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are considered to have material interest in the said continuing connected transactions by virtue of their deemed interests in FH 1937.

Notes:

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

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

(iii) Sales of food products to subsidiaries/associate of a substantial shareholder were carried out in ordinary course of business and terms mutually agreed between the Group and the subsidiaries/assoicate.

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

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

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

30. BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	2016 **HK$'000**	2015 HK$'000
Assets		
Non-current assets		
Investment in subsidiaries	**885,293**	885,293
Fixed assets	**12,401**	13,436
Rental deposits	**–**	2,341
	897,694	901,070
Current assets		
Amount due from subsidiaries	**116,854**	307,041
Rental deposits	**2,341**	–
Other receivables, deposits and prepayments	**2,049**	2,415
Cash and cash equivalents	**5,308**	4,148
	126,552	313,604
Total assets	**1,024,246**	1,214,674
Equity		
Share capital	**75,530**	75,464
Reserves	**569,649**	565,828
Total equity	**645,179**	641,292
Liabilities		
Non-current liabilities		
Long service payment liabilities	**694**	675
Current liabilities		
Amounts due to subsidiaries	**365,581**	553,474
Other payables and accruals	**12,792**	19,233
	378,373	572,707
Total equity and liabilities	**1,024,246**	1,214,674

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

30. BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY (continued)

(b) Movement of reserves of the 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 2015	364,289	12,792	11,062	167,362	555,505
Profit attributable to shareholders of the Company	–	–	–	116,455	116,455
Issue of new shares	10,885	–	–	–	10,885
Employee share option benefit	2,072	–	2,139	209	4,420
Dividends paid	–	–	–	(121,437)	(121,437)
At 31 December 2015	377,246	12,792	13,201	162,589	565,828
At 1 January 2016	**377,246**	**12,792**	**13,201**	**162,589**	**565,828**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**167,144**	**167,144**
Issue of new shares	**2,059**	**–**	**–**	**–**	**2,059**
Employee share option benefit	**392**	**–**	**3,972**	**49**	**4,413**
Dividends paid	**–**	**–**	**–**	**(169,795)**	**(169,795)**
At 31 December 2016	**379,697**	**12,792**	**17,173**	**159,987**	**569,649**

31. PRINCIPAL SUBSIDIARIES

As at 31 December 2016, the Company has interests in the following principal subsidiaries:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital/ registered capital	Interest held
Indirectly held:				
Circle K Convenience Stores (HK) Limited	Hong Kong	Convenience stores operator and lease-holder	HK$183,756,000	100%
Convenience Retail and Cake Shop Shenzhen Limited 深圳利亞餅屋便利店有限公司*	PRC *(note)*	Convenience stores and bakery chain operator and lease-holder	RMB20,000,000	100%
FingerShopping Limited	Hong Kong	e-commerce operator	HK$15,600,000	100%
Saint Honore Cake Shop Limited	Hong Kong	Bakery chain operator and lease-holder	HK$3,450,100	100%
Saint Anna Cake Shop (Macau) Limited Pastelarias Santa Ana (Macau), Limitada#	Macau	Bakery chain operator and lease-holder	MOP100,000	100%
Saint Honore Cake Shop Guangzhou Limited 廣州市聖安娜餅屋有限公司*	PRC *(note)*	Bakery chain operator and lease-holder	RMB38,345,674	100%
Saint Honore Cake Shop (Shenzhen) Limited 聖安娜餅屋(深圳)有限公司*	PRC *(note)*	Food factory operator	HK$18,610,000	100%

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

Note:

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

Ten-Year Financial Summary

The following table summarise the results, assets and liabilities of the Group for the ten years ended 31 December 2016.

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Revenue *(note)*	**4,871,437**	4,728,151	4,531,321	4,317,130	4,101,217	3,842,696	3,462,886	3,217,432	3,168,236	2,794,903
Core operating profit *(note)*	**169,953**	162,247	176,842	188,404	198,047	199,820	164,864	136,115	137,458	120,151
Profit for the year from Continuing Operations	**139,627**	134,177	145,008	170,834	217,792	183,062	158,933	129,293	119,510	108,511
Profit/(Loss) for the year from Discontinued Operations *(note)*	**–**	25,001	(23,976)	(20,481)	(17,841)	(16,742)	(22,574)	(38,844)	(30,637)	(21,644)
Profit attributable to shareholders of the Company	**139,627**	159,178	121,032	150,353	199,951	166,320	136,359	90,449	88,873	86,867
Total assets	**1,839,412**	1,785,407	1,785,299	1,686,649	1,924,597	1,859,961	1,659,092	1,524,591	1,518,341	1,487,397
Total liabilities	**(1,029,690)**	(946,873)	(995,138)	(928,331)	(909,416)	(919,889)	(809,463)	(742,585)	(760,263)	(767,749)
Non-controlling interests	**–**	–	–	–	–	–	–	–	8,256	7,954
Total equity	**809,722**	838,534	790,161	758,318	1,015,181	940,072	849,629	782,006	766,334	727,602

Note:

The financial results for the Discontinued Operations were presented as Discontinued Operations and comparatives of revenue and core operating profit for prior years have been restated accordingly.

Convenience Retail Asia