Convenience Retail Asia

Convenience Retail Asia Limited
利亞零售有限公司

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

ANNUAL REPORT 2017

Circle K SAINT HONORE 指點 FINGER SHOPPING

A Fung Retailing Company 馮氏

For the 11th consecutive year, Circle K colleagues participated in Heifer International – Hong Kong's "Race to Feed", which raised fund for poverty alleviation projects on the Chinese Mainland.

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Corporate Information

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

Non-executive Directors
Victor FUNG Kwok King # *(Chairman)*
William FUNG Kwok Lun +
Godfrey Ernest SCOTCHBROOK *
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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Cayman Islands

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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	**2017 HK$'000**	2016 HK$'000
Revenue	+4.6%	**5,094,032**	4,871,437
Core operating profit	+7.4%	**182,594**	169,953
Profit attributable to shareholders of the Company	+7.7%	**150,311**	139,627
Basic earnings per share (HK cents)	+6.8%	**19.75**	18.50
Dividend per share (HK cents)			
Final	+7.7%	**14.00**	13.00
Full year			
Basic	+9.1%	**18.00**	16.50
Special	N/A	**Nil**	27.00

Operation Highlights

- Convenience store and bakery businesses achieved satisfactory comparable store sales growth in Hong Kong, despite challenging business environment

- Core operating profit and net profit increased by 7.4% and 7.7% respectively, which was mainly attributable to an effective CRM programme and strong marketing campaigns by Circle K together with improved performance from Saint Honore

- Growth driven by the Group's digital initiatives, led by highly successful O2O CRM programmes with membership for "OK Stamp It" and "Cake Easy" exceeding 1,000,000 and 300,000 respectively

- The Group obtained the franchise for Japan's leading fast-fashion eyewear chain Zoff, which holds strong appeal for the internet+ generation, and opened the brand's first store in Hong Kong

- With signs of recovery in the retail market, the Group will continue its marketing and store network expansion programmes while exercising caution towards macroeconomic uncertainties and emphasising operating cost control

- The Board of Directors has resolved to declare a final dividend of 14 HK cents per share

- The Group maintains a strong financial position with net cash of HK$452 million and no bank borrowings

Number of Stores as of 31 December 2017

Circle K Stores	
Hong Kong	**332**
Franchised Circle K Stores	
Guangzhou	64
Macau	29
Zhuhai	16
Subtotal	**109**
Total number of Circle K Stores	**441**
Saint Honore Cake Shops	
Hong Kong	93
Macau	9
Guangzhou	39
Shenzhen	2
Total number of Saint Honore Cake Shops	**143**
Zoff Eyewear Store	
Hong Kong	**1**
Total number of Stores under Convenience Retail Asia	**585**

Chairman's Statement

Dr Victor FUNG Kwok King
Chairman

The past few years have been challenging for Hong Kong retail. Macroeconomic uncertainties, weakened consumer confidence, falling visitor numbers and high operating costs have had significant impacts on sales and profit. At the same time, new technologies and consumer preferences have disrupted retail like never before, sending many operators in search of innovative business strategies designed not just to survive the modern age, but thrive.

Convenience Retail Asia responded by reinventing itself for a fast-paced, internet-savvy future built on a combination of instant digital promotion and quality in-store transactional experience – an online-to-offline, or "O2O", business platform. The Group also worked hard to streamline its business and weather the difficulties of the retail environment in anticipation of a time when the Hong Kong market returned to an upward trend. The past year's results have been very encouraging. Not only is local retail recovering, but the Group's new O2O strategy has been an unqualified success. Today, I am happy to report that the Group is moving cautiously but confidently into a future built on a strong, highly sustainable business platform.

Hong Kong retail turns the corner

The local retail market indeed appears to have begun its long-awaited recovery. In 2017, the value of total retail sales in Hong Kong increased by 2.2% over 2016[1], notably gaining momentum in the second half of the year. The underlying inflation rate held steady at a moderate 1.7%[2]. Meanwhile, consumer sentiment is on the rise, while sales in the supermarket category (including convenience stores) have remained stable. These are all welcome developments for the Group, which leveraged the extensive transformational work it carried out in leaner times to post satisfactory results during the year under review.

Notes:

1. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region, December 2017.*

2. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region, 23 January 2018.*

Building for the future

Central to the Group's success has been its "OK Stamp It" customer relationship management (CRM) programme. Much more than a series of mobile app-based promotions, "OK Stamp It" is a full-fledged, holistic O2O business strategy that capitalises on the shifting retail paradigm to drive in-store traffic and sales. It has proven to be an extremely effective platform for building brand preference among a strong and growing base of loyal customers, as evidenced by the more than 1 million members who joined the programme between its launch in the third quarter of 2016 and the date of this report. We are also extending the learnings from managing "OK Stamp It" to Saint Honore's e-CRM platform, "Cake Easy". Together, these CRM programmes form the foundation of the Group's long-term growth and the new core of the Group's retail operations, setting the agenda for its marketing and category management initiatives.

Outlook

Though retail volume remains stagnant, the Hong Kong retail market is generally trending back to normal. However, we firmly believe that the Group's true path to prosperity resides in continuing to diversify away from a traditional bricks-and-mortar business and toward a "bricks-and-mortar+" O2O model. In today's digital age, the internet and smartphones are the most important channels for connecting with customers because of their capability to deliver information and offers instantly, which in turn enables quicker purchase decisions and provides extra convenience for on-the-go consumers. Recognising this, the Group has placed its app-powered "OK Stamp It" and "Cake Easy" e-CRM platforms at the heart of its overall business strategy. O2O is the future of the industry and the key to the Group's long-term success. We are leading the retail sector in Hong Kong and are committed to staying at the forefront of this exciting new era.

In the coming year, we will continue to grow our e-CRM platforms, using offline operations as the primary base while expanding the programmes to other businesses and creating synergies. We will continue to focus on the Hong Kong market, as well as internet+ customers who are increasingly finding information about products, services and promotions online and via mobile apps. We will maintain and enhance our industry-leading customer service standards to drive brand preference and loyalty. Importantly, we will also keep emphasising our HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme to ensure that the Group remains an employer of choice for talented, committed personnel in this time of intense labour competition.

Certainly, our success would not be possible without our people. I would like to thank our board, executive team, management and staff for giving their best every day. I look forward to celebrating even more successes with them in the coming months and years as we continue to redefine the convenience retail industry.

Victor FUNG Kwok King
Chairman

Hong Kong, 7 March 2018

CEO's Statement

Mr Richard YEUNG Lap Bun
Chief Executive Officer

The Group's shift toward an O2O-centric business strategy has proven to be the correct course in the modern age of internet- and mobile-driven commerce. Since the launch of "OK Stamp It" and "Cake Easy", we have successfully repositioned Circle K and Saint Honore as nimble businesses with strong digital components that appeal to a large and growing segment of our customer base. Staying relevant with today's internet+ customers and continuing to execute successful marketing and category management campaigns helped the Group deliver solid results in 2017 and build momentum for future growth.

Operations Review – Circle K

As at 31 December 2017, the total number of Circle K stores was 332. The Group opened ten new Circle K stores in Hong Kong and closed nine during the year.

The "OK Stamp It" customer relationship management (CRM) programme drives in-store traffic and transactions by inviting users to download a special app, which provides the latest news about Circle K promotions and encourages members to visit stores to redeem e-stamp offers. Member promotions are synchronised in-store with Circle K's latest, most popular products, services and premiums. Among the many customer engagement tools in the "OK Stamp It" toolkit, members can take advantage of special value offers, fun games, lucky draws, gift coupons, premium redemption programmes and more, and they can share all of their activities with friends and family via social sharing platforms.

A year and a half after its launch, "OK Stamp It" has attracted more than 1 million members as at the report date and is now firmly established as the cornerstone of the Group's business moving forward. Circle K will continue to serve as the programme's core operational base, with further expansion to other Group businesses and cross-brand synergies planned for the future. "OK Stamp It" has already won numerous industry awards for excellence, including two 2017 Golden Globe Tiger Awards for "Best Technology Initiative/Implementation" and "Customer Loyalty Programme" in the "Excellence in Retail & Store Management" category, and five prizes at the inaugural eCommAs Awards organised by Marketing Magazine, including "Best of Show" in the Brand Category.

Operations Review – Circle K (continued)

Throughout the year, the Group continued to emphasise appealing marketing campaigns, seasonal promotions and effective category management to drive sales and brand preference. Circle K is well known for its popular premiums, and the "Gudetama" premium e-stamp promotion, themed on the animated Japanese character, proved to be yet another successful initiative. The Group also introduced a well-received game, "Shake Shake Lucky Star", where customers could win one of 400,000 attractive prizes – including 100 iPhone Xs – by entering a lucky draw code into the "OK Stamp It" app.

The exciting "Shake Shake Lucky Star" game was a big hit with customers, who entered a lucky draw to win one of 400,000 attractive prizes – including 100 iPhone Xs.

In November, just before the start of the holiday travel season, Circle K positioned itself as an indispensable stop for travel necessities by launching a campaign highlighting the convenience of shopping for data SIM cards, Union Pay and MasterCard stored value cards, travel packs, chargers, charger cables and more in one handy location. Popular promotions included the super-sized Sumo Sandwich, chilled Korean coffee, and on-trend items such as limited edition cup noodles and candies from Japan. Customers also responded enthusiastically to an attractive summertime offer of HK$15 off every purchase of HK$30 made on an HSBC credit card through Apple Pay or Android Pay.

Circle K positioned itself as a one-stop shop for travel necessities, offering great deals on useful items such as SIM cards and pre-paid gift cards.

The Sumo Sandwich was one of the Circle K's most popular food items, offering a quality, value-for-money super-size meal for customers on the go.

Operations Review – Circle K (continued)

Customer service remained a key area of focus. Circle K won the "Service and Courtesy Award 2017" from the Hong Kong Retail Management Association as well as two individual awards, demonstrating the Group's efforts to provide quality customer service and develop frontline talent.

Circle K added to its reputation for quality customer service by winning three awards from the Hong Kong Retail Management Association, including the "Service and Courtesy Award 2017".

Operations Review – Saint Honore Cake Shop

As at 31 December 2017, the total number of Saint Honore stores in Hong Kong and Macau was 102, with the Group opening 13 new stores and closing nine during the year. As at the end of 2017, Saint Honore's total store network in Guangzhou and Shenzhen amounted to 41 locations.

Saint Honore Hong Kong recorded healthy comparable store sales growth in 2017, largely because of strong double-digit growth in the birthday cake category and the success of new product launches in the bread category. Quality products have long been Saint Honore's hallmark; successful launches this year included the Emoji Cake, the Mother's Day Cake Series, Egg Custard Mooncakes and Hi-Maize® bread with added dietary fibre.

Operations Review – Saint Honore Cake Shop (continued)

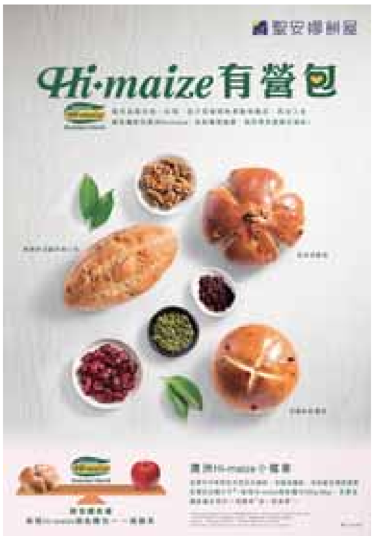
In 2017, the Group continued to put innovation and technology at the centre of Saint Honore’s operations. One of these initiatives was the official launch of a digital CRM programme, “Cake Easy”, which already boasted more than 300,000 members as at the report date. “Cake Easy” enables the Group to adapt quickly to changing customers’ shopping preferences, and it helps drive sales through special member promotions and digital payment options. The Group also enhanced its 4G store model to new and renovated locations in order to make the customer purchasing journey more user-friendly.

In Guangzhou, the Group re-launched its member card as a digital “smART Card”. This new card features a fashionable design appealing to a younger demographic, as well as digital functions that allow members to enjoy O2O promotions. The Group also continued to renovate its stores in Guangzhou based on the signature new Saint Honore design, resulting in satisfactory growth for upgraded locations.

Across Saint Honore, the Group continued to see improved productivity and efficiency from its switch to frozen dough as well as enhanced product quality. The Group was also able to improve gross profit margin due to product category rationalisation, process streamlining, equipment upgrades and effective procurement.

Saint Honore received a number of accolades from the local retail industry in 2017 for operational and brand excellence. These included the “My Favourite Cake Shop” award at U Magazine’s “U Favourite Food Awards 2017”; the “Best Endorser” award at the Metro Daily Metro Creative Awards 2017; “Manpower Developer 1st” status from the Hong Kong Employees Retraining Board; and the Platinum Award for the Charter on External Lighting Award from the HKSAR Government Environment Bureau.

The Matcha cake with bamboo charcoal was a signature specialty product for Saint Honore to entice customers and drive sales in 2017.



Saint Honore Hong Kong achieved growth in comparable store sales thanks in part to popular items such as healthy Hi-Maize® bread with added dietary fibre.

The second series of “Fit” levain bread was once again a huge hit for Saint Honore Guangzhou.

Review of Developing Operations

FingerShopping.com

In 2017, the Group's O2O digital retailing platform, FingerShopping.com, recorded moderate growth in gross merchandising volume (GMV) and satisfactory membership growth over 2016. It also achieved very high pick-up and payment rates at Circle K stores in Hong Kong and Macau, demonstrating a successful O2O business model. Beauty and Personal Care continued to be the anchor category, representing approximately 70% of total GMV and total quantity sold.

During the year, FingerShopping.com was named one of 2017's "Top 10 eCommerce Websites" by GS1 Hong Kong and Retail Asia Expo for maintaining exemplary standards in user experience and digital retail sales. It was also recognised as a "Quality e-Shop" by the Hong Kong Retail Management Association.

Zoff

In 2017, the Group obtained the franchise of Japan's leading fast-fashion eyewear chain Zoff for Hong Kong, Macau and southern China. Zoff stores carry more than 1,000 frames – all designed according to the latest Japanese fashion trends – and are replenished with new items every two weeks. Its glasses are high-quality, modern and competitively priced, reflecting the brand's belief that eyewear should frame personalities as much as correct vision. The chain boasts over 200 locations across Japan, Singapore and the Chinese Mainland.

The grand opening of Zoff Hong Kong's flagship store at Cityplaza in Taikoo Shing was held on 25 November. Mr Teruhiro Ueno, president of Zoff Co. Ltd, and Dr Victor Fung, Chairman of the Group, both attended the ribbon-cutting ceremony as officiating guests. The Group believes that Zoff's brand proposition and fast-fashion sensibility hold strong appeal for the internet+ generation, offering strong growth prospects as well as the potential for synergy with other Group businesses.

Mr Teruhiro Ueno, President of Zoff Co. Ltd., and Group Chairman Dr Victor Fung officiated the Cityplaza opening of Japan's leading fast-fashion eyewear chain Zoff. The Group believes Zoff holds strong appeal for the internet+ generation.

Future Prospects

With the rise of e-commerce and the increasing influence of smartphones, bricks-and-mortar operators who incorporate digital elements into their businesses are the retailers most likely to succeed. To this end, we will continue to refine our "OK Stamp It" and "Cake Easy" CRM programmes in the coming year, ensuring that they are holistic, "EFS" – easy, fast and simple – and measurable in terms of driving brand awareness, brand preference, traffic and transactions. We will also continue to execute what we refer to as our three "Plus" strategies: focusing on internet-savvy customers (internet+); emphasising products, promotion, place and pricing plus great customer experience (4P's+); and expanding our O2O (bricks-and-mortar+) retail model.

As always, the Group will rely on its comprehensive HEARTS employee engagement programme to hire and retain quality staff, perform to its high customer service standards and mitigate the impact of labour shortages. High rentals persist, but we will nevertheless seek to expand and optimise our store network wherever possible, particularly in locations where there have been corrections in the commercial retail market. The Group will also keep practising prudent cost management, enhancing and streamlining operations to maximise margin and profit for shareholders.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 7 March 2018

Management Discussion and Analysis

Financial Review

In 2017, the Group's turnover increased 4.6% to HK$5,094 million. Turnover for the convenience store business increased 5.4% to HK$4,059 million, with comparable store sales growing 4.2% compared to the same period last year. Turnover for the bakery business increased 1.9% to HK$1,092 million, with comparable store sales in Hong Kong growing 5.2%.

Gross margin and other income as a percentage of turnover increased 0.3% to 36.9% despite keen competition in the retail market and high manufacturing costs. Efficiency and productivity improvements in the Saint Honore factory operations were key contributors to margin growth. Operating expenses increased from 33.1% of turnover to 33.3% compared to 2016, which was primarily due to high rental and labour costs as well as marketing costs spent on recruiting new "OK Stamp It" members. The Group's core operating profit increased 7.4% to HK$183 million.

Net profit increased 7.7% to HK$150 million for the year ended 31 December 2017. Basic earnings per share increased 6.8% to 19.75 HK cents.

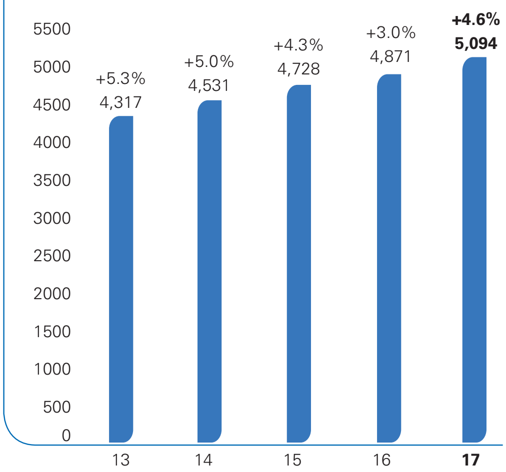
As at 31 December 2017, the Group had a net cash balance of HK$452 million, which was mainly generated from daily business operations. The Group had no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and on the Chinese 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. 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 14 HK cents per share.

Financial Review (continued)

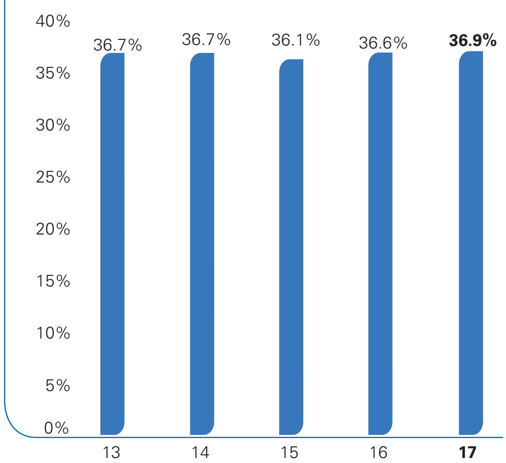
Revenue

(HK$ Million)



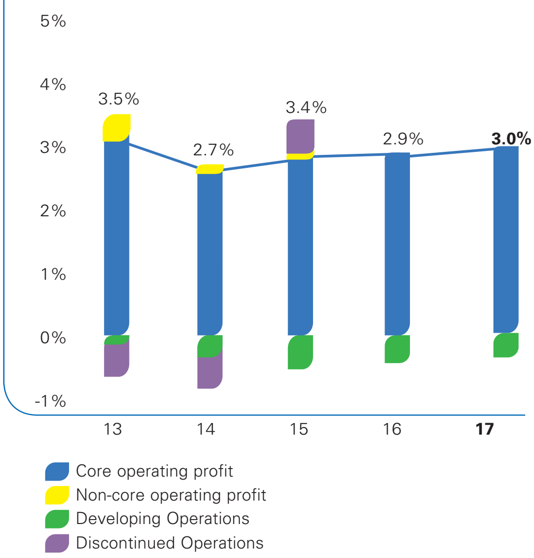
Gross Profit and Other Income

As % of Revenue



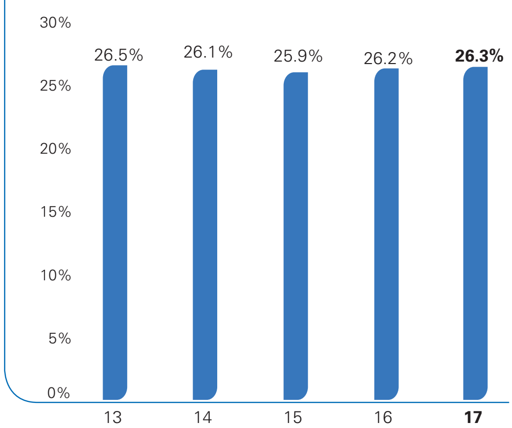
Net Profit

As % of Revenue



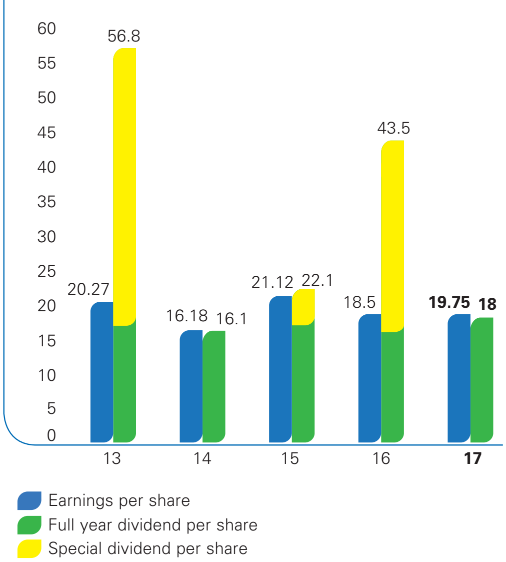
Store Operating Expenses

As % of Revenue

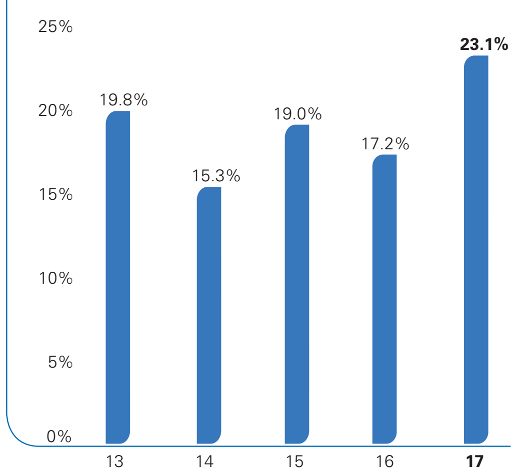


Financial Review (continued)

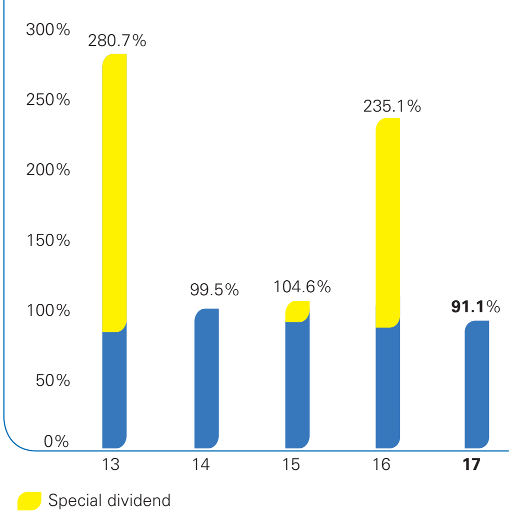
Earnings per Share and Dividend per Share



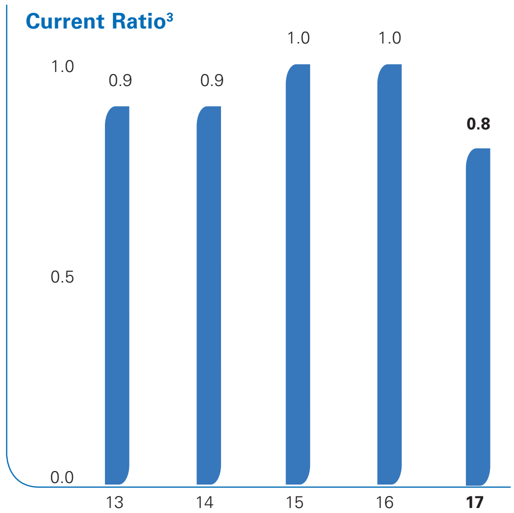
Return on Capital Employed[1]



Dividend Payout[2]



Current Ratio[3]



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. The Group also owns a bakery chain, Saint Honore Cake Shop, a household name for bakery products in Hong Kong, Macau and the Pearl River Delta. The Group operates approximately 600 stores across both the Circle K and Saint Honore brands in Hong Kong, Macau, Guangzhou, Shenzhen and Zhuhai.

The Group owns two developing operations, namely FingerShopping.com and Zoff. 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, customers place orders online and pick up and pay for purchases in a Circle K store of their choice. In 2017, the Group also obtained the franchise for Japan's leading fast-fashion eyewear chain Zoff, which holds strong appeal for the internet+ generation, and opened the brand's first store in Hong Kong.

The Group's vision is to be the most innovative and customer-preferred retail chain operator in the markets where it operates. It employs a multi-pronged strategy to accomplish this market positioning:

- Innovative product offerings through its O2O 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, e-CRM (customer relationship management) platforms and supply chain infrastructure

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 play proactive roles in the development of the Group's business model and pursue new ventures to maintain competitiveness and drive sustainable long-term growth.

Employees

As at 31 December 2017, the Group had a total of 6,500 employees, with 4,900, or 75%, based in Hong Kong and 1,600, or 25%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 41% of total headcount. Total staff cost for the year was HK$844 million compared to HK$814 million in 2016.

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.

To further strengthen the HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme, the Activity Organising Board (AOB) continued to arrange a number of activities focused on creating a happy working environment, caring for employees' families and ensuring work-life balance. The AOB organised "The Little Circle K" at Circle K's first theme store in Causeway Bay, which let colleagues' children experience a day in the life of a frontline staff member. It also held a "Wellness Month" in March featuring activities for staff including "Green Challenge", "Healthy Fruit", "Green Workshop" and "Green Marketplace". Other initiatives included participating in the Standard Chartered Hong Kong Marathon, visiting the Dream Come True Education Park, and hand-weaving scarves and hats as Christmas gifts for the elderly.

Health and Safety

The health of the Group's customers is our top priority. Over the years we have built a strong reputation for food and product safety assurance by focusing on enhancing the quality of our operations and acting in compliance with local laws and regulations at all times. At Saint Honore, for example, high safety and hygiene standards serve to minimise food-related risks throughout the entire supply chain, from material assurance, storage, manufacturing and distribution to sales. Both of Saint Honore's factories in Shenzhen and Hong Kong are ISO 9001-accredited. The Shenzhen factory also carries Hazard Analysis and Critical Control Points (HACCP) food safety accreditation and has an in-house microbiological laboratory certified by the China National Accreditation Services for Conformity Assessment (CNAS).

The Group carries out company-wide training that covers food safety and hygiene regulations as well as best practices for factory and store operators. In addition to regular inspections at Saint Honore's factories, there are also periodic on-site checks at stores to monitor and enhance food safety and hygiene levels at Circle K and Saint Honore stores.

We also strive to ensure employee safety by providing guidelines on basic work safety and hygiene, issuing protective clothing and equipment where necessary. Other key areas of focus are workplace organisation and culture. Managers and employees at the Group's distribution centre are trained on the "5S" principles of "sort, straighten, shine, standardise and sustain".

Sustainability and Corporate Social Responsibility

As part of the Fung Group, Convenience Retail Asia follows the United Nations Global Compact's principles on human rights, labour, anti-corruption efforts, environmental protection and sustainability. The Group also adheres to a voluntary framework for proactive sustainability, community outreach and employment strategies. This applies to areas including carbon reduction; promoting environmental awareness in the community; expanding the Group's programme of social and community projects; and ensuring a safe, healthy, balanced and empowering workplace. The Group also continues to partner only with suppliers who comply with its Supplier Code of Conduct, which sets out principles and practices relating to labour, ethical conduct, work safety and environmental protection.

In 2017, the Group once again participated in a number of activities to help protect the environment and conserve resources. Circle K Hong Kong supported CLP's "Power Your Love" programme by offering e-coupons for its popular Super Soft Sandwiches to participants who pledged to help save energy. Saint Honore Hong Kong introduced an environmentally friendly cake box that can be dissembled into plates and spoons, replacing disposable or traditional tableware. Also during the year, Circle K Hong Kong and Saint Honore Hong Kong both received the "Joint Energy Saving Award" at the CLP GreenPlus Recognition Awards, which recognised the companies' efforts to improve efficiency and save energy.

The Group demonstrated its care for the environment by participating in CLP's "Power Your Love" programme, offering Super Soft Sandwiches to customers who pledged to help conserve energy.

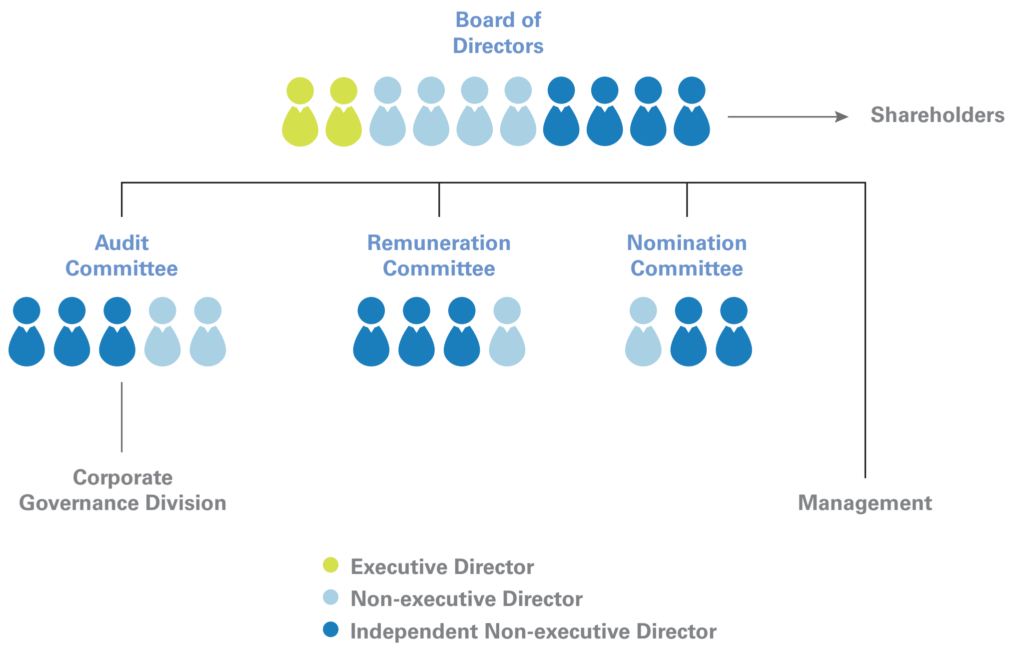
The Group also continued to engage the community and help people in need. In August, 250 volunteers from the Hong Kong operations participated in the Tung Wah Group of Hospitals' territory-wide Flag Day to help raise funds for the TWGH's social and welfare services. For the 11th consecutive year, volunteers from Circle K participated in Heifer International's "Race to Feed", once again winning the "Top Fundraising Team" and "Top Fundraiser" awards as they worked to support poverty alleviation projects on the Chinese Mainland.

The Group was proud to receive a number of recognitions for its community and staff initiatives in 2017. Circle K and Saint Honore were awarded the "10 Years Plus Caring Company" and "5 Years Plus Caring Company" logos, respectively, from the Hong Kong Council of Social Service, recognising the companies' efforts to promote corporate social responsibility. Saint Honore Macau received awards in the "Family-Friendly Employer", "Implementing Paid Paternity Leave Employer" and "The Best Support Breast-Feeding Mom's Employer" categories of the 2017 Family-Friendly Employers Award Scheme organised by the Women's General Association of Macau. Saint Honore Hong Kong also received recognition as a "Social Cooperative Partner" from the Evangelical Lutheran Church of Hong Kong Login Club for New Arrivals for its support of the elderly, low-income families, those with intellectual disabilities, and children with special education needs.

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

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, and are consistent with the principles set out in the Corporate Governance Code (the "CG Code") and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Board recognises that embracing strong governance is vital for the long term success and sustainability of the Group's business.



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 2017, the Board comprised the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and three 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 40 to 44.

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 2017 (with an average attendance rate of directors of 95.2%). The Chairman holds meetings annually with the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

The dates of the 2017 Board meetings and committee meetings were determined in the third quarter of 2016 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)

A summary of the attendance at the meetings held in 2017 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**
William FUNG Kwok Lun	**4**/4	–	**1**/1	–	**1**
Godfrey Ernest SCOTCHBROOK	**4**/4	**4**/4	–	–	**1**
Jeremy Paul Egerton HOBBINS [(1)]	**1**/2	–	**1**/1	–	**0**
Benedict CHANG Yew Teck	**3**/4	**3**/4	–	–	**0**
Independent Non-executive Directors:					
Anthony LO Kai Yiu *(Chairman of Audit Committee)*	**4**/4	**4**/4	–	**1**/1	**1**
Malcolm AU Man Chung *(Chairman of Remuneration Committee)*	**4**/4	**3**/4	**1**/1	–	**0**
ZHANG Hongyi	**4**/4	**4**/4	**1**/1	**1**/1	**1**
Sarah Mary LIAO Sau Tung	**4**/4	–	**1**/1	–	**1**
Executive Directors:					
Richard YEUNG Lap Bun *(Chief Executive Officer)*	**4**/4	–	–	–	**1**
PAK Chi Kin *(Chief Operating Officer)*	**4**/4	–	–	–	**1**
Group Chief Compliance and Risk Management Officer:					
Jason YEUNG Chi Wai [(2)]	**4**/4	**4**/4	**1**/1	**1**/1	**1**
Average Attendance Rate of Directors	95.2%	90%	100%	100%	72.7%
Dates of Meeting in 2017	21 March 15 May 17 August 10 November	21 March 15 May 17 August 10 November	21 March	21 March	15 May

Notes:

(1) *Retired by rotation as Non-executive Director and ceased as member of Remuneration Committee with effect from the conclusion of the Annual General Meeting held on 15 May 2017.*

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

(3) *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.*

(4) *Representatives of the external auditor attended all Audit Committee meetings and the Annual General Meeting.*

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 Listing Rules. The Company considers all of the Independent Non-executive Directors to be independent during the year ended 31 December 2017.

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.

The Board reviewed its composition, the nomination of new Directors (if any) and the retirement and re-appointment of Directors. During the year ended 31 December 2017, Mr Jeremy Paul Egerton Hobbins retired by rotation as Non-executive Director and accordingly ceased to be a member of the Remuneration Committee with effect from the conclusion of the Annual General Meeting of the Company held on 15 May 2017.

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 CG Code.

To reinforce accountability, any re-appointment of Director (including Independent Non-executive Director who has served the Board for more than nine years) is subject to separate resolution to be approved by the shareholders.

The Board (continued)

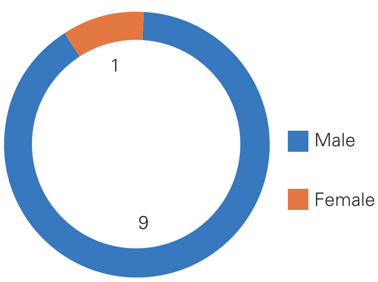
Board Diversity

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.

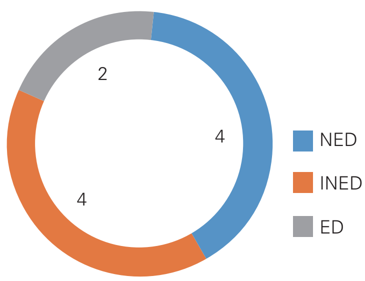
Based on the latest review, the Nomination Committee considers the Board to be diverse in respect of the aforesaid evaluation criteria. The Nomination Committee has considered but decided not to set any measurable objectives for implementing the Board Diversity Policy. The Nomination Committee will continue 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:

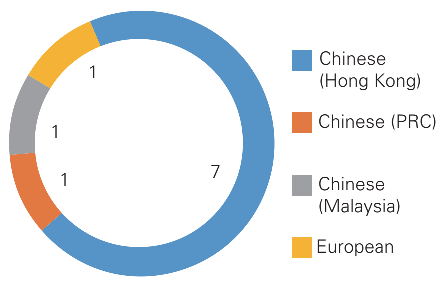
Gender



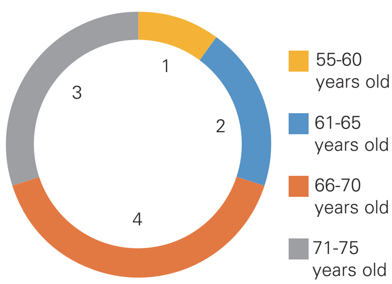
Designation



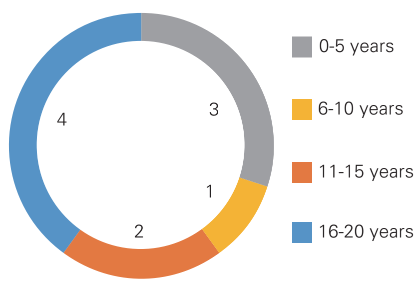
Ethnicity



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 40 to 44.

The Board (continued)

Board Evaluation

The Board recognises the importance and benefits 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 Nomination Committee and Board meetings. Any suggestions made by the Directors are duly considered and will be implemented as appropriate to enhance corporate governance practices. The results of the 2017 Board evaluation indicated that the Board and its committees continue to function satisfactorily and the committees fulfilled their duties as set out in their terms of reference.

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 2017, 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)

Liability Insurance for Directors

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

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 2017.

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.

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

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

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

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 relevant recommendations to the Board. 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 2017 (with an average attendance rate of 90%) 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 2017.

External Auditor's Independence

In order to enhance independent reporting by the external auditor, PricewaterhouseCoopers ("PwC"), the Company's external auditor, were invited to attend all the meetings of the Audit Committee in 2017. During the year, two separate sessions were held between the committee members and PwC to discuss audit and related issues of the Group.

The external audit engagement partner of PwC 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 been put in place.

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

For the year ended 31 December 2017, the following fees paid or payable to PwC have been endorsed by the Audit Committee:

	Fees HK$'000
Audit services	2,010
Non-audit services (including agreed-upon procedures regarding interim financial information and tax services)	1,273
Total	3,283

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 2017, the Audit Committee received written confirmation from PwC as to their independence and objectivity 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 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 2018 at the forthcoming AGM.

Remuneration Committee

Chairman	Malcolm AU Man Chung *
Members	William FUNG Kwok Lun +
	Jeremy Paul Egerton HOBBINS + (ceased as member with effect from 15 May 2017)
	ZHANG Hongyi *
	Sarah Mary LIAO Sau Tung *

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

The Remuneration Committee was established in 2005. Its duties 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 2017 (with a 100% attendance rate) to consider revision of the remuneration packages of Executive Directors and senior management, and the grant of share options to Executive Directors and 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.

All Executive Directors' remuneration packages were approved by the Remuneration Committee at the beginning of the Group's Three-Year Business Plan (2017 to 2019).

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 98 to 99.

Nomination Committee

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

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

The Nomination Committee was established in 2012. Its duties 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 2017 (with a 100% attendance rate) to review the aforesaid matters and discuss the need for succession planning of senior management.

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 newly appointed Directors 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 2017, 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 a Code for Securities Transactions (the "Securities Code") 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. Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with the Securities Code.

A copy of the Securities Code will be sent to each Director and each relevant employee twice annually, with a reminder that he/she is prohibited from dealing in the securities of the Company during the blackout periods before publication of the Group's interim and annual results, and that all his/her dealings should be conducted in accordance with the Securities 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 2017.

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 53 to 54.

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 58 and 63 to 64 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. Effective risk management is important to the Group's achievement of its strategic objectives.

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.

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.

Risk Management and Internal Control (continued)

Governance Structure

The Group maintains a tailored governance structure with defined lines of responsibility and appropriate delegation of authority. Risk identification, assessment, reporting 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 85 to 87.

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). The code covers a range of topics, including avoiding conflicts of interest, anti-bribery and anti-corruption practices, competition law compliance, data protection, protection of copyright and so forth.

   All Directors, officers and employees are expected to comply with the aforesaid 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 2017, 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

The internal audit function is carried out by CGD and its mission, authority, scope of work and other matters are formalised under the Internal Audit Charter approved by the Audit Committee.

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 (2017 to 2019) 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, the external auditor attended all the meetings of the Audit Committee. The external auditor also reports to the Audit Committee any significant weaknesses in the Group's internal control procedures which come to their notice during the course of the audit. PwC noted no significant internal control weaknesses in their audit for the financial year ended 31 December 2017.

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 2017 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 2017:

- The risk management and internal control systems, as well as accounting systems of the Group remained in place and were 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 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 2017.

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 2017 which affected the Company's operations and reporting practices. The constitutional documents are available for viewing on the websites of both the Stock Exchange and the Company.

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 2017, are set out in the Information for Investors section on page 45.

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 15 May 2017 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 2016	100%
• To declare a final dividend	100%
• To declare a special dividend out of the share premium account of the Company	100%
• To re-elect Mr Malcolm Au Man Chung as Director	100%
• To re-elect Dr Sarah Mary Liao Sau Tung as Director	100%
• To re-elect Mr Godfrey Ernest Scotchbrook as Director	99.55%
• 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	59.93%
• 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	99.95%
• 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	59.93%

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

Directors and Senior Management Profile

Executive Directors

Richard YEUNG Lap Bun – *Chief Executive Officer*

Mr Yeung, aged 61, has over 30 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 59, 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 72, 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). In July 2015, Dr Fung was appointed Chairman of the Advisory Board of the Asia Global Institute at The University of Hong Kong, a 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 Chairman of the Steering Committee on the Hong Kong Scholarship for Excellence Scheme and advisor of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority. Formerly, he was a member of the Chinese People's Political Consultative Conference (2003-2018), 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 vice chairman of China Centre for International Economic Exchanges (2009–2014) and a member of WTO Panel on Defining the Future of Trade (2012–2013). In 2003 and 2010, the Hong Kong Government awarded Dr Fung the Gold Bauhinia Star and the Grand Bauhinia Medal respectively for his distinguished service to the community.

William FUNG Kwok Lun

Dr Fung, SBS, OBE, JP, aged 69, 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 Exporters' Association (1989–1991), the Hong Kong Committee for the Pacific Economic Cooperation (1993–2002) and the Hong Kong General Chamber of Commerce (1994–1996). He was a Hong Kong Special Administrative Region delegate to the Chinese People's Political Consultative Conference (1998-2003). 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, by The Hong Kong Polytechnic University and by Hong Kong Baptist University. Currently, Dr Fung is an independent non-executive director of VTech Holdings Limited, Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. Formerly, he was an independent non-executive director of Singapore Airlines Limited (December 2009 – July 2017).

Non-executive Directors (continued)

Godfrey Ernest SCOTCHBROOK

Mr Scotchbrook, aged 71, 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 and Del Monte Foods, Inc. (companies engaged in the production, marketing and distribution of premium branded beverage and/or food 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.

Benedict CHANG Yew Teck

Mr Chang, aged 64, 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 (October 2003 – 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 (February 2011 – 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 was the Chairman of the Advisory Board of the Asian Institute of Supply Chains & Logistics of the Chinese University of Hong Kong (September 2006 – March 2015) and was a member of the Advisory Board of the School of Information Systems, Singapore Management University.

Independent Non-executive Directors

Malcolm AU Man Chung

Mr Au, aged 68, 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.

Independent Non-executive Directors (continued)

Anthony LO Kai Yiu

Mr Lo, aged 69, 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 72, 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).

Sarah Mary LIAO Sau Tung

Dr Liao, aged 66, 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 (2008–2014). She was a member of the Chinese Council for International Cooperation on Environment and Development (2009–2016) and was a member of the Board of Trustees of the Environmental Defense Fund (2009–2017) and is now on their China Advisory Board. Dr Liao was formerly the Secretary for the Environment, Transport and Works of the Hong Kong Government (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 (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 63, 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 55, has over 29 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 42, 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

7 March 2018	Announcement of 2017 Final Results
4 May 2018	Record date for right to attend Annual General Meeting
10 May 2018	Annual General Meeting
17 May to 18 May 2018 (both days inclusive)	Closure of Register of Members for Final Dividend
18 May 2018	Record date for entitlement to Final Dividend
30 May 2018	Despatch of dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2017	762,464,974 shares
Market capitalisation as at 31 December 2017	HK$2,821,120,000
Earnings per share for 2017	
Interim	7.52 HK cents
Full year	19.75 HK cents
Dividend per share for 2017	
Interim	4.00 HK cents
Final	14.00 HK cents
Full year	18.00 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

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

Enquiries Contact

Sam HUI Chi Ho
Chief Financial Officer

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

Convenience Retail Asia Limited
15th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen, Shatin
New Territories
Hong Kong

Website

www.cr-asia.com

Directors' Report

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2017.

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 (i) chains of convenience stores in Hong Kong under the brand name of Circle K; (ii) chains of bakeries under the brand name of Saint Honore in Hong Kong, Macau and on the Chinese Mainland; (iii) an e-commerce business through an online retailing platform of FingerShopping.com; and (iv) an eyewear business under the brand name of Zoff. 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, CEO's Statement and Management Discussion and Analysis sections on pages 5 to 6, pages 7 to 12 and pages 13 to 18 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 page 65.

The Board of Directors had declared an interim dividend of 4 HK cents per share, totaling HK$30,497,000, which was paid on 14 September 2017.

The Board of Directors recommended the payment of a final dividend of 14 HK cents per share, totaling HK$106,745,000.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 24 and note 29 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$89,000.

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 2017 calculated under the Companies Law of the Cayman Islands amounted to HK$388,063,000 (2016: HK$569,649,000).

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 2017 are set out in note 30 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 124.

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 27,244,597, representing approximately 3.6% 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 2017 are as follows:

Grantees	Number of share options						Exercise price	Grant date	Exercisable period
	As at 1/1/2017	Granted *(Note 1)*	Exercised *(Note 2)*	Lapsed *(Note 3)*	Expired *(Note 4)*	As at 31/12/2017	HK$		
Directors									
Richard Yeung Lap Bun	2,000,000	–	(2,000,000)	–	–	–	3.22	10/3/2011	1/4/2014–31/3/2017
	2,000,000	–	–	–	–	2,000,000	5.53	28/2/2014	1/4/2017–31/3/2020
	–	2,000,000	–	–	–	2,000,000	4.19	29/3/2017	1/4/2020–31/3/2023
Pak Chi Kin	1,000,000	–	(1,000,000)	–	–	–	3.22	10/3/2011	1/4/2014–31/3/2017
	2,000,000	–	–	–	–	2,000,000	5.53	28/2/2014	1/4/2017–31/3/2020
	–	1,222,000	–	–	–	1,222,000	4.19	29/3/2017	1/4/2020–31/3/2023
Continuous contract employees	2,170,000	–	(2,170,000)	–	–	–	3.22	10/3/2011	1/4/2014–31/3/2017
	436,000	–	–	–	(436,000)	–	5.40	28/3/2013	1/4/2014–31/3/2017
	10,700,000	–	–	(130,000)	–	10,570,000	5.53	28/2/2014	1/4/2017–31/3/2020
	396,000	–	–	–	–	396,000	5.10	19/3/2015	1/4/2017–31/3/2020
	236,000	–	(68,000)	–	–	168,000	2.86	16/3/2016	1/4/2017–31/3/2020
	–	8,182,000	–	(300,000)	–	7,882,000	4.19	29/3/2017	1/4/2020–31/3/2023
Other participants	1,860,000	–	(1,860,000)	–	–	–	3.22	10/3/2011	1/4/2014–31/3/2017
	66,000	–	(66,000)	–	–	–	3.71	8/3/2012	1/4/2014–31/3/2017
	1,778,000	–	–	(44,000)	–	1,734,000	5.53	28/2/2014	1/4/2017–31/3/2020
	22,000	–	–	–	–	22,000	5.10	19/3/2015	1/4/2017–31/3/2020
	–	100,000	–	–	–	100,000	4.19	29/3/2017	1/4/2020–31/3/2023
	24,664,000	11,504,000	(7,164,000)	(474,000)	(436,000)	28,094,000			

Share Options (continued)

Notes:

1. *During the year, share options to subscribe for a total of 11,504,000 shares were granted on 29 March 2017. The closing price of the shares immediately before the date on which the options were granted was HK$4.12.*

2. *Share options to subscribe for 2,000,000 shares, 1,000,000 shares, 2,238,000 shares and 1,926,000 shares were exercised by Mr Richard Yeung Lap Bun, Mr Pak Chi Kin, continuous contract employees and other participants respectively during the year. The respective weighted average closing market price per share immediately before the dates on which the said options were exercised was approximately HK$3.89, HK$3.86, HK$3.93 and HK$4.04.*

3. *Share options to subscribe for 474,000 shares lapsed during the year following the cessation of employment of certain grantees.*

4. *Share options to subscribe for 436,000 shares expired during the year following the expiry of the exercisable period.*

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

6. *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.*

7. *The value of the options granted during the year is HK$7,358,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$4.19 at the grant date, exercise price shown above, standard deviation of expected share price returns of 27.8%, expected life of options of five years, expected dividend paid out rate of 4.3% and annual risk-free interest rate of 1.2%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.*

Save as disclosed above, as at 31 December 2017, 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
Benedict CHANG Yew Teck
Jeremy Paul Egerton HOBBINS (retired on 15 May 2017)

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, Dr William Fung Kwok Lun, Mr Anthony Lo Kai Yiu, Mr Benedict Chang Yew Teck and Mr Richard Yeung Lap Bun will retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election.

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

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 each 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 28 "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 2017. 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

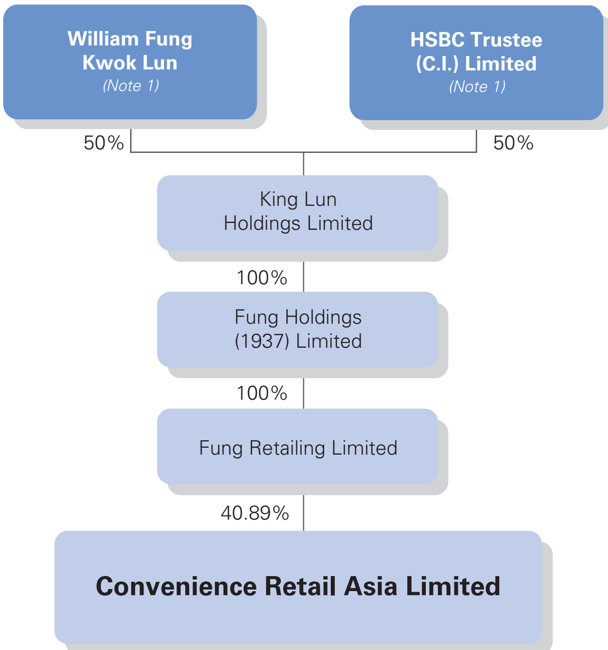
As at 31 December 2017, the Directors and chief executives of the Company and their associates had the following interests in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as 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	40.89%
William Fung Kwok Lun	–	–	311,792,000 *(Note 1)*	–	311,792,000	40.89%
Richard Yeung Lap Bun	22,396,000	–	–	4,000,000 *(Note 2)*	26,396,000	3.46%
Pak Chi Kin	1,134,000	–	–	3,222,000 *(Note 2)*	4,356,000	0.57%

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

As at 31 December 2017, 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 2017, 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 2017, 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)*	40.89%
King Lun Holdings Limited	311,792,000	Interest of controlled corporation *(Note 1)*	40.89%
Aggregate of Standard Life Aberdeen plc affiliated investment management (together "SL & Aberdeen plc")	93,678,000	Investment manager *(Note 2)*	12.29%
Aberdeen Global	63,912,000	Investment manager *(Note 2)*	8.38%
The Capital Group Companies, Inc.	51,330,000	Interest of controlled corporation	6.73%

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

Save as disclosed above, as at 31 December 2017, 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	27%
–	five largest suppliers combined	48%

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

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

Connected Transactions

Continuing Connected Transactions

During the year, the Group had various transactions with related parties (details are set out in note 28 to the consolidated financial statements on pages 118 to 120), 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)*	274
2.	Properties leasing and/or licensing arrangements with FH 1937 and its associates *(Note 2)*	13,080
3.	Sales of various products (being both food and non-food products) to FH 1937 and its associates *(Note 3)*	1,851

Connected Transactions (continued)

Continuing Connected Transactions (continued)

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).*

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 (Revised) "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 28 "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 financial position of the Group and of the financial performance and cash flows for that period. In preparing these financial statements for the year ended 31 December 2017, the Directors have selected suitable and relevant accounting policies and applied them consistently as stated in note 2 to the consolidated financial statements; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Auditor

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

On behalf of the Board
Victor FUNG Kwok King
Chairman

Hong Kong, 7 March 2018

Independent Auditor's Report

pwc 羅兵咸永道

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

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 65 to 123, which comprise:

- The consolidated balance sheet as at 31 December 2017;
- 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 2017, 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 2017, 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 in 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, 7 March 2018

Consolidated Profit and Loss Account

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	*5*	**5,094,032**	4,871,437
Cost of sales	*6*	**(3,320,189)**	(3,196,622)
Gross profit		**1,773,843**	1,674,815
Other income	*5*	**107,912**	107,605
Store expenses	*6*	**(1,342,132)**	(1,276,294)
Distribution costs	*6*	**(152,250)**	(144,099)
Administrative expenses	*6*	**(204,779)**	(192,074)
Core operating profit		**182,594**	169,953
Non-core operating gain	*6*	**–**	93
Operating profit		**182,594**	170,046
Interest income	*7*	**1,542**	2,154
Profit before income tax		**184,136**	172,200
Income tax expenses	*8*	**(33,825)**	(32,573)
Profit attributable to shareholders of the Company		**150,311**	139,627
Earnings per share (HK cents)			
Basic	*9*	**19.75**	18.50
Diluted	*9*	**19.75**	18.48

The notes on pages 72 to 123 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit attributable to shareholders of the Company	**150,311**	139,627
Other comprehensive income/(loss):		
Item that will not be reclassified subsequently to profit or loss		
Actuarial losses on post employment benefit obligation, net of tax	**(3,985)**	–
Item that may be reclassified subsequently to profit or loss		
Exchange differences	**3,145**	(5,326)
Total comprehensive income attributable to shareholders of the Company	**149,471**	134,301

The notes on pages 72 to 123 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Assets			
Non-current assets			
Fixed assets	*13*	**357,173**	337,475
Investment properties	*14*	**26,561**	27,174
Lease premium for land	*15*	**35,180**	35,130
Intangible assets	*16*	**357,465**	357,465
Available-for-sale financial asset	*17*	**1,895**	1,895
Rental and other long-term deposits		**96,993**	87,120
Deferred tax assets	*18*	**16,385**	15,916
		891,652	862,175
Current assets			
Inventories	*19*	**192,603**	217,029
Rental deposits		**47,705**	59,114
Trade receivables	*20*	**82,017**	60,883
Other receivables, deposits and prepayments		**91,075**	97,377
Restricted bank deposit	*21*	**963**	892
Cash and cash equivalents	*21*	**450,776**	541,942
		865,139	977,237
Total assets		**1,756,791**	1,839,412

Consolidated Balance Sheet (continued)

As at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Equity			
Share capital	*23*	**76,246**	75,530
Reserves	*24*	**574,429**	734,192
Total equity		**650,675**	809,722
Liabilities			
Non-current liabilities			
Long service payment liabilities	*25*	**16,084**	11,182
Deferred tax liabilities	*18*	**10,067**	10,033
		26,151	21,215
Current liabilities			
Trade payables	*22*	**669,710**	618,295
Other payables and accruals		**219,927**	205,260
Taxation payable		**10,426**	10,803
Cake coupons		**179,902**	174,117
		1,079,965	1,008,475
Total equity and liabilities		**1,756,791**	1,839,412

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 72 to 123 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017

	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 2017	75,530	379,697	177,087	19,316	17,173	(3,109)	144,028	809,722
Profit attributable to shareholders of the Company	–	–	–	–	–	–	150,311	150,311
Exchange differences	–	–	–	–	–	3,145	–	3,145
Actuarial losses on post employment benefit obligation								
Gross	–	–	–	–	–	–	(4,990)	(4,990)
Tax	–	–	–	–	–	–	1,005	1,005
Total comprehensive income for the year	–	–	–	–	–	3,145	146,326	149,471
Issue of new shares	716	22,360	–	–	–	–	–	23,076
Employee share option benefit	–	4,236	–	–	(1,728)	–	1,353	3,861
Transfer to capital reserves	–	–	–	686	–	–	(686)	–
Dividends paid	–	(205,848)	–	–	–	–	(129,607)	(335,455)
	716	(179,252)	–	686	(1,728)	–	(128,940)	(308,518)
At 31 December 2017	76,246	200,445	177,087	20,002	15,445	36	161,414	650,675

The notes on pages 72 to 123 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Cash generated from operations	*26*	**341,331**	243,125
Hong Kong profits tax paid		**(27,170)**	(24,280)
Overseas income tax paid		**(5,324)**	(6,612)
Net cash generated from operating activities		**308,837**	212,233
Cash flows from investing activities			
Purchase of fixed assets		**(91,016)**	(70,128)
Proceeds from disposal of fixed assets		**819**	336
Interest received		**1,531**	2,264
Net cash used in investing activities		**(88,666)**	(67,528)
Cash flows from financing activities			
Proceeds from issuance of shares		**23,076**	2,125
Dividends paid		**(335,455)**	(169,795)
Net cash used in financing activities		**(312,379)**	(167,670)
Decrease in cash and cash equivalents		**(92,208)**	(22,965)
Cash and cash equivalents at 1 January		**541,942**	567,114
Effect of foreign exchange rate changes		**1,042**	(2,207)
Cash and cash equivalents at 31 December	*21*	**450,776**	541,942

The notes on pages 72 to 123 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 (i) chains of convenience stores in Hong Kong under the brand name of Circle K; (ii) chains of bakeries under the brand name of Saint Honore in Hong Kong, Macau and on the Chinese Mainland; (iii) an e-commerce business through an online retailing platform of FingerShopping.com; and (iv) an eyewear business under the brand name of Zoff.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and 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 7 March 2018.

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.

As at 31 December 2017, the Group had net current liabilities of HK$214,826,000 (2016: HK$31,238,000). 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. Based on the Group's history of its operating performance, availability of banking facilities and its expected future working capital requirements, 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The Group has adopted the following amended standards of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2017 and relevant to its operations:

HKAS 7 Amendment	Disclosure Initiative
HKAS 12 Amendment	Recognition of Deferred Tax Assets for Unrealised Losses
HKFRS 12 Amendment	Disclosure of Interest in Other Entities

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

The 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 2018.

HKAS 28 Amendment	Investments in Associates and Joint Ventures
HKAS 40 Amendment	Transfers of Investment Property
HKFRS 2 Amendment	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 Amendment	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 9 Amendment	Prepayment Features with Negative Compensation
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 15 Amendment	Clarifications to HKFRS 15
HKFRS 16	Leases
HKFRS 17	Insurance Contracts
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Annual Improvements Project	Annual Improvements 2014 – 2016 Cycle

HKFRS 15 replaces HKAS 18 "Revenue" and the related interpretations. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer. Also, revenue should be recognised in respect of each performance obligation. Impact on the revenue recognition may arise when multiple performance obligations are identified.

Customer options that provide a material right to the customer give rise to a separate performance obligation. A portion of the transaction price need to be allocated to such options, and recognise revenue allocated to the option when the additional goods or services are transferred to the customer, or when the option expires. The timing of the recognition of revenue in respect of material right to customers may be changed. At this stage, the Group estimates the impact of the new standard on the consolidated financial statements is immaterial.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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 27b 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.

(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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(i) Subsidiaries (continued)

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.

(ii) Transactions with non-controlling interests

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

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 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 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, or more frequently if events or changes in circumstances indicate that it might be impaired, 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.

Recognition and measurement

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

Dividend income from 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets (continued)

Recognition and measurement (continued)

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

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

Impairment

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Current and deferred income tax (continued)

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

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

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

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iii) Pension obligations

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

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

(iv) Long service payment liabilities

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

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

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(r) Core operating profit

Core operating profit is the result generated from the Group's convenience store, bakery, e-commerce and eyewear businesses excluding interest income, income tax expenses and 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$669,710,000 (2016: HK$618,295,000) and other payables and accruals of HK$219,927,000 (2016: HK$205,260,000) 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$1,244,000 (2016: HK$1,612,000) for the year ended 31 December 2017.

(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 2017 and 2016 are as follows:

	2017 **HK$'000**	2016 HK$'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, which is 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, e-commerce and eyewear businesses. Revenues recognised during the year are as follows:

	2017	2016
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**4,062,782**	3,849,880
Bakery sales revenue	**1,017,343**	1,000,079
e-commerce revenue	**13,907**	21,478
	5,094,032	4,871,437
Other income		
Service items and miscellaneous income	**107,912**	107,605

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, e-commerce and eyewear businesses. For convenience store and others 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 2017 and 2016 are as follows:

	2017				
	Convenience Store & Others	Bakery		e-commerce	
	HK & Others HK$'000	HK & Others HK$'000	Chinese Mainland HK$'000	HK HK$'000	Group HK$'000
Total segment revenue	4,062,782	1,016,649	129,795	13,907	5,223,133
Inter-segment revenue	–	(129,101)	–	–	(129,101)
Revenue from external customers	4,062,782	887,548	129,795	13,907	5,094,032
Total segment other income	101,643	8,030	2,684	228	112,585
Inter-segment other income	(2,470)	(2,203)	–	–	(4,673)
Other income	99,173	5,827	2,684	228	107,912
	4,161,955	893,375	132,479	14,135	5,201,944
Core operating profit/(loss)	155,327	46,181	(5,414)	(13,500)	182,594
Depreciation and amortisation	(29,670)	(36,544)	(7,550)	(648)	(74,412)

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

Segment information (continued)

	2016				
	Convenience Store	Bakery		e-commerce	
	HK & Others	HK & Others	Chinese Mainland	HK	Group
	HK$'000	HK$'000	HK$'000	HK$'000	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)

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.

The inter-segment revenue includes inter-product segment revenue of HK$74,676,000 (2016: HK$71,715,000) and inter-geographic segment revenue of HK$54,425,000 (2016: HK$56,383,000).

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

Segment information (continued)

The segment assets and liabilities as at 31 December 2017 and 2016 are as follows:

	2017				
	Convenience Store & Others	**Bakery**		**e-commerce**	
	HK & Others	**HK & Others**	**Chinese Mainland**	**HK**	**Group**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Total segment assets	**681,907**	**751,258**	**66,445**	**8,702**	**1,508,312**
Total segment assets include:					
Additions to segment non-current assets	**36,926**	**51,159**	**7,667**	**148**	**95,900**
Total segment liabilities	**746,496**	**314,873**	**17,099**	**7,155**	**1,085,623**

	2016				
	Convenience Store	Bakery		e-commerce	
	HK & Others	HK & Others	Chinese Mainland	HK	Group
	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

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:

	2017 **HK$'000**	2016 HK$'000
Segment assets for reportable segments	**1,508,312**	1,549,886
Unallocated:		
Deferred tax assets	**16,385**	15,916
Corporate bank deposits	**232,094**	273,610
Total assets per consolidated balance sheet	**1,756,791**	1,839,412

Reportable segment liabilities are reconciled to total liabilities as follows:

	2017 **HK$'000**	2016 HK$'000
Segment liabilities for reportable segments	**1,085,623**	1,008,854
Unallocated:		
Deferred tax liabilities	**10,067**	10,033
Taxation payable	**10,426**	10,803
Total liabilities per consolidated balance sheet	**1,106,116**	1,029,690

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$4,814,047,000 (2016: HK$4,591,667,000), and the total of its revenue from other countries is HK$279,985,000 (2016: HK$279,770,000) for the year ended 31 December 2017.

The total of non-current assets other than available-for-sale financial asset and deferred tax assets located in Hong Kong is HK$784,820,000 (2016: HK$757,951,000), and the total of these non-current assets located in other countries is HK$88,552,000 (2016: HK$86,413,000) as at 31 December 2017.

6. EXPENSES BY NATURE

	2017 HK$'000	2016 HK$'000
Amortisation of lease premium for land *(note 15)*	**1,224**	1,232
Auditor's remuneration		
Audit services	**2,010**	1,926
Non-audit services	**723**	556
Cost of inventories sold	**3,091,353**	2,962,349
Delivery charges	**86,894**	83,543
Depreciation of owned fixed assets *(note 13)*	**72,219**	65,446
Depreciation of investment properties *(note 14)*	**969**	973
Employee benefit expense *(note 11)*	**843,564**	813,538
Losses on disposal of fixed assets	**2,841**	2,390
Operating leases rental for land and buildings		
Minimum lease payment	**520,074**	494,994
Contingent lease payment	**3,791**	5,553
Utilities	**82,537**	84,119
Foreign exchange losses	**799**	1,223
Other expenses	**310,352**	291,154
Total cost of sales, store expenses, distribution costs, administrative expenses and non-core operating gain	**5,019,350**	4,808,996

7. INTEREST INCOME

	2017 HK$'000	2016 HK$'000
Interest income on bank deposits	**1,542**	2,154

8. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2017 and 2016. 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:

	2017	2016
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**26,649**	28,263
Overseas profits tax	**6,120**	6,190
Deferred income tax charge/(credit) *(note 18)*	**1,056**	(1,880)
	33,825	32,573

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:

	2017	2016
	HK$'000	HK$'000
Profit before income tax	**184,136**	172,200
Calculated at a taxation rate of 16.5%	**30,382**	28,413
Effect of different taxation rates in other jurisdictions	**(1,624)**	13
Income not subject to taxation	**(1,560)**	(3,220)
Expenses not deductible for tax purposes	**4,325**	2,692
Tax losses not recognised	**3,284**	4,323
Reversal of previously recognised temporary differences	**–**	239
(Over)/under provision in prior year	**(982)**	113
	33,825	32,573

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.

	2017 HK$'000	2016 HK$'000
Profit attributable to shareholders of the Company	**150,311**	139,627
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**760,999,074**	754,785,127
Adjustment for:		
Share options	**53,345**	613,142
Weighted average number of ordinary shares for diluted earnings per share	**761,052,419**	755,398,269

10. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Interim dividend, proposed of 4 HK cents (2016: 3.5 HK cents) per share	**30,497**	26,413
Final dividend, proposed of 14 HK cents (2016: 13 HK cents) per share	**106,745**	98,189
Special dividend, proposed of nil HK cents (2016: 27 HK cents) per share	**–**	203,931
	137,242	328,533

At a meeting held on 7 March 2018, the Directors proposed a final dividend of 14 HK cents. This proposed dividend is not reflected as dividend payable in these consolidated financial statements.

11. EMPLOYEE BENEFIT EXPENSE

	2017 HK$'000	2016 HK$'000
Wages and salaries	**809,582**	778,923
Unutilised annual leave	**287**	461
Employee share option benefit	**2,925**	4,557
Pension costs – defined contribution plan *(note b & c)*	**30,341**	29,214
Long service payment costs *(note 25)*	**429**	383
	843,564	813,538

Notes:

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

(b) Forfeited contributions totalling HK$4,183,000 (2016: HK$3,492,000) were utilised during the year leaving nil (2016: nil) available at the year-end to reduce future contributions.

(c) Contributions totalling HK$4,707,000 (2016: HK$4,842,000) 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 2017 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 *(note iii)*	92	–	–	–	–	92
Richard Yeung Lap Bun *(note ii)*	200	3,870	7,671	520	18	12,279
Pak Chi Kin	200	2,670	1,534	408	18	4,830
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
	2,982	6,540	9,205	928	36	19,691

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

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2016 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	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

Notes:

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

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

(iii) Mr Jeremy Paul Egerton Hobbins retired as Non-executive Director of the Company on 15 May 2017.

(iv) No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2017 and 2016.

(v) 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 undertaking (2016: nil).

(vi) 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 (2016: 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 analysed in note 12a. The emoluments payable to the remaining three individuals during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries, housing allowances, share options, other allowances and benefit in kind	**6,230**	6,096
Discretionary bonuses	**1,512**	1,347
Pension costs – defined contribution plan	**54**	54
	7,796	7,497

The emoluments of the above individuals fell within the band between HK$2,000,001 and HK$3,000,000 during the years of 2017 and 2016.

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 analysed in note 12a. 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 2017 and 2016.

13. FIXED ASSETS

	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
At 1 January 2016						
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
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
Year ended 31 December 2017						
Opening net book amount	**156,139**	**59,508**	**112,666**	**3,670**	**5,492**	**337,475**
Additions	**–**	**29,769**	**63,139**	**1,652**	**–**	**94,560**
Transfer	**–**	**5,492**	**–**	**–**	**(5,492)**	**–**
Disposals	**–**	**(1,066)**	**(2,597)**	**(9)**	**–**	**(3,672)**
Depreciation *(note 6)*	**(5,028)**	**(26,515)**	**(39,264)**	**(1,412)**	**–**	**(72,219)**
Exchange differences	**195**	**418**	**399**	**17**	**–**	**1,029**
Closing net book amount	**151,306**	**67,606**	**134,343**	**3,918**	**–**	**357,173**
At 31 December 2017						
Cost	**204,012**	**304,884**	**579,319**	**17,869**	**–**	**1,106,084**
Accumulated depreciation	**(52,706)**	**(237,278)**	**(444,976)**	**(13,951)**	**–**	**(748,911)**
Net book amount	**151,306**	**67,606**	**134,343**	**3,918**	**–**	**357,173**

As at 31 December 2017, leasehold land of HK$90,042,000 (2016: HK$93,305,000) and HK$9,505,000 (2016: HK$9,776,000) included in land and properties are located in Hong Kong and outside Hong Kong respectively.

As at 31 December 2017 and 2016, freehold land of HK$11,561,000 included in land and properties is located outside Hong Kong.

Depreciation expense of HK$16,090,000 (2016: HK$14,396,000) has been charged in cost of sales, HK$45,800,000 (2016: HK$41,587,000) in store expenses, HK$2,206,000 (2016: HK$2,335,000) in distribution costs and HK$8,123,000 (2016: HK$7,128,000) in administrative expenses.

14. INVESTMENT PROPERTIES

	2017	2016
	HK$'000	HK$'000
At 1 January	**27,174**	28,585
Depreciation *(note 6)*	**(969)**	(973)
Exchange differences	**356**	(438)
Net book value at 31 December	**26,561**	27,174
At 31 December		
Cost	**36,443**	36,037
Accumulated depreciation	**(9,882)**	(8,863)
Net book value	**26,561**	27,174

Depreciation expense of HK$969,000 (2016: HK$973,000) 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$177,000,000 as at 31 December 2017 (2016: HK$127,000,000) based on management's estimation with reference to the latest market transaction. The fair value measurement at 31 December 2017 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:

	2017	2016
	HK$'000	HK$'000
At 1 January	**35,130**	37,906
Amortisation *(note 6)*	**(1,224)**	(1,232)
Exchange differences	**1,274**	(1,544)
At 31 December	**35,180**	35,130

16. INTANGIBLE ASSETS

	Goodwill HK$'000	Trademarks HK$'000	Group HK$'000
At 31 December 2017 and 2016			
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)*	5%-10%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	10%

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 2017 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)*	50%
Long-term growth rate *(note ii)*	2%
Discount rate *(note iii)*	10%

Notes:

(i) The budgeted gross margin over the five-year budget period is approximately 50% and is estimated by management with reference to the past performance and its expectations for the market development.

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

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

The Group does not have to recognise any impairment loss as at 31 December 2017 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

	2017	2016
	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:

	2017	2016
	HK$'000	HK$'000
At 1 January	**(5,883)**	(4,205)
Charged/(credited) to the consolidated profit and loss account *(note 8)*	**1,056**	(1,880)
Credited directly to other comprehensive income	**(389)**	–
Credited directly to equity	**(936)**	–
Exchange differences	**(166)**	202
At 31 December	**(6,318)**	(5,883)

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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**(14,470)**	(12,663)	**(2,087)**	(2,269)	**(21)**	43	**(16,578)**	(14,889)
Charged/(credited) to the consolidated profit and loss account	**(310)**	(2,009)	**(372)**	182	**590**	(64)	**(92)**	(1,891)
Credited directly to other comprehensive income	**(100)**	–	**–**	–	**(76)**	–	**(176)**	–
Credited directly to equity	**–**	–	**–**	–	**(936)**	–	**(936)**	–
Exchange differences	**(166)**	202	**–**	–	**–**	–	**(166)**	202
At 31 December	**(15,046)**	(14,470)	**(2,459)**	(2,087)	**(443)**	(21)	**(17,948)**	(16,578)

Deferred tax liabilities	Accelerated tax depreciation		Fair value gain		Others		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**3,826**	3,567	**6,656**	6,904	**213**	213	**10,695**	10,684
Charged/(credited) to the consolidated profit and loss account	**1,397**	259	**(249)**	(248)	**–**	–	**1,148**	11
Credited directly to other comprehensive income	–	–	**–**	–	**(213)**	–	**(213)**	–
At 31 December	**5,223**	3,826	**6,407**	6,656	**–**	213	**11,630**	10,695

18. DEFERRED TAXATION (continued)

	2017 HK$'000	2016 HK$'000
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**(17,628)**	(15,798)
Deferred tax assets to be recovered within 12 months	**(320)**	(780)
	(17,948)	(16,578)
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	**11,379**	10,231
Deferred tax liabilities to be settled within 12 months	**251**	464
	11,630	10,695

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:

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**(16,385)**	(15,916)
Deferred tax liabilities	**10,067**	10,033

The Group did not recognise deferred income tax assets amounting to HK$24,205,000 (2016: HK$20,132,000) in respect of tax losses amounting to HK$120,339,000 (2016: HK$101,550,000) 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:

	2017 HK$'000	2016 HK$'000
Less than 1 year	**13,015**	1,922
1-5 years	**38,150**	37,799
	51,165	39,721

Deferred income tax liabilities of HK$343,000 (2016: HK$676,000) 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$6,861,000 at 31 December 2017 (2016: HK$13,517,000).

19. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials and packing materials	**23,315**	24,977
Finished goods	**169,288**	192,052
	192,603	217,029

The cost of sales for the year ended 31 December 2017 amounted to HK$3,320,189,000 (2016: HK$3,196,622,000), which included inventories written off of HK$8,269,000 (2016: HK$5,969,000).

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 2017, the aging analysis by invoice date of trade receivables is as follows:

	2017 HK$'000	2016 HK$'000
0-30 days	**59,460**	48,035
31-60 days	**7,829**	5,464
61-90 days	**6,972**	3,113
Over 90 days	**7,756**	4,271
	82,017	60,883

The amount of the provision was HK$511,000 as of 31 December 2017 (2016: HK$434,000). 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 2017, trade receivables of HK$22,557,000 (2016: HK$12,848,000) 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:

	2017	2016
	HK$'000	HK$'000
Past due		
Up to 3 months	**14,801**	8,577
Over 3 months	**7,756**	4,271
	22,557	12,848

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

	2017	2016
	HK$'000	HK$'000
HK dollar (HK$)	**77,846**	54,156
Renminbi (RMB)	**3,551**	4,852
Patacas (MOP)	**620**	1,875
	82,017	60,883

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

	2017	2016
	HK$'000	HK$'000
At 1 January	**434**	255
Provision for receivable impairment	**113**	197
Receivables written off	**(36)**	(18)
At 31 December	**511**	434

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

	2017 **HK$'000**	2016 HK$'000
Cash at bank and in hand	**218,444**	268,107
Bank deposits	**232,332**	273,835
Cash and cash equivalents	**450,776**	541,942
Restricted bank deposit	**963**	892
Total cash and bank balances	**451,739**	542,834

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$346,878,000 (2016: HK$472,122,000).

As at 31 December 2017, bank and restricted bank deposits of HK$233,295,000 (2016: HK$274,727,000) bear effective interest rate of approximately 0.6% (2016: 0.6%) per annum. These deposits have an average maturity of 37 days (2016: 28 days).

As at 31 December 2017, certain cash and bank balances of HK$19,002,000 (2016: HK$38,036,000) 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 2017, the Group's total bank balances and cash are denominated in the following currencies:

	2017 **HK$'000**	2016 HK$'000
HK dollar (HK$)	**423,522**	478,727
Renminbi (RMB)	**19,452**	38,235
Patacas (MOP)	**8,765**	25,872
	451,739	542,834

22. TRADE PAYABLES

At 31 December 2017, the aging analysis by invoice date of the trade payables is as follows:

	2017	2016
	HK$'000	HK$'000
0-30 days	**424,391**	396,688
31-60 days	**151,636**	135,554
61-90 days	**60,740**	54,987
Over 90 days	**32,943**	31,066
	669,710	618,295

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

23. SHARE CAPITAL

	2017		2016	
	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	**755,300,974**	**75,530**	754,640,974	75,464
Issue of shares on exercise of share options *(note)*	**7,164,000**	**716**	660,000	66
At 31 December	**762,464,974**	**76,246**	755,300,974	75,530

Note:

During the year, 7,164,000 (2016: 660,000) 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 share options granted, outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Number of options	**Weighted average exercise price HK$**	Number of options	Weighted average exercise price HK$
At 1 January	**24,664,000**	**4.83**	25,574,000	4.82
Granted	**11,504,000**	**4.19**	236,000	2.86
Lapsed	**(474,000)**	**4.68**	(486,000)	5.35
Expired	**(436,000)**	**5.40**	–	–
Exercised	**(7,164,000)**	**3.22**	(660,000)	3.22
At 31 December	**28,094,000**	**4.97**	24,664,000	4.83
Exercisable	**16,890,000**	**5.49**	7,532,000	3.35

For the year ended 31 December 2017, the weighted average share price at the date of share options exercised was HK$3.92 (2016: HK$4.03). The options outstanding at 31 December 2017 and 2016 had a weighted average remaining contractual life of 3.5 years and 2.3 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$	**2017 Number of options**	2016 Number of options
1 April 2017	3.22	**–**	7,030,000
1 April 2017	3.71	**–**	66,000
1 April 2017	5.40	**–**	436,000
1 April 2020	5.53	**16,304,000**	16,478,000
1 April 2020	5.10	**418,000**	418,000
1 April 2020	2.86	**168,000**	236,000
1 April 2023	4.19	**11,204,000**	–
		28,094,000	24,664,000

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$0.64 (2016: HK$0.35) per option. The significant inputs into the models for the share options granted in 2017 were as follows:

Expected volatility	**27.8%**
Expected life	**5 years**
Risk free rate	**1.2%**
Expected dividends	**4.3%**

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 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
At 1 January 2017	**379,697**	**177,087**	**19,316**	**17,173**	**(3,109)**	**144,028**	**734,192**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**150,311**	**150,311**
Exchange differences	**–**	**–**	**–**	**–**	**3,145**	**–**	**3,145**
Actuarial losses on post employment benefit obligation							
Gross	**–**	**–**	**–**	**–**	**–**	**(4,990)**	**(4,990)**
Tax	**–**	**–**	**–**	**–**	**–**	**1,005**	**1,005**
Issue of new shares	**22,360**	**–**	**–**	**–**	**–**	**–**	**22,360**
Employee share option benefit	**4,236**	**–**	**–**	**(1,728)**	**–**	**1,353**	**3,861**
Transfer to capital reserves	**–**	**–**	**686**	**–**	**–**	**(686)**	**–**
Dividends paid	**(205,848)**	**–**	**–**	**–**	**–**	**(129,607)**	**(335,455)**
At 31 December 2017	**200,445**	**177,087**	**20,002**	**15,445**	**36**	**161,414**	**574,429**

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:

	2017 **HK$'000**	2016 HK$'000
At 1 January	**11,182**	11,505
Expenses recognised in the consolidated profit and loss account – as shown below	**429**	383
Benefit paid	**(517)**	(706)
Actuarial losses recognised in other comprehensive income	**4,990**	–
At 31 December	**16,084**	11,182

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

	2017 **HK$'000**	2016 HK$'000
Service cost	**205**	144
Interest cost	**224**	239
Total, included in employee benefit expense *(note 11)*	**429**	383

Of the total charge, HK$75,000 (2016: HK$60,000), HK$265,000 (2016: HK$233,000), HK$36,000 (2016: HK$32,000) and HK$53,000 (2016: HK$58,000) 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:

	2017	2016
Discount rate	**1.6%**	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 operations

	2017 HK$'000	2016 HK$'000
Profit for the year	**150,311**	139,627
Adjustments for:		
Income tax expenses	**33,825**	32,573
Interest income	**(1,542)**	(2,154)
Depreciation of owned fixed assets	**72,219**	65,446
Depreciation of investment properties	**969**	973
Amortisation of lease premium for land	**1,224**	1,232
Employee share option benefit	**2,925**	4,557
Losses on disposal of fixed assets	**2,841**	2,390
Long service payment costs	**429**	383
Foreign exchange (gains)/losses	**(799)**	112
	262,402	245,139
Changes in working capital		
Inventories	**24,426**	(31,671)
Trade receivables, rental deposits, other receivables, deposits and prepayments	**(12,060)**	(47,427)
Trade payables, other payables and accruals	**61,295**	69,919
Long service payment liabilities	**(517)**	(706)
Cake coupons	**5,785**	7,871
	341,331	243,125

27. 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 2017 is HK$2,609,000 (2016: HK$3,075,000).

(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:

	2017 **HK$'000**	2016 HK$'000
Not later than one year	**448,526**	410,700
Later than one year and not later than five years	**432,599**	331,420
Later than five years	**4,013**	4,112
	885,138	746,232

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:

	2017 **HK$'000**	2016 HK$'000
Not later than one year	**5,264**	2,542
Later than one year and not later than five years	**5,808**	1,139
	11,072	3,681

28. RELATED PARTY TRANSACTIONS

Fung Retailing Limited ("FRL") is a substantial shareholder of the Company, which owns 40.89% of the Company's shares. All of the related party transactions of the Group are entered into with Fung Holdings (1937) Limited (the holding company of FRL and a substantial shareholder of the Company) and 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	**2017 HK$'000**	2016 HK$'000
Income			
Service income and reimbursement of office and administrative expenses	*(i)*		
Subsidiaries/fellow subsidiary of a substantial shareholder		**2,290**	1,735
Associates of a substantial shareholder		**34**	21
Rental and service income	*(ii)*		
Subsidiary/fellow subsidiary of a substantial shareholder		**1,274**	1,264
Sales of food products	*(iii)*		
Subsidiaries of a substantial shareholder		**1,804**	10,953
Associates of a substantial shareholder		**47**	69
Expenses			
Reimbursement of office and administrative expenses	*(iv)*		
Subsidiaries/fellow subsidiary of a substantial shareholder		**3,155**	2,036
Associates of a substantial shareholder		**1,846**	2,715
Rental payable	*(v)*		
Subsidiaries/fellow subsidiaries of a substantial shareholder		**3,363**	3,645
Associates of a substantial shareholder		**9,717**	9,584
Net purchases	*(vi)*		
Subsidiaries of a substantial shareholder		**274**	5,231
Associates of a substantial shareholder		**–**	5,144

28. RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel compensation

	2017 HK$'000	2016 HK$'000
Fees	**2,982**	3,140
Bonuses	**10,280**	9,387
Salaries and other allowances	**10,379**	9,600
Employee share option benefit	**1,017**	1,524
Pension costs – defined contribution plan	**72**	72
	24,730	23,723

(c) Year-end balances with related parties

	2017 HK$'000	2016 HK$'000
Amounts due from:		
Subsidiaries of a substantial shareholder	**716**	2,674
Associate of a substantial shareholder	**6**	6
Amounts due to:		
Subsidiaries/fellow subsidiary of a substantial shareholder	**(1,144)**	(674)
Associate of a substantial shareholder	**(290)**	(622)

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. As of 31 December 2017, the banking facilities of the subsidiaries amounting to HK$3,463,000 (2016: HK$2,152,000) were utilised.

28. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) Service income and reimbursements receivable from subsidiaries/fellow subsidiary/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 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.

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

(iv) Reimbursements payable to subsidiaries/fellow subsidiary/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 subsidiaries/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.

29. BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	2017 HK$'000	2016 HK$'000
Assets		
Non-current assets		
Investment in subsidiaries	**885,293**	885,293
Fixed assets	**10,810**	12,401
	896,103	897,694
Current assets		
Amount due from subsidiaries	**52,267**	116,854
Rental deposits	**2,341**	2,341
Other receivables, deposits and prepayments	**958**	2,049
Cash and cash equivalents	**3,577**	5,308
	59,143	126,552
Total assets	**955,246**	1,024,246
Equity		
Share capital	**76,246**	75,530
Reserves	**388,063**	569,649
Total equity	**464,309**	645,179
Liabilities		
Non-current liabilities		
Long service payment liabilities	**662**	694
Current liabilities		
Amounts due to subsidiaries	**476,605**	365,581
Other payables and accruals	**13,670**	12,792
	490,275	378,373
Total equity and liabilities	**955,246**	1,024,246

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

29. 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 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
At 1 January 2017	**379,697**	**12,792**	**17,173**	**159,987**	**569,649**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**128,576**	**128,576**
Actuarial gain on post employment benefit obligation					
Gross	**–**	**–**	**–**	**302**	**302**
Tax	**–**	**–**	**–**	**(50)**	**(50)**
Issue of new shares	**22,360**	**–**	**–**	**–**	**22,360**
Employee share option benefit	**4,236**	**–**	**(1,728)**	**173**	**2,681**
Dividends paid	**(205,848)**	**–**	**–**	**(129,607)**	**(335,455)**
At 31 December 2017	**200,445**	**12,792**	**15,445**	**159,381**	**388,063**

30. PRINCIPAL SUBSIDIARIES

As at 31 December 2017, 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%
FingerShopping Limited	Hong Kong	e-commerce operator	HK$15,600,000	100%
Omni Beauty Retailing Limited	Hong Kong	Eyewear chain operator and lease-holder	HK$10,000,000	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 2017.

	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000 (Restated)	2013 HK$'000 (Restated)	2012 HK$'000 (Restated)	2011 HK$'000 (Restated)	2010 HK$'000 (Restated)	2009 HK$'000 (Restated)	2008 HK$'000 (Restated)
Revenue *(note)*	**5,094,032**	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
Core operating profit *(note)*	**182,594**	169,953	162,247	176,842	188,404	198,047	199,820	164,864	136,115	137,458
Profit for the year from Continuing Operations	**150,311**	139,627	134,177	145,008	170,834	217,792	183,062	158,933	129,293	119,510
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)
Profit attributable to shareholders of the Company	**150,311**	139,627	159,178	121,032	150,353	199,951	166,320	136,359	90,449	88,873
Total assets	**1,756,791**	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
Total liabilities	**(1,106,116)**	(1,029,690)	(946,873)	(995,138)	(928,331)	(909,416)	(919,889)	(809,463)	(742,585)	(760,263)
Non-controlling interests	**–**	–	–	–	–	–	–	–	–	8,256
Total equity	**650,675**	809,722	838,534	790,161	758,318	1,015,181	940,072	849,629	782,006	766,334

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.

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