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 2019

Circle K SAINT HONORE Zoff

A Fung Retailing Company

Zoff continued its fast expansion, including a new location at the prestigious Lee Theatre Plaza.

Contents

Corporate Information

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

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

Registered Office
P.O. Box 10008
Willow House, Cricket Square
Grand Cayman KY1-1001
Cayman Islands
(To be changed to:
Second Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands
with effect from 1 April 2020)

Head Office and Principal Place of Business
15th Floor, LiFung Centre
2 On Ping Street
Siu Lek Yuen
Shatin
New Territories
Hong Kong

Website
www.cr-asia.com

Legal Advisers
Mayer Brown
(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	2019 HK$'000	2018 HK$'000
Revenue	+5.9%	**5,632,340**	5,320,077
Core operating profit	+19.3%	**255,897**	214,498
Core operating profit (included interest expenses on lease liabilities)	+11.1%	**238,299**	214,498
Profit attributable to shareholders of the Company	+13.3%	**207,574**	183,203
Basic earnings per share (HK cents)	+13.2%	**27.2**	24.03
Dividend per share (HK cents)			
Final	+11.8%	**19**	17
Special	N/A	**21**	Nil
Full year			
Basic	+13.6%	**25**	22
Special	N/A	**21**	Nil
Total		**46**	22

Operation Highlights

- Despite acute operational challenges in the second half of the year, the Group's turnover increased 5.9% to HK$5,632 million due to higher comparable store sales; these were driven primarily by the "OK Stamp It" online platform, which continued to boost traffic and transactions at Circle K stores, and expansion of the Zoff fast-fashion eyewear brand

- Net profit rose 13.3% to HK$208 million on the back of higher sales, operational efficiencies, and reduced production costs resulting from renminbi depreciation

- The Group's online-to-offline (O2O) customer relationship management programmes continued to drive sales and profit growth as memberships for Circle K's "OK Stamp It" and Saint Honore's "Cake Easy" grew to 1.5 million and 630,000, respectively

- The Group expects local retail to be greatly impacted by the coronavirus disease COVID-19 and potentially affecting the Group's business performance in the first half of 2020, quick actions have been taken to minimise the unfavourable impact

- The Board of Directors has resolved to declare a final dividend of 19 HK cents per share and a special dividend of 21 HK cents per share

- The Group maintains a strong financial position with net cash of HK$643 million and no bank borrowings

Number of Stores as of 31 December 2019

Circle K Stores	
Hong Kong	**336**
Franchised Circle K Stores	
Macau	33
Zhuhai	14
Subtotal	**47**
Total number of Circle K Stores	**383**
Saint Honore Cake Shops	
Hong Kong	90
Macau	9
Guangzhou	27
Total number of Saint Honore Cake Shops	**126**
Zoff Eyewear Stores	
Hong Kong	**9**
Total number of Stores under Convenience Retail Asia	**518**

Chairman's Statement

Dr Victor FUNG Kwok King
Chairman

It is my honour to present Convenience Retail Asia's 2019 annual results to our valued shareholders. In the second half of the year, Hong Kong society endured serious disruptions that significantly impacted the retail industry. Consumer sentiment weakened and tourism dropped as the local economy entered into recession for the first time in a decade. If there was a silver lining for Convenience Retail Asia, it was in how the Group responded to these challenges. Our mission is always to be there for Hong Kong and "make our customers' lives easier". In line with this commitment, we continued to focus on offering value-added products and services that meet our customers' ever-changing needs. The "OK Stamp It" online platform drove additional traffic into stores, which more than offset the adverse impacts of the social disruptions. We also worked hard to enhance our industry-leading customer service standards. As a result, the Group was able to achieve solid performance despite exceptional circumstances.

The year in retail

General macroeconomic uncertainties, the trade dispute between China and the US, and the recent societal situation in Hong Kong in particular all impacted the local retail industry in 2019. Total retail sales fell 10.3% by value and 11.4% by volume[note]. Most of these losses occurred in the second half of the year, reflecting the profound effect the social unrest had on discretionary purchases as local residents became less inclined to go out to shop. On the other hand, the supermarket segment (including convenience stores), which is more dependent on daily necessities and consumables, was somewhat less affected. Sales value for this segment rose slightly by 1%, while sales volume had a relatively modest decrease of 4.4%[note].

Note:

Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 3 January 2020

Focused on the future

Our 2017-2019 three-year plan outlined a strategy to complete the transformation of our business from a traditional bricks-and-mortar retail company into a more dynamic, nimble, digitally-centric operation. The online-to-offline (O2O) customer relationship management (CRM) programmes we have developed allow us to reach loyal members anytime and anywhere through proprietary mobile apps that deliver promotions and offers right to their fingertips. Members then redeem promotional offers in-store, driving footfall at Circle K and Saint Honore locations. This O2O business model has helped us grow our customer base, deepen engagement and build a data-driven foundation upon which we can continue to grow. We are proud that Circle K's "OK Stamp It" and Saint Honore's "Cake Easy" O2O CRM programmes have reached milestones of 1.5 million and 630,000 members, respectively.

The Group has also increased its focus on the Hong Kong market and moved to strengthen its core competencies. Our local expertise provides us with valuable advantages as we navigate market conditions. Our long-standing commitment to "Easy, Fast and Simple", or "EFS", service ensures that our customers enjoy a second-to-none convenience retail experience. Meanwhile, our in-depth knowledge of consumer trends and data analytics capability keeps us on the cutting edge of retail. For example, our franchise of the Japanese fast-fashion eyewear chain Zoff – the only Zoff franchise in the world – continued to show promise despite this year's difficulties. The Group's 10^{th} Zoff store recently opened in the high-profile Lee Theatre Plaza, further building buzz around this increasingly popular brand.

Outlook

Just as the disruptions that beset Hong Kong last year appeared to be receding somewhat, a new crisis emerged at the beginning of 2020 that is severely impacting the local economy. The Hong Kong Government has taken action to stem the spread of the coronavirus disease by closing various entry points into the city from the Chinese Mainland, suspending school, and encouraging people to work from home, amongst other measures.

These strong but necessary responses should ultimately be effective. However, as long as the virus persists, there will be continued economic contraction, weakened consumer sentiment, and reduced retail and tourist traffic – all with potential impact on the Group's business performance for the first half of 2020.

In any event, the Group will – as always – do its best to serve the community during these tough times and strive to minimise the impact of the coronavirus on its operations. The Group has taken very quick actions to adjust our marketing and category management programmes as well as putting a very tight control on operating expenses and capital expenditure so as to minimise the unfavourable financial impact during this period.

Outlook (continued)

There may even be opportunities for the Group to fortify its business for medium- and long-term growth. We will pursue organic growth by taking advantage of lower rentals to expand its store networks. We are also open to M&A opportunities with businesses that offer synergy, and to expanding our portfolio of licences for exciting, fast-growing brands. In the future, we feel the Group can evolve into a comprehensive small-box retail platform by flawlessly executing its primary competence, which is serving the mass Hong Kong market at an industry-leading level. We will also keep our fingers firmly on the pulse of the markets where we operate, delivering our customers the products and services they want, when and how they want them.

In closing, I would like to thank our Board, management and frontline staff for doing an extraordinary job during what have been very trying times for the Group and Hong Kong retail. Your support is greatly appreciated, and I look forward to working with you in the years ahead.

Victor FUNG Kwok King
Chairman

Hong Kong, 10 March 2020

CEO's Statement

Mr Richard YEUNG Lap Bun
Chief Executive Officer

In the second half of 2019, Hong Kong's biggest societal crisis ever hit the retail industry hard. Dampened consumer sentiment, fewer tourists, reduced footfall and even store closures – both temporary and permanent – became the norm. To navigate this new business landscape, the Group relied on its tried-and-tested operating principles and continued to do its very best to serve the people of Hong Kong by providing a first-rate, heartfelt customer experience, value-added products and services, and timely offers and promotions delivered through its highly effective online-to-offline (O2O) customer relationship management (CRM) platforms, Circle K's "OK Stamp It" and Saint Honore's "Cake Easy". The resulting increases in store traffic and transactions were able to offset the negative impact of the unrest in the city, helping generate relatively positive business outcomes and further bolstering Circle K and Saint Honore during a very difficult time for Hong Kong retail.

Operations Review – Circle K

As at 31 December 2019, the total number of Circle K stores in Hong Kong was 336. The Group opened 13 new Circle K stores and closed 14 during the year.

For years now, the Group has been leading a transformation of the Hong Kong retail industry in a way that taps into the trendsetting and purchasing power of the mobile generation. In 2019, our three "Plus" strategies – focusing on internet-savvy customers ("internet+"); emphasising products, promotion, place and pricing plus great customer experience ("4P's+"); and leveraging our O2O retail model ("bricks-and-mortar+", or online plus storefront) – once again helped us deliver solid sales and profit performances.

Operations Review – Circle K (continued)

Circle K's O2O CRM programme, "OK Stamp It", continues to serve as the fulcrum for many of the Group's marketing efforts. During the year under review, the Group delivered attractive promotions, e-stamp redemption offers, lucky draw games and more to over 1.5 million loyal members through a proprietary downloadable app. For instance, the "Shake Shake Lucky Star" lucky draw gave members the chance to win the latest iPhone 11 Pro with a net purchase of just HK$20 or more. Another example was a summertime promotion featuring imported ice cream plus great deals and prizes from Zoff, the Group's fast-fashion eyewear franchise from Japan – an excellent illustration of how the Group's O2O platforms enable synergistic opportunities between its businesses.

Mobile payment and gift cards have become increasingly popular, convenient, cash-free ways to purchase items. In 2019, Circle K made them even better by offering discounts in conjunction with some of Hong Kong's most-used payment platforms and brands. The Group partnered with Union Pay to launch a Union Pay QR payment option, incentivising customers with an introductory offer for an instant HK$10 discount on any purchase over HK$25. It held mobile payment joint promotions with HSBC, American Express, WeChat and AliPay. To make gift-buying easy, fast and simple, the Group also held a summertime gift card promotion by offering a HK$10 Circle K cash coupon for any gift card purchase of HK$200 or more from partners including Apple Store, Google Play, MasterCard and UnionPay.

Effective category management continued to play a big role in the Group's overall sales and marketing strategy. During the peak summer period, Circle K launched fresh new editions of its ever-popular Supersoft sandwiches as well as new "UFO Pockets", which provide customers with a light and delicious grab-and-go breakfast. Pre-ordering services also featured in the Group's category management initiatives this year.

Circle K's new grab-and-go UFO Pockets were a good example of how the Group strives to make life easier and more convenient for customers.

One of the Group's most successful promotions was offering customers gift cards from leading partner brands.

Operations Review – Circle K (continued)

Delivering top-notch customer experience is at the centre of virtually everything the Group does. In 2019, we developed a series of new training programmes and incentives to enhance our frontline service, build service culture and nurture customer relationships. In the area of sustainability and environmental protection, the Group was proud that Circle K was presented with the Joint Energy Saving Award by CLP for the sixth year running. The Group is also firmly committed to serving the communities where it operates. This year, Circle K employees partnered with Food Link on two important initiatives: group visits to senior citizens during festivals and holidays, and donating food items to help those in need and reduce food waste.

Operations Review – Saint Honore Cake Shop

As at 31 December 2019, the Group opened three stores and closed four stores in Hong Kong for a total of 99 across Hong Kong and Macau. The number of Saint Honore stores in Guangzhou at year-end was 27.

Strong sales of innovative new cake items helped drive same-store sales growth at Saint Honore.

Operations Review – Saint Honore Cake Shop (continued)

Although total turnover decreased compared to 2018, Saint Honore was still able to achieve low single-digit same-store sales growth despite weak sentiment in Hong Kong retail. This was due in part to strong performances by certain bakery products, which continued to record healthy year-on-year sales growth. Packaged products enjoyed double-digit growth on the back of several new launches, while innovative new items such as Nutty Chocolate Cake, Mango Lava Cake and Durian Cake were also well received by customers. In general, sales of bakery products overcame the downturn in discretionary spending that took place in the second half of the year. Sales of festive products such as mooncakes, however, were inevitably affected by the decline in tourist numbers and dampened consumer sentiment that intensified in the third quarter of the year. Foreseeing this situation, the Group exercised careful production planning and stringent cost controls to offset the impact as much as possible.

Gross profit margin saw promising improvement during the year under review following the implementation of better sourcing channels, product category rationalisation, process streamlining, equipment upgrades and enhanced procurement management. These production functions are useful for serving the Group's up-stream food manufacturing and supply chain functions, and the Group is currently exploring ways to extract more value from this considerable sourcing, manufacturing, distribution and delivery expertise. A weaker renminbi also helped contribute to better margin performance in 2019.

Saint Honore's "Cake Easy" O2O CRM programme had 630,000 members as at year-end. The platform enables the Group to engage valued members with highly targeted promotions, which drives sales, in-store traffic and customer retention as a result. This year, Saint Honore was also proud to be given "Quality E-shop Recognition" by the Hong Kong Retail Management Association.

In Guangzhou, the creative new Pandora II series of cakes, including new varieties such as "Angel's Wings" and "Good Time with Strawberries", helped drive product sales during the year under review, especially amongst younger consumers. The Group enhanced Saint Honore's digital presence with a fresh new website look and an upgraded WeChat cake order platform, and online cake sales rose considerably following these improvements. Other important initiatives included a new stamp promotion to encourage purchases and strengthen relationships with VIP customers, as well as roadshows delivering free samples of Saint Honore's delicious new cakes directly to customers.

The Pandora II cake series was one of the most successful launches of the year for Saint Honore Guangzhou.

Operations Review – Zoff

The Group's franchise for Zoff, the trendy, fast-fashion eyewear chain from Japan, continued to make positive strides in 2019. Although sales were impacted by the general reduction in discretionary spending in the second half of the year, this was mitigated by the brand's continued expansion into high-profile, high-traffic areas. The Group's portfolio of Zoff stores includes 10 locations following the opening of a new outlet at the upscale Lee Theatre Plaza in January 2020.

More than 3,500 frames are available at Zoff stores in Hong Kong. These include fashionable collections that appeal to younger generations, such as the recent Disney Series featuring Disney Princesses, "Frozen", "Star Wars", a "Night and Day" sunglasses series designed in collaboration with stylist Takashi Kumagai, a "Girls Collection" designed with popular Japanese models, and many more. During the year, the Group also held a number of successful marketing promotions for Zoff, such as the "Ice Cream Hunt" promotion in September that leveraged Circle K's extensive network of more than 300 stores.

New eyewear series like "Frozen II" and the "Girls Collection" featuring top Japanese models continued to generate sales amongst young consumers.

Future Prospects

As always, the Group remains committed to serving customers from all walks of life to the very best of its ability. However, the local retail industry is currently facing an almost unprecedented amount of external difficulties. The coronavirus disease COVID-19 has seriously impacted normal day-to-day operations in the city as people cancel their travel plans to the Chinese Mainland and Hong Kong, and as local residents stay home from offices and schools. In addition, we must anticipate the possibility that sporadic public assemblies could continue to cause further societal disruptions. To weather these storms, the Group will focus on medium- and long-term growth while continuing to emphasise its core competencies.

In our on-going quest to innovate, we will move forward from a "zero-based" position – planning as if our business were just starting out – in order to keep capturing the hearts and minds of consumers. This includes striving to meet always-evolving customer needs in a rapidly responsive manner. Our proven O2O CRM business strategy will continue to drive this effort. The "OK Stamp It" and "Cake Easy" programmes have done remarkable jobs growing our customer base, generating sales and attracting footfall, and they will remain the centrepieces of our marketing efforts. We will also keep focusing on enhancing our industry-leading customer service to ensure that we are always providing an "EFS" – easy, fast and simple – experience that adds convenience to people's lives.

To retain healthy profitability, the Group will manage its costs as always by seeking rental reductions and monitoring currency fluctuations. We will continue to do our part for the community and the environment. Our HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme will remain an important tool for maintaining high morale and workplace satisfaction, benefitting both staff retention and customer service excellence. Finally, but importantly, we will keep investing in our learning and development programmes to ensure that the next generation of leaders will be ready to step up and lead the Group's growth in the future.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 10 March 2020

Management Discussion and Analysis

Financial Review

In 2019, the Group's turnover increased 5.9% to HK$5,632 million. Turnover for the convenience store business increased 7.5% to HK$4,524 million with comparable store sales growing 6.1% against the same period in 2018. Turnover for the bakery business decreased 2.5% to HK$1,092 million due to reduced sales of festive products. Turnover for Developing Business increased 36% to HK$105 million due to the expansion of the Zoff store network.

Gross margin and other income as a percentage of turnover decreased slightly by 0.1% to 38%, due mainly to keen competition in the retail market and high manufacturing costs. These factors were offset by the Group's effective O2O CRM programmes – especially "OK Stamp It", which carries a membership base of 1.5 million – and strong sales of Circle K's packaged drinks and ice cream. Gross margin improved due to the depreciation of the renminbi, which resulted in lower manufacturing costs for Saint Honore.

Operating expenses as a percentage of turnover decreased from 34.1% to 33.5% against 2018. Including interest expenses on lease liabilities arising from operating leases following the adoption of new accounting standard HKFRS 16 "Leases" effective 1 January 2019, operating expenses marginally decreased from 34.1% of turnover to 33.8% against the same period in 2018. Rental and labour costs continued to rise, however, the operating expenses as a percentage of turnover decreased mainly due to the increase in turnover base.

Core operating profit before interest expenses on lease liabilities increased 19.3% to HK$256 million. Including interest expenses on lease liabilities, core operating profit increased 11.1% to HK$238 million. The Group's net profit increased 13.3% to HK$208 million for the year ended 31 December 2019. Basic earnings per share increased 13.2% from 24.03 HK cents to 27.2 HK cents.

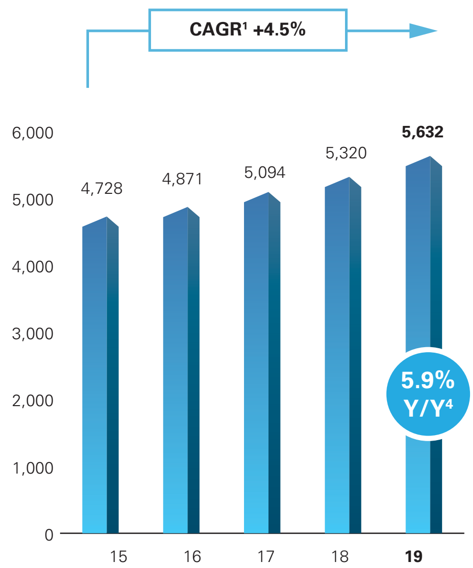
As at 31 December 2019, the Group had a net cash balance of HK$643 million, generated mainly from daily business operations. The Group had no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and on the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held in either Hong Kong dollars or renminbi. The Group had some foreign exchange exposure in renminbi resulting from 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 19 HK cents per share and a special dividend of 21 HK cents per share.

Financial Review (continued)

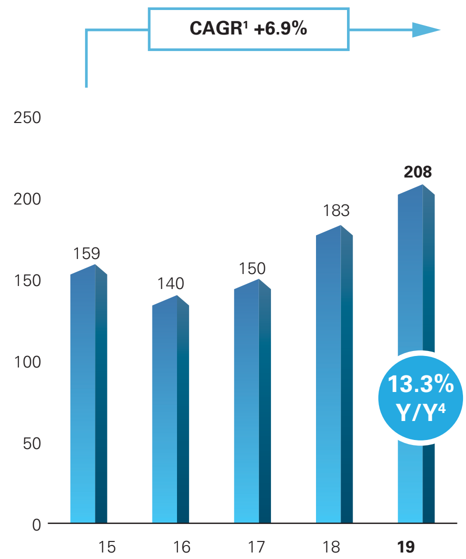
Revenue

(HK$ million)



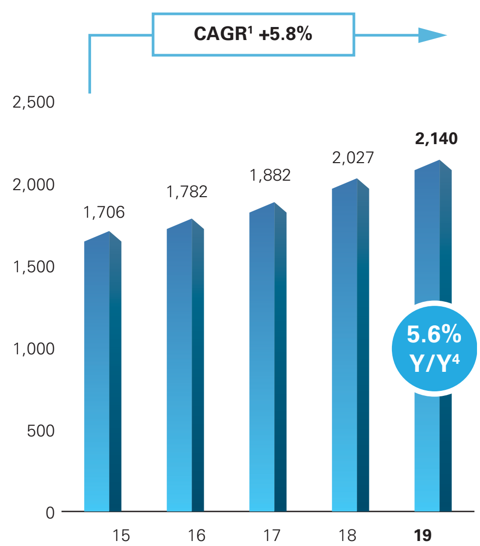
Net Profit

(HK$ million)



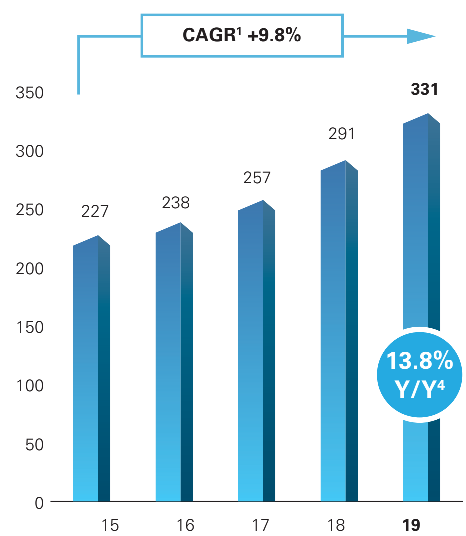
Gross Profit and Other Income

(HK$ million)



Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

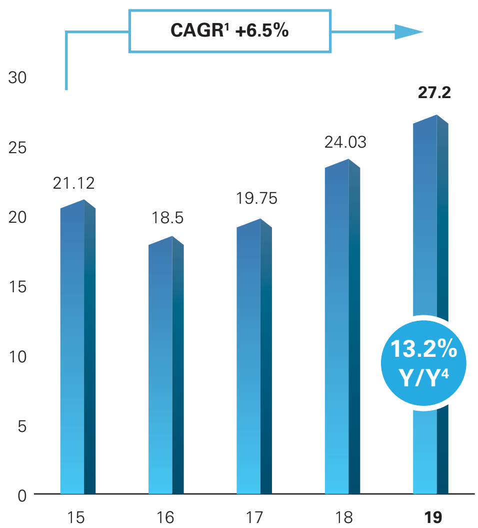
(HK$ million)



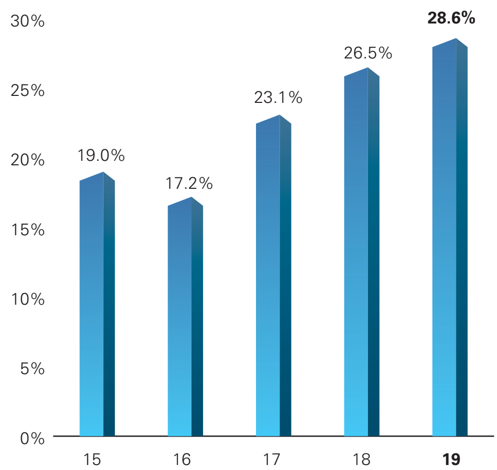
Financial Review (continued)

Earnings per Share

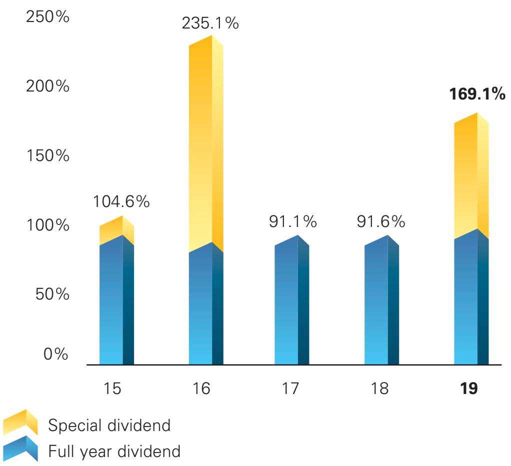
(HK cents)



Return on Total Equity[2]

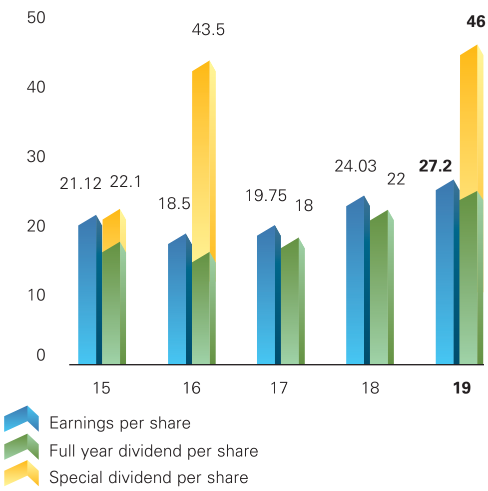


Dividend Payout[3]



Dividend per Share

(HK cents)



Notes:

1. *Compound annual growth rate (CAGR)*
2. *Net profit/total equity*
3. *Dividend per share/earnings per share*
4. *Year on year growth rate*

Business Model and Corporate Strategy

Convenience Retail Asia is a member of the Fung Retailing Group. It has the exclusive right to the Circle K brand name for convenience store retailing in Hong Kong and Macau and on the Chinese Mainland. It also owns the famous Saint Honore Cake Shop bakery chain, operating stores in Hong Kong, Macau and throughout the Pearl River Delta region. There are 509 Circle K and Saint Honore stores in total in Hong Kong, Macau, Guangzhou and Zhuhai. In 2017, the Group secured the Hong Kong, Macau and Southern China franchise for Zoff, Japan's leading fast-fashion eyewear chain and a highly popular brand amongst younger generations. There are currently 10 Zoff stores in high-traffic commercial locations in Hong Kong.

The Group aims to be the most innovative, customer-preferred retail chain company wherever it operates, employing a multi-pronged strategy that includes:

- Innovative products and services offered through its O2O operational and marketing platforms
- Customer-centric business focus
- Excellence in customer service
- Convenient store locations
- Highly motivated, 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 networks, people development, eCRM platforms and supply chain infrastructure

The Group strives to achieve sustainable, long-term value for shareholders through a total commitment to its customers, employees and businesses. Its keys to success are excellent customer focus, innovation, flawless execution of its powerful O2O business model, ethical business practices, and strong partnerships with quality suppliers as well as the prudent, 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 2019, the Group had a total of 6,700 employees, with 5,300, or 79%, based in Hong Kong and 1,400, or 21%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 39% of total headcount. Employee benefit expense for the year amounted to HK$957 million against HK$908 million in 2018.

The Group offers its staff competitive remuneration schemes, with eligible employees receiving salaries supplemented by discretionary bonuses and share options based on individual and company performance. The Group also offers career advancement opportunities as well as training in job-related skills and customer service.

The Group places high priority on staff engagement and workplace satisfaction. During the year under review, the Group's Activity Organising Board (AOB) continued to emphasise the HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme, inviting staff to participate in activities designed to foster a happy work environment, a caring culture for employees' families and work-life balance. During summer, families joined a "Summer Adventure" event featuring confidence-building outdoor activities guided by professional coaches. Employees also showed their community spirit by taking part in the Flag Day event organised by the Tung Wah Group of Hospitals (TWGH) and visiting the elderly at the TWGH's Lim Por Yen Integrated Home Care Services Centre.

Health and Safety

One of the Group's most important areas of concern is safeguarding the health and safety of its customers and staff. The Group complies with local regulations in the markets where it operates to ensure world-class safety and hygiene. It also boasts facilities that meet the highest global standards. Saint Honore's factories in Hong Kong and Shenzhen are both ISO 9001-accredited. The Shenzhen factory has also earned Hazard Analysis and Critical Control Points (HACCP) food safety accreditation, while its in-house microbiological laboratory is certified by the China National Accreditation Services (CNAS) for conformity assessment.

The Group provides comprehensive food safety, workplace safety and hygiene training to staff, as well as protective clothing and equipment where required. Regular inspections are carried out to ensure that the Group's factories and stores meet relevant compliance guidelines. The Group provides staff training on the "5S" principles of "sort, straighten, shine, standardise and sustain". In 2019, the Group also hosted health-related events for staff including a Cardiology Health Talk and an Occupational Health Talk as well as a Seasonal Influenza Vaccination programme.

Sustainability and Corporate Social Responsibility

Convenience Retail Asia is part of the Fung Retailing Group, which acts in accordance with the United Nations Global Compact's principles on human rights, labour, anti-corruption efforts, environmental protection and sustainability. The Group also operates according to a comprehensive voluntary framework for proactive sustainability, community outreach and employment strategies that covers areas including carbon reduction, promoting environmental awareness in the community, expanding the Group's social and community outreach programmes, and ensuring a safe, healthy, balanced and empowering workplace. The Group also only partners 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 2019, the Group once again carried out a number of programmes that aimed to shrink its carbon footprint and promote sustainability amongst staff and the community. Circle K and Saint Honore reduced their consumption of single-use plastic at stores by replacing plastic utensils with bamboo and paper versions and designating Saturdays and Sundays as "no straw days" – measures that helped drive encouraging decreases in single-use plastic. The Group was also invited by the Environmental Protection Department to join the Single Use Beverage Packaging Working Group and help draft a proposal for recycling single-use plastics in Hong Kong. Elsewhere, Saint Honore set up a solar panel at its Shenzhen factory to provide supplementary power for equipment and reduce energy consumption.

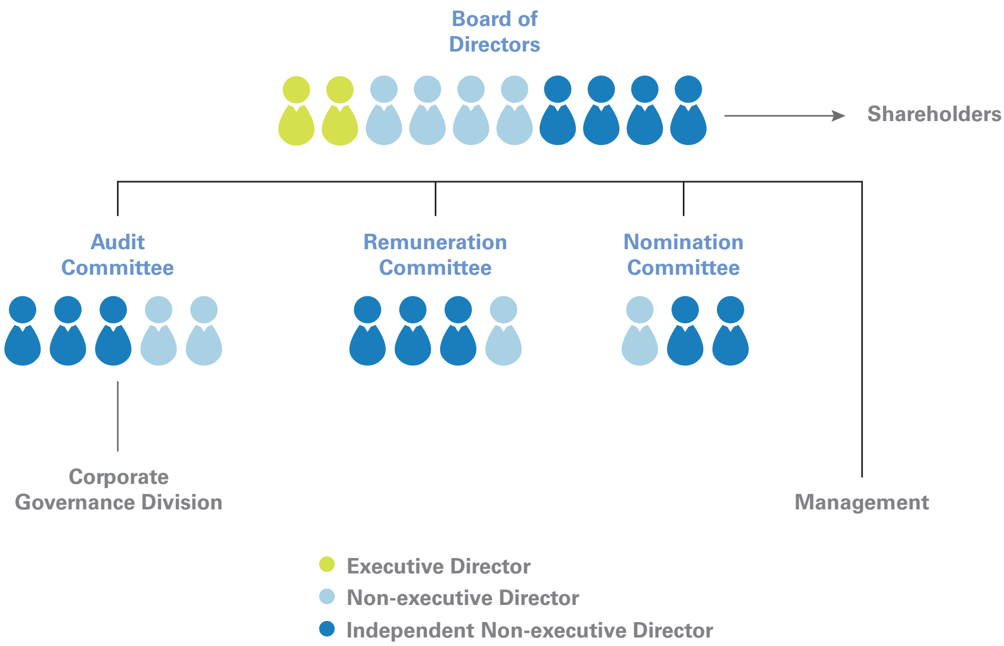
This year, Circle K Convenience Stores (HK) Limited and Saint Honore Cake Shop Limited received the "15 Years Plus Caring Company Logo" and "10 Years Plus Caring Company Logo", respectively, from the Hong Kong Council of Social Service. These awards recognise efforts to promote corporate social responsibility under the criteria of caring for the community, employees and the environment. Zoff also contributed to the community through a variety of initiatives. These included serving as a "Darkness to Go" Action Partner with Orbis for raising funds to help combat blindness, and holding an "Eyecare Talk and Eye Examination" for people in need with the TWGH's Jockey Club Shatin Integrated Services Centre. Activities such as these helped raise Zoff's brand profile and established the chain as a valuable and socially responsible member of the community.

Also during the year, Convenience Retail Asia was again awarded a Special Mention in the Non-Hang Seng Index (Small Market Capitalisation) Category of the Hong Kong Institute of Certified Public Accountants' Best Corporate Governance Awards 2019. Further environmental, social and governance information will be provided in a separate report on the Company's website.

Corporate Governance Report

The Board 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.

The Board



Board Composition

The Board is structured to ensure it is of a high calibre and has a balance of skills, experience, knowledge, diversity and other perspectives appropriate to the businesses and development of the Group. The Board is currently composed of 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.

An up-to-date list of Directors identifying their roles and functions and whether they are Independent Non-executive Directors is available on the websites of both The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

The Board (continued)

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 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 businesses, including the implementation of major strategies and initiatives adopted by the Board.

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;
- Appointment of Chief Executive Officer;
- Remuneration of individual Executive Directors, Non-executive Directors and senior management;
- Annual budgets and monitoring performance against budget;
- Annual and interim reports;
- Major capital and borrowing transactions;
- Maintaining appropriate and effective risk management and internal control systems, reviewing their effectiveness and ensuring relevant statutory and regulatory compliance; and
- Other significant operational/financial matters and corporate governance issues.

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 Group 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 appropriate and effective risk management and internal control systems, review of relevant financial, operational, compliance and ESG (environmental, social and governance) controls; 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 Diversity

The Company recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage.

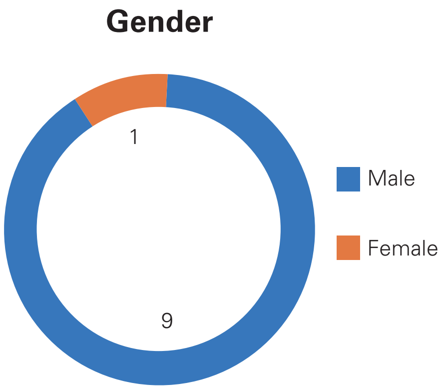
A Board Diversity Policy has been adopted by the Board. In reviewing Board composition, the Nomination Committee will consider the benefits of all aspects of diversity including, but not limited to, skills, regional and industry experience, background, ethnicity, age, culture and gender, so as to maintain 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, balance of skills, experience, independence and knowledge of the Company and the diversity representation of the Board will also be considered.

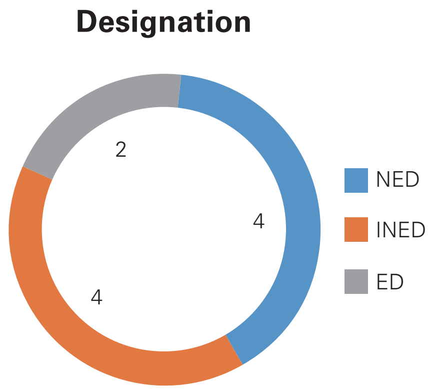
Based on the latest review, the Nomination Committee considers the Board to be diverse in respect of the aforesaid evaluation criteria. The Nomination Committee has considered but decided not to set any measurable objectives for implementing the Board Diversity Policy. The Nomination Committee will continue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

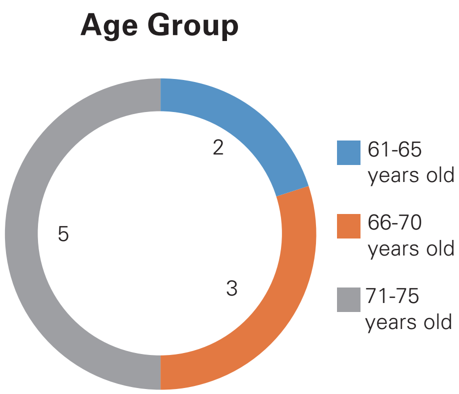
The Board (continued)

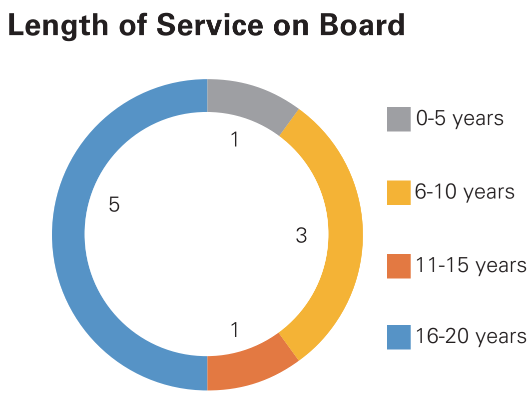
Board Diversity (continued)

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









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.

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 (including its committees), 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 2019 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.

The Board (continued)

Nomination and Appointment of Directors

A Director Nomination Policy has been adopted by the Board in November 2018. The Board has the ultimate responsibility for the selection, appointment and re-appointment of Directors. The Nomination Committee is delegated with the duties to, inter alia, review the composition of the Board. When necessary, the Nomination Committee will identify, select and nominate suitable candidates for appointment as new Director(s), and make recommendations on the re-appointment of incumbent Directors in accordance with the said policy.

When recommending any candidate for directorship, the Nomination Committee will consider various factors including, but not limited to, the potential contribution that the candidate can bring to the Board in terms of qualifications, skills and experience, the candidate must have sufficient time available for the proper performance of Director's duties, the candidate should be of high ethical character with reputation for integrity, the candidate will contribute optimally to diversity, and so forth.

The search process for candidates can be undertaken by the Nomination Committee itself, through referral from various sources, or by the Company's advisors and professional search consultants. The Nomination Committee will then develop a short list of potential candidates for the Board to agree on a preferred candidate.

After the Board has made the appointment, the newly appointed Director is subject to election by shareholders at the first general meeting following the appointment.

In 2019, the Board reviewed its composition, the retirement and re-appointment of Directors. No new Director was appointed during the year ended 31 December 2019.

Non-executive Directors were appointed for an initial term of three years and will continue in office thereafter subject to termination by notice in writing by either party to the other. In addition, all Directors including the Non-executive Directors are required to retire from office by rotation and are subject to re-election by shareholders at the Annual General Meeting (the "AGM") at least once every three years pursuant to the Company's Articles of Association. This is also in accordance with the Corporate Governance Code (the "CG Code").

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 a separate resolution to be approved by the shareholders.

Independence of Independent Non-executive Directors

The Company has received from each Independent Non-executive Director an annual written confirmation of his/her independence in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors to be independent during the year ended 31 December 2019.

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.

The Board (continued)

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 businesses, 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. Ongoing training and professional development undertaken by the Directors in 2019 is summarised as follows:

Directors	Types of Professional Development
Victor FUNG Kwok King	A, B
William FUNG Kwok Lun	A, B
Godfrey Ernest SCOTCHBROOK	A, B
Benedict CHANG Yew Teck	A, B
Anthony LO Kai Yiu	A, B
Malcolm AU Man Chung	A, B
ZHANG Hongyi	A, B
Sarah Mary LIAO Sau Tung	A, B
Richard YEUNG Lap Bun	A, B
PAK Chi Kin	A, B

A Attending training sessions arranged by the Company, or attending and/or giving speech at external seminars/training sessions

B Reading regulatory and industry related updates, as well as materials which covered the Group's businesses, Directors' duties and so forth

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 2019.

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 ("GCCRMO") 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, as well as on regulatory compliance matters.

Board and Committee Meetings

The Board held five meetings in 2019 (with an average attendance rate of directors of 92%). The Chairman holds meetings annually with the Independent Non-executive Directors without the Executive Directors present.

The dates of the 2019 Board meetings and committee meetings were determined in the third quarter of 2018 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. Notice of meeting is sent at least 14 days before the meeting.

The Board meeting agenda is set by the Board Chairman in consultation with members of the Board, whilst committee meeting agenda is set by the respective committee chairman. Agenda and accompanying papers are sent to all Directors at least 3 days before the intended meeting so as to give the Directors sufficient time to prepare before the meeting. Draft and final versions of minutes of meetings with sufficient details are circulated to all Board and committee members for comments and records respectively, within a reasonable time after each Board or committee meeting. The Board and 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 2019 are set out in the following table:

	No. of meetings **attended**/held				
	Board	Audit Committee[3]	Remuneration Committee	Nomination Committee	Annual General Meeting[3]
Non-executive Directors:					
Victor FUNG Kwok King *(Group Chairman and Chairman of Nomination Committee)*	**5**/5	–	–	**1**/1	**1**
William FUNG Kwok Lun	**4**/5	–	**1**/1	–	**1**
Godfrey Ernest SCOTCHBROOK	**5**/5	**4**/4	–	–	**1**
Benedict CHANG Yew Teck	**4**/5	**3**/4	–	–	**1**
Independent Non-executive Directors:					
Anthony LO Kai Yiu *(Chairman of Audit Committee)*	**5**/5	**4**/4	–	**1**/1	**1**
Malcolm AU Man Chung *(Chairman of Remuneration Committee)*	**3**/5	**3**/4	**1**/1	–	**0**
ZHANG Hongyi	**5**/5	**4**/4	**1**/1	**1**/1	**1**
Sarah Mary LIAO Sau Tung	**5**/5	–	**1**/1	–	**1**
Executive Directors:					
Richard YEUNG Lap Bun *(Chief Executive Officer)*	**5**/5	–	–	–	**1**
PAK Chi Kin *(Chief Operating Officer)*	**5**/5	–	–	–	**1**
Group Chief Compliance and Risk Management Officer:					
Jason YEUNG Chi Wai [1]	**4**/5	**4**/4	**1**/1	**1**/1	**1**
Average Attendance Rate of Directors	92%	90%	100%	100%	90%
Dates of Meeting in 2019	13 March 9 May 25 July 15 August 4 November	13 March 9 May 15 August 4 November	13 March	13 March	9 May

Notes:

(1) Attended meetings by invitation as a non-member.

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

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

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.

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 2019 (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 GCCRMO. Any shareholders or stakeholders, including customers and suppliers, can also report similar concerns by writing in confidence to the GCCRMO 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 2019.

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 2019. 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 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 2019, the following fees paid or payable to PwC have been endorsed by the Audit Committee:

	Fees HK$'000
Audit services	2,080
Non-audit services (including agreed-upon procedures regarding interim financial information and tax services)	970
Total	3,050

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 2019, 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 2020 at the forthcoming AGM.

Remuneration Committee

Chairman	Malcolm AU Man Chung *
Members	William FUNG Kwok Lun +
	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 2019 (with a 100% attendance rate) to consider grant of share options to employees. There were no Executive Directors' service contracts requiring review in 2019.

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 101 to 102.

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 2019 (with a 100% attendance rate) to review the aforesaid matters and also the evaluation of the performance of the Board and its committees.

Company Secretary

Ms Maria Li Sau Ping has been the Company Secretary of the Company since 2007 and has day-to-day knowledge of the Group's affairs. 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 2019, Ms Maria Li undertook over 15 hours of professional training and confirms that she has complied with all the required qualifications, experience and training requirements of the Listing Rules.

Directors' and Relevant Employees' Securities Transactions

The Group has adopted a Code for Securities Transactions by Directors and Relevant Employees (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 2019.

Directors' Interests

Details of Directors' interests and short positions in the shares and underlying 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 • Ensuring that critical risks are reported to the Board, along with the status of actions taken to manage such risks
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 businesses.

   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 87 to 89.

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 2019, 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 GCCRMO 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 when it meets to consider the Group's annual results for the year ended 31 December 2019.

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 2019.

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 2019 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 Board and the Audit Committee considered that for the year ended 31 December 2019:

- 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 the Group's policies under management's authorisation, and the financial statements were reliable for publication.
- There were ongoing processes 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 been in full compliance with all of the code provisions set out in the CG Code and Corporate Governance Report in Appendix 14 of the Listing Rules throughout the year ended 31 December 2019.

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.

Dividend Policy

A Dividend Policy has been adopted by the Board in November 2018. Details of the policy are set out in the Directors' Report on page 46.

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 2019 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.

A Shareholders Communication Policy has been adopted by the Board, with the objective of ensuring that the shareholders are provided with information about the Group to enable them to exercise their rights in an informed manner, and to engage actively with the Group. The policy is reviewed regularly to ensure its effectiveness.

Key calendar events for shareholders' attention and share information, including market capitalisation as at 31 December 2019, 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 9 May 2019 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.

The results of the poll were published on the websites of both the Stock Exchange and the Company on the day of the AGM.

Recognition

The Company is pleased to be awarded again a Special Mention in the Non-Hang Seng Index (Small Market Capitalisation) Category of the HKICPA's Best Corporate Governance Awards 2019.

Directors and Senior Management Profile

Executive Directors

Richard YEUNG Lap Bun – *Chief Executive Officer*

Mr Yeung, aged 63, 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 and repositioning of the Group's businesses to the O2O business models. 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 61, 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 74, brother of Dr William Fung Kwok Lun, has been a Non-executive Director of the Company since 3 January 2001. Dr Fung is Group Chairman of the Fung Group, a Hong Kong-based multinational which comprises major operating groups engaging in trading, logistics, distribution and retailing. They include publicly-listed Li & Fung Limited, Global Brands Group Holding Limited and the Company, and other privately held entities. 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 and Koç Holding A.Ş.. Dr Fung is 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 has been an Advisor of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority since 2016, a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development since March 2018 and a member of the Council of the Hong Kong Laureate Forum since its launch in May 2019. He is also Chairman of the 2022 Foundation, a non-profit entity focused on research into Hong Kong's long-term competitiveness. Dr Fung has also been invited by the Hong Kong Government in February 2019 to lead the Group of Experienced Leaders on Future Fund to make recommendations on longer term investment strategies with a view to securing higher return. Formerly, he was Chairman of the Hong Kong Trade Development Council (1991-2000), the Hong Kong representative on the APEC Business Advisory Council (1996-2003), Chairman of the Hong Kong Airport Authority (1999-2008), Chairman of The Council of The University of Hong Kong (2001-2009), a member of the Chinese People's Political Consultative Conference (2003-2018), 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), a member of WTO Panel on Defining the Future of Trade (2012-2013) and Chairman of the Steering Committee on the Hong Kong Scholarship for Excellence Scheme (2014-2018). 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. He was conferred Fellow of the Hong Kong Academy of Finance in June 2019, which was set up to nurture financial leaders in Hong Kong. He was also honoured with the Lifetime Achievement Award in the 2019 DHL/SCMP Hong Kong Business Awards in December 2019.

William FUNG Kwok Lun

Dr Fung, aged 71, brother of Dr Victor Fung Kwok King, has been a Non-executive Director of the Company since 3 January 2001. Dr Fung is Group Chairman of Li & Fung Limited and Chairman and non-executive director of Global Brands Group Holding Limited, both 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, and a degree of Doctor of Letters, *honoris causa* by Wawasan Open University of Malaysia. Currently, Dr Fung is an independent non-executive director of VTech Holdings Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. Formerly, he was an independent non-executive director of Shui On Land Limited (May 2006 – May 2019) and a non-executive director of Trinity Limited (December 2006 – April 2018).

Non-executive Directors (continued)

Godfrey Ernest SCOTCHBROOK

Mr Scotchbrook, aged 74, 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 66, has been a Non-executive Director of the Company since 1 July 2012. He is currently the Chief Executive Officer and Founding Partner of IDS Medical Systems Group Limited and also a director of Fung Holdings (1937) Limited, a substantial shareholder of the Company. Formerly, Mr Chang was the Group Managing Director of Integrated Distribution Services Group Limited (October 2003 – April 2011) and 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 also 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 70, 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 71, 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. 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, Hong Kong listed IDT International Limited, and The Taiwan Fund, Inc., a company listed on the New York Stock Exchange, in June 2014, August 2015 and April 2018, 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 74, 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 has been re-designated from Council Member to Vice Chairman of China Development Institute (Shenzhen) since 29 May 2019. Mr Zhang has been an independent non-executive director of Bank of East Asia (China) Limited, whose term of office expired on 9 December 2019. 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-Citic Minerals Inc. (listed on the Canadian Stock Exchange).

Sarah Mary LIAO Sau Tung

Dr Liao, aged 68, has been appointed as Independent Non-executive Director of the Company with effect from 1 April 2014. Dr Liao retired as the Master of New College of The University of Hong Kong in November 2018 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 of Westport Innovations Inc. (July 2008 – April 2012) 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 65, 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 57, has over 30 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 44, being Chief Financial Officer of the Group for over 10 years, 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 a member of CFA Institute. He is also a member of the Audit Committee of the Hong Kong Committee for UNICEF.

Information for Investors

Listing Information

Listing	Hong Kong Stock Exchange
Stock code	00831

Key Dates

10 March 2020	Announcement of 2019 Final Results
23 April 2020	Record date for right to attend Annual General Meeting
29 April 2020	Annual General Meeting
7 May to 8 May 2020 (both days inclusive)	Closure of Register of Members for Final and Special Dividends
8 May 2020	Record date for entitlement to Final and Special Dividends
19 May 2020	Despatch of dividend warrants

Share Information

Board lot size	2,000 shares
Shares outstanding as at 31 December 2019	762,564,974 shares
Market capitalisation as at 31 December 2019	HK$2,668,977,000
Earnings per share for 2019	
Interim	10.8 HK cents
Full year	27.2 HK cents
Dividend per share for 2019	
Interim	6 HK cents
Final	19 HK cents
Special	21 HK cents
Full year	46 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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Enquiries Contact

Sam HUI Chi Ho
Chief Financial Officer

Telephone	2991 6300
Fax	2991 6302
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 2019.

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) a chain of convenience stores in Hong Kong under the brand name of Circle K; (ii) a chain of bakeries under the brand name of Saint Honore in Hong Kong, Macau and on the Chinese Mainland; and (iii) developing businesses mainly included a chain of fast-fashion eyewear stores under the brand name of Zoff in Hong Kong. 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 7, pages 8 to 13 and pages 14 to 19 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 6 HK cents per share, totaling HK$45,754,000, which was paid on 12 September 2019.

The Board of Directors recommended the payment of a final dividend of 19 HK cents per share (to be distributed out of the Company's retained earnings), totaling HK$144,887,000, and a special dividend of 21 HK cents per share (to be distributed out of the Company's share premium), totaling HK$160,139,000.

It is a policy of the Company that, on an annual basis, the Company will distribute, as normal dividend, not less than 50% of the Group's net profit to the shareholders. The actual distribution percentage will be considered and determined by the Board based on the operating results, cash flow, financial position, business prospects, statutory and regulatory restrictions relating to dividend distributions and other factors the Board considers appropriate.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 26 and note 31 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$35,000.

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 25 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company at 31 December 2019 calculated under the Companies Law of the Cayman Islands amounted to HK$486,377,000 (2018: HK$487,116,000).

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 2019 are set out in note 32 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 128.

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.

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 24,746,597, representing approximately 3.2% of the issued shares 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.

Share Options (continued)

(v) *Option period*

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

(vi) *Amount payable on application or acceptance*

An offer of the grant of an option shall remain open for acceptance for a period of 28 days from the Commencement Date. An offer of the grant of the option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the relevant option duly signed by the grantee together with a remittance in favour of the Company of HK$1 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 2019 are as follows:

Grantees	Number of share options					Exercise price HK$	Grant date	Exercisable period
	As at 1/1/2019	Granted *(Note 1)*	Exercised *(Note 2)*	Lapsed *(Note 3)*	As at 31/12/2019			
Directors								
Richard Yeung Lap Bun	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	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
	778,000	–	–	–	778,000	3.88	8/3/2018	1/4/2020–31/3/2023
Continuous contract employees	10,170,000	–	–	(1,150,000)	9,020,000	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
	68,000	–	(34,000)	–	34,000	2.86	16/3/2016	1/4/2017–31/3/2020
	7,282,000	–	–	(100,000)	7,182,000	4.19	29/3/2017	1/4/2020–31/3/2023
	3,974,000	–	–	(432,000)	3,542,000	3.88	8/3/2018	1/4/2020–31/3/2023
	–	202,000	–	–	202,000	3.87	14/3/2019	1/4/2020–31/3/2023
Other participants	1,644,000	–	–	(150,000)	1,494,000	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
	31,656,000	202,000	(34,000)	(1,932,000)	29,892,000			

Share Options (continued)

Notes:

1. *During the year, share options to subscribe for a total of 202,000 shares were granted on 14 March 2019. The closing price of the share immediately before the date on which the options were granted was HK$3.98.*

2. *Share options to subscribe for 34,000 shares were exercised by a continuous contract employee during the year. The closing price of the share immediately before the date on which the said options were exercised was HK$3.92.*

3. *Share options to subscribe for 1,932,000 shares were lapsed during the year following the cessation of employment of certain grantees.*

4. *No share options under the 2010 Share Option Scheme were expired during the year.*

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 Annual Report.*

7. *The value of the options granted during the year is HK$69,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK$3.87 at the grant date, exercise price shown above, standard deviation of expected share price returns of 24.2%, expected life of options of three years, expected dividend paid out rate of 6.8% and annual risk-free interest rate of 1.5%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.*

Save as disclosed above, as at 31 December 2019, 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

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 Malcolm Au Man Chung, Dr Sarah Mary Liao Sau Tung and Mr Richard Yeung Lap Bun will retire at the forthcoming annual general meeting. Dr William Fung Kwok Lun, Dr Sarah Mary Liao Sau Tung and Mr Richard Yeung Lap Bun, being eligible, will offer themselves for re-election while Mr Malcolm Au Man Chung has decided not to stand for re-election and will retire from the Board with effect from the conclusion of the forthcoming annual general meeting.

Non-executive Directors were appointed for an initial term of three years and will continue in office thereafter subject to termination by 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 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 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 30 "Related Party Transactions" to the consolidated financial statements.

Permitted Indemnity Provisions

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2019. The Company has maintained liability insurance to provide appropriate cover for the Directors and directors of its subsidiaries.

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

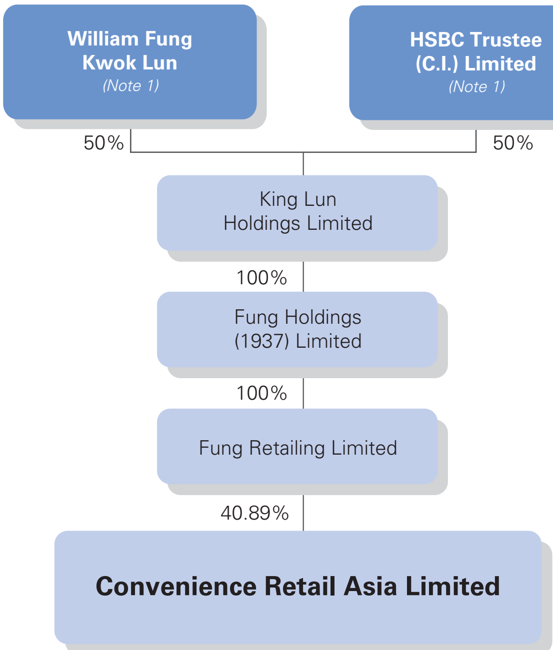
As at 31 December 2019, the Directors and chief executives of the Company and their associates had the following interests in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as 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 Issuers 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**	**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	–	4,000,000 *(Note 2)*	5,134,000	0.67%

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

As at 31 December 2019, 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 2019, none of the Directors, chief executives of the Company 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 of the Company (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

At 31 December 2019, other than the interests of the Directors or chief executives of the Company as disclosed above, 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 entities (together "SL & Aberdeen plc")	92,074,000	Investment manager *(Note 2)*	12.07%
Aberdeen Standard SICAV I	39,132,000	Beneficial owner *(Note 2)*	5.13%
The Capital Group Companies, Inc.	51,330,000	Interest of controlled corporation	6.73%
FIL Limited	43,074,000	Interest of controlled corporation *(Note 3)*	5.65%
Pandanus Partners L.P.	43,074,000	Interest of controlled corporation *(Note 3)*	5.65%
Pandanus Associates Inc.	43,074,000	Interest of controlled corporation *(Note 3)*	5.65%

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

Interests in shares of the Company (continued)

Notes:

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

2. *SL & Aberdeen plc held the shares on behalf of accounts (under discretionary or segregated mandates) managed by SL & Aberdeen plc. 39,132,000 shares were held by Aberdeen Standard SICAV I of which SL & Aberdeen plc is the investment manager and investment advisers.*

3. *Pandanus Associates Inc. is a general partner of Pandanus Partners L.P., who owns or controls one-third or more of voting rights in FIL Limited.*

Save as disclosed above, as at 31 December 2019, 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	26%
– 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 30 to the consolidated financial statements on pages 123 to 124), 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 constituted continuing connected transactions (exempt from independent shareholders' approval requirement) of the Company:

	HK$'000
Properties leasing and/or licensing arrangements with FH 1937 and its associates *(Note)*	13,175

Note:

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 9 November 2018 for a term of three years from 1 January 2019 to 31 December 2021 (details of which were disclosed in the announcement dated 9 November 2018).

The pricing and the terms of the above underlying transactions have been determined in accordance with the pricing policies and guidelines as set out in the 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 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 30 "Related Party Transactions" to the consolidated financial statements, no other contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries were entered into or existed during the year.

Management Contracts

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

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of the financial statements for each financial period which gives a true and fair view of the 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 2019, 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, 10 March 2020

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 127, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, 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 matter 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 17 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 2019, which relate 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 Wan Sau Mei.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 March 2020

Consolidated Profit and Loss Account

For the year ended 31 December 2019

	Note	**2019 HK$'000**	2018 HK$'000
Revenue	*5*	**5,632,340**	5,320,077
Cost of sales	*6*	**(3,613,216)**	(3,409,248)
Gross profit		**2,019,124**	1,910,829
Other income	*5*	**120,791**	115,672
Store expenses	*6*	**(1,493,026)**	(1,428,956)
Distribution costs	*6*	**(170,724)**	(164,071)
Administrative expenses	*6*	**(220,268)**	(218,976)
Core operating profit		**255,897**	214,498
Interest (expenses)/income, net	*7*	**(12,728)**	2,355
Profit before income tax		**243,169**	216,853
Income tax expenses	*8*	**(35,595)**	(33,650)
Profit attributable to shareholders of the Company		**207,574**	183,203
Earnings per share (HK cents)			
Basic	*9*	**27.2**	24.03
Diluted	*9*	**27.2**	24.03

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit attributable to shareholders of the Company	**207,574**	183,203
Other comprehensive loss:		
Item that may be reclassified subsequently to profit or loss		
Exchange differences	**(601)**	(1,566)
Total comprehensive income attributable to shareholders of the Company	**206,973**	181,637

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Assets			
Non-current assets			
Fixed assets	*13*	**246,181**	349,965
Right-of-use assets	*14*	**704,655**	–
Investment properties	*15*	**24,289**	25,363
Lease premium for land	*16*	**123,153**	32,216
Intangible assets	*17*	**357,465**	357,465
Financial asset at fair value through other comprehensive income	*18*	**1,895**	1,895
Rental and other long-term deposits		**88,713**	97,216
Deferred tax assets	*19*	**13,733**	14,114
		1,560,084	878,234
Current assets			
Inventories	*20*	**212,644**	198,866
Rental deposits		**68,945**	58,289
Trade receivables	*21*	**75,954**	73,939
Other receivables, deposits and prepayments		**87,030**	91,329
Restricted bank deposit	*22*	**223**	–
Cash and cash equivalents	*22*	**642,639**	507,694
		1,087,435	930,117
Total assets		**2,647,519**	1,808,351

Consolidated Balance Sheet (continued)

As at 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Equity			
Share capital	*25*	**76,256**	76,253
Reserves	*26*	**649,538**	614,557
Total equity		**725,794**	690,810
Liabilities			
Non-current liabilities			
Lease liabilities	*24*	**306,983**	–
Long service payment liabilities	*27*	**14,599**	14,949
Deferred tax liabilities	*19*	**10,519**	10,160
		332,101	25,109
Current liabilities			
Trade payables	*23*	**700,157**	662,784
Other payables and accruals		**272,560**	247,207
Lease liabilities	*24*	**406,064**	–
Taxation payable		**41,561**	13,268
Cake coupons		**169,282**	169,173
		1,589,624	1,092,432
Total equity and liabilities		**2,647,519**	1,808,351

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	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 2018	76,246	200,445	177,087	20,002	15,445	36	161,414	650,675
Profit attributable to shareholders of the Company	–	–	–	–	–	–	183,203	183,203
Exchange differences	–	–	–	–	–	(1,566)	–	(1,566)
Total comprehensive income for the year	–	–	–	–	–	(1,566)	183,203	181,637
Issue of new shares	7	182	–	–	–	–	–	189
Employee share option benefit	–	23	–	–	2,658	–	509	3,190
Dividends paid	–	–	–	–	–	–	(144,881)	(144,881)
	7	205	–	–	2,658	–	(144,372)	(141,502)
At 31 December 2018	76,253	200,650	177,087	20,002	18,103	(1,530)	200,245	690,810
At 1 January 2019	**76,253**	**200,650**	**177,087**	**20,002**	**18,103**	**(1,530)**	**200,245**	**690,810**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**207,574**	**207,574**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**(601)**	**–**	**(601)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(601)**	**207,574**	**206,973**
Issue of new shares	**3**	**94**	**–**	**–**	**–**	**–**	**–**	**97**
Employee share option benefit	**–**	**12**	**–**	**–**	**2,070**	**–**	**1,222**	**3,304**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(175,390)**	**(175,390)**
	3	**106**	**–**	**–**	**2,070**	**–**	**(174,168)**	**(171,989)**
At 31 December 2019	**76,256**	**200,756**	**177,087**	**20,002**	**20,173**	**(2,131)**	**233,651**	**725,794**

The notes on pages 71 to 127 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Cash generated from operations	*28*	**812,766**	293,332
Hong Kong profits tax paid		**–**	(22,712)
Overseas income tax paid		**(6,629)**	(6,049)
Net cash generated from operating activities		**806,137**	264,571
Cash flows from investing activities			
Purchase of fixed assets		**(65,514)**	(70,061)
Proceeds from disposal of fixed assets		**666**	583
Proceed from disposal of lease premium for land		**–**	3,859
(Increase)/Decrease in restricted bank deposit		**(223)**	963
Interest received		**4,729**	2,181
Net cash used in investing activities		**(60,342)**	(62,475)
Cash flows from financing activities			
Proceeds from issuance of shares		**97**	189
Payment of lease liabilities		**(435,183)**	–
Dividends paid		**(175,390)**	(144,881)
Net cash used in financing activities		**(610,476)**	(144,692)
Increase in cash and cash equivalents		**135,319**	57,404
Cash and cash equivalents at 1 January		**507,694**	450,776
Effect of foreign exchange rate changes		**(374)**	(486)
Cash and cash equivalents at 31 December	*22*	**642,639**	507,694

The notes on pages 71 to 127 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) a chain of convenience stores in Hong Kong under the brand name of Circle K; (ii) a chain of bakeries under the brand name of Saint Honore in Hong Kong, Macau and on the Chinese Mainland; and (iii) developing businesses mainly included a chain of fast-fashion eyewear stores under the brand name of Zoff in Hong Kong.

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 10 March 2020.

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 financial assets at fair value through other comprehensive income.

As at 31 December 2019, the Group had net current liabilities of HK$502,189,000 (2018: HK$162,315,000). 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 new and amended standards and interpretation of HKFRS which are mandatory for accounting periods beginning on or after 1 January 2019 and relevant to its operations:

HKAS 19 Amendment	Plan Amendment, Curtailment or Settlement
HKAS 28 Amendment	Long-term Interests in Associates and Joint Ventures
HKFRS 9 Amendment	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements Project	Annual Improvements 2015-2017 Cycle

The adoption of new and amended standards and interpretation of HKFRS does not have material impact on the consolidated financial statements and does not result in substantial changes to the Group's accounting policies, except the impacts of the adoption of HKFRS 16 "Leases" is disclosed in note 2b.

The Group has not early adopted the following new and amended standards and interpretations of HKFRS that have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2020.

HKAS 1 and HKAS 8 Amendments	Definition of Material
HKAS 39 Amendment	Financial Instruments: Recognition and Measurement
HKFRS 3 Amendment	Definition of a Business
HKFRS 7 Amendment	Financial Instruments: Disclosures
HKFRS 9 Amendment	Financial Instruments
HKFRS 10 and HKAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 17	Insurance Contracts

None of the above is expected to have a significant effect on the consolidated financial statements of the Group.

(b) Change in accounting policy

The Group has adopted HKFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2s.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.4% and 4.8% for leases in Hong Kong and Macau, and the Chinese Mainland respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Change in accounting policy (continued)

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to perform an impairment review – there were no onerous contracts as at 1 January 2019;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(ii) Measurement of lease liabilities as at 1 January 2019

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	795,735
Discounted using the lessee's incremental borrowing rate as of 1 January 2019	776,158
Less: Short-term leases not recognised as liabilities	(128,192)
	647,966
Current lease liabilities	377,122
Non-current lease liabilities	270,844
	647,966

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Change in accounting policy (continued)

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

(iv) Adjustments recognised in the consolidated balance sheet

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

HK$'000	31 December 2018 (as previously reported)	Impact on adoption of HKFRS16	**1 January 2019 (restated)**
Non-current assets			
Fixed assets	349,965	(98,532)	**251,433**
Right-of-use assets	–	649,349	**649,349**
Lease premium for land	32,216	96,013	**128,229**
Current assets			
Other receivables, deposits and prepayments	91,329	(2,417)	**88,912**
Non-current liabilities			
Lease liabilities	–	(270,844)	**(270,844)**
Current liabilities			
Lease liabilities	–	(377,122)	**(377,122)**
Other payables and accruals	(247,207)	3,553	**(243,654)**

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Consolidation (continued)

(ii) Transactions with non-controlling interests

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

(d) 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.

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary items, such as equities classified as financial assets at fair value through other comprehensive income, are included in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency translation (continued)

(iii) Group companies

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

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

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

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

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

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

(f) Fixed assets and lease premium for land

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

Freehold land is stated at cost without amortisation. Lease premium for land are classified as leases and depreciated in the consolidated profit and loss account on a straight-line basis over the unexpired term of the leases of 24 years to 43 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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.

(g) 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.

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 2i)*.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

(i) 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.

(j) Financial assets

The Group classifies its investments as loans and receivables and financial assets at fair value through other comprehensive income. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets (continued)

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.

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. Further information about the Group's impairment policies and accounting for trade and other receivable, refers to note 3a(ii). 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.

(ii) *Financial asset at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income 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. The Group reclassifies its assets when and only when its business model for managing those assets changes.

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. Financial assets 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. Financial asset at fair value through other comprehensive income are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets (continued)

Recognition and measurement (continued)

Dividend income from equity instruments of financial asset at fair value through other comprehensive income is recognised in the consolidated profit and loss account in other income when the Group's right to receive payments is established.

Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with that a financial asset or a group of financial assets at each balance sheet date. The impairment apply depends on whether there has been a significant increase in credit risk. For loans and receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(k) 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.

(l) Share capital

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

(m) Trade payables

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Current and deferred income tax

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Profit sharing and bonus plans

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

(iii) Pension obligations

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

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

(iv) Long service payment liabilities

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(v) Share-based compensation

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

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

(p) Provisions

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

(q) Core operating profit (included interest expenses on lease liabilities)

Core operating profit (included interest expenses on lease liabilities) is the result generated from the Group's convenience store, bakery and developing businesses including eyewear business 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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. The Group derives revenue from the transfer of goods at a point in time. 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 contract liability under the current liability "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.

(s) Leases

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2b.

Leases with a remaining lease term of less than 12 months were classified as operating leases in note 29b. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities are measured at the net present value of the remaining fixed lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liabilities. The lease payments are discounted using the Group's incremental borrowing rate at lease commencement date.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leases (continued)

Lease payments are allocated between principal and lease interest expense. The lease interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liabilities are classified as non-current liabilities unless payments are payable within 12 months from the balance sheet date.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- restoration costs.

Right-of-use assets are depreciated over the lease terms on a straight-line basis. Payments associated with short-term leases with lease terms of 12 months or less are expensed on a straight-line basis in the consolidated profit and loss account.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(t) 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 or recognised assets and liabilities that are denominated in a currency other than the functional currency of the operations to which they relate. The Group has some exposure to foreign exchange risk on the purchases that are denominated in renminbi.

(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 applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group mitigates its exposure to risk relating to the trade receivables by performing regular reviews of the aging profile and the corresponding historical credit losses experience 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$700,157,000 (2018: HK$662,784,000) and other payables and accruals of HK$272,560,000 (2018: HK$247,207,000) 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$1,345,000 (2018: HK$1,130,000) for the year ended 31 December 2019.

(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 are as follows:

	2019	2018
	HK$'000	HK$'000
Financial asset at fair value through other comprehensive income (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 are 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 2h. The recoverable amounts of goodwill and trademarks are determined based on fair value less costs to sell calculations and royalty relief valuation method. These calculations require the use of estimates *(note 17)*.

(c) Estimated useful lives of trademarks

Trademarks represent the power of Saint Honore brand which the Group's management considers 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of retail stores, warehouses, factories and office, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in retail stores, warehouses, factories and office leases have not been included in the lease liabilities, because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if any option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the year, there is no financial impacts of revising lease terms to reflect the effect of exercising extension and termination options in recognised lease liabilities and right-of-use assets.

(e) Income taxes

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

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

5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

The Group is principally engaged in the operation of chains of convenience stores and bakeries, and developing businesses mainly included eyewear business. Revenues recognised during the year are as follows:

	2019 **HK$'000**	2018 HK$'000
Revenue		
Merchandise sales revenue	**4,523,772**	4,206,751
Bakery sales revenue	**1,003,589**	1,036,115
Developing businesses revenue	**104,979**	77,211
	5,632,340	5,320,077
Other income		
Service items and miscellaneous income	**120,791**	115,672

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

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

Segment information (continued)

The segment information provided to the management for the reportable segments for the years ended 31 December 2019 and 2018 are as follows:

	2019				
	Convenience Store	Bakery		Developing Businesses	
		HK &	Chinese		
	HK	Others	Mainland	HK	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment revenue	4,523,772	1,028,029	98,549	104,979	5,755,329
Inter-segment revenue	–	(122,989)	–	–	(122,989)
Revenue from external customers	4,523,772	905,040	98,549	104,979	5,632,340
Total segment other income	114,113	12,799	2,266	46	129,224
Inter-segment other income	(3,616)	(4,817)	–	–	(8,433)
Other income	110,497	7,982	2,266	46	120,791
	4,634,269	913,022	100,815	105,025	5,753,131
Core operating profit/(loss)	198,608	54,751	(388)	2,926	255,897
Core operating profit/(loss) (included interest expenses on lease liabilities)	186,698	51,578	(2,063)	2,086	238,299
Depreciation and amortisation	(345,246)	(116,595)	(21,212)	(20,904)	(503,957)
Depreciation and amortisation (excluded depreciation on right-of-use assets)	(29,620)	(35,834)	(5,217)	(4,100)	(74,771)

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

Segment information (continued)

	2018				
	Convenience Store	Bakery		Developing Businesses	
	HK	HK & Others	Chinese Mainland	HK	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment revenue	4,206,751	1,051,326	116,367	77,211	5,451,655
Inter-segment revenue	–	(131,578)	–	–	(131,578)
Revenue from external customers	4,206,751	919,748	116,367	77,211	5,320,077
Total segment other income	110,626	10,723	2,328	140	123,817
Inter-segment other income	(4,303)	(3,832)	–	(10)	(8,145)
Other income	106,323	6,891	2,328	130	115,672
	4,313,074	926,639	118,695	77,341	5,435,749
Core operating profit/(loss)	172,022	48,669	(5,203)	(990)	214,498
Depreciation and amortisation	(28,398)	(38,650)	(7,039)	(1,948)	(76,035)

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 (included interest expenses on lease liabilities).

The reconciliation of the total reportable segments' core operating profit (included interest expenses on lease liabilities) to the profit before income tax can be referred to the consolidated profit and loss account and interest (expenses)/income net, in note 7, 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$88,885,000 (2018: HK$83,969,000) and inter-geographic segment revenue of HK$34,104,000 (2018: HK$47,609,000).

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

Segment information (continued)

The segment assets and liabilities as at 31 December 2019 and 2018 are as follows:

	2019				
	Convenience Store	**Bakery**		**Developing Businesses**	
	HK	**HK & Others**	**Chinese Mainland**	**HK**	**Group**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Total segment assets	**1,228,148**	**866,340**	**86,322**	**78,083**	**2,258,893**
Total segment assets include:					
Additions to segment non-current assets	**401,193**	**128,894**	**6,385**	**31,834**	**568,306**
Total segment liabilities	**1,339,350**	**451,741**	**26,800**	**51,754**	**1,869,645**

	2018				
	Convenience Store	Bakery		Developing Businesses	
	HK	HK & Others	Chinese Mainland	HK	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment assets	745,659	739,014	51,741	31,974	1,568,388
Total segment assets include:					
Additions to segment non-current assets	26,091	34,584	353	11,899	72,927
Total segment liabilities	782,731	276,633	16,386	18,363	1,094,113

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:

	2019 **HK$'000**	2018 HK$'000
Segment assets for reportable segments	**2,258,893**	1,568,388
Unallocated:		
Deferred tax assets	**13,733**	14,114
Corporate bank deposits	**374,893**	225,849
Total assets per consolidated balance sheet	**2,647,519**	1,808,351

Reportable segment liabilities are reconciled to total liabilities as follows:

	2019 **HK$'000**	2018 HK$'000
Segment liabilities for reportable segments	**1,869,645**	1,094,113
Unallocated:		
Deferred tax liabilities	**10,519**	10,160
Taxation payable	**41,561**	13,268
Total liabilities per consolidated balance sheet	**1,921,725**	1,117,541

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$5,379,312,000 (2018: HK$5,048,341,000), and the total of its revenue from other countries is HK$253,028,000 (2018: HK$271,736,000) for the year ended 31 December 2019.

The total of non-current assets other than financial asset at fair value through other comprehensive income and deferred tax assets located in Hong Kong is HK$1,418,702,000 (2018: HK$785,646,000), and the total of these non-current assets located in other countries is HK$125,754,000 (2018: HK$76,579,000) as at 31 December 2019.

As of 31 December 2019, cake coupons related to contracts with customers is HK$169,282,000 (2018: HK$169,173,000). During the year, revenue recognised in the consolidated profit and loss account related to carried-forward cake coupons is HK$30,814,000 (2018: HK$48,110,000).

6. EXPENSES BY NATURE

	2019 HK$'000	2018 HK$'000
Auditor's remuneration		
Audit services	**2,080**	2,080
Non-audit services	**970**	622
Cost of inventories sold	**3,371,595**	3,165,653
Delivery charges	**92,772**	91,663
Depreciation of owned fixed assets *(note 13)*	**69,115**	73,829
Depreciation of right-of-use assets *(note 14)*	**429,186**	–
Depreciation of investment properties *(note 15)*	**966**	976
Depreciation of lease premium for land *(note 16)*	**4,690**	1,230
Employee benefit expense *(note 11)*	**956,865**	908,028
Losses on disposal of fixed assets/right-of-use assets	**776**	3,652
Gain on disposal of lease premium for land	**–**	(2,947)
Short-term lease payment	**143,523**	544,757
Variable lease payment	**3,545**	4,967
Utilities	**88,899**	85,177
Foreign exchange losses	**1,052**	3,193
Other expenses	**331,200**	338,371
Total cost of sales, store expenses, distribution costs and administrative expenses	**5,497,234**	5,221,251

7. INTEREST (EXPENSES)/INCOME, NET

	2019 HK$'000	2018 HK$'000
Interest income on bank deposits	**4,870**	2,355
Interest expenses on lease liabilities	**(17,598)**	–
	(12,728)	2,355

8. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2019 and 2018. 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 to the consolidated profit and loss account represents:

	2019 HK$'000	2018 HK$'000
Current income tax		
Hong Kong profits tax	**28,499**	25,783
Overseas profits tax	**6,402**	5,612
Deferred income tax *(note 19)*	**694**	2,255
	35,595	33,650

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:

	2019 HK$'000	2018 HK$'000
Profit before income tax	**243,169**	216,853
Calculated at a taxation rate of 16.5%	**40,123**	35,781
Effect of different taxation rates in other jurisdictions	**(1,222)**	(1,172)
Income not subject to taxation	**(1,960)**	(2,700)
Expenses not deductible for tax purposes	**3,500**	3,073
Tax losses not recognised	**1,185**	2,138
Reversal of previously recognised tax losses	**558**	569
Utilisation of tax losses previously not recognised	**(5,029)**	(1,869)
Over provision in prior year	**(1,560)**	(2,170)
	35,595	33,650

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.

	2019 **HK$'000**	2018 HK$'000
Profit attributable to shareholders of the Company	**207,574**	183,203
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**762,557,802**	762,508,913
Adjustment for:		
Share options	**9,603**	21,904
Weighted average number of ordinary shares for diluted earnings per share	**762,567,405**	762,530,817

10. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Interim dividend, proposed of 6 HK cents (2018: 5 HK cents) per share	**45,754**	38,127
Final dividend, proposed of 19 HK cents (2018: 17 HK cents) per share	**144,887**	129,630
Special dividend, proposed of 21 HK cents (2018: nil) per share	**160,139**	–
	350,780	167,757

At a meeting held on 10 March 2020, the Directors proposed a final dividend of 19 HK cents per share (to be distributed out of the Company's retained earnings) and a special dividend of 21 HK cents per share (to be distributed out of the Company's share premium). These proposed dividends are not reflected as dividend payable in these consolidated financial statements.

11. EMPLOYEE BENEFIT EXPENSE

	2019 HK$'000	2018 HK$'000
Wages and salaries	**918,798**	872,227
Unutilised annual leave	**556**	785
Employee share option benefit	**3,304**	3,190
Pension costs – defined contribution plan *(note b & c)*	**33,880**	31,489
Long service payment costs *(note 27)*	**327**	337
	956,865	908,028

Notes:

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

(b) Forfeited contributions totalling HK$5,301,000 (2018: HK$4,470,000) were utilised during the year leaving no balance at the year-end to reduce future contributions (2018: nil).

(c) Contributions totalling HK$3,847,000 (2018: HK$4,379,000) 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 2019 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Estimated money value of other benefits *(note i)*	Employer's contribution to a retirement benefit scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Victor Fung Kwok King	310	–	–	–	–	310
William Fung Kwok Lun	250	–	–	–	–	250
Richard Yeung Lap Bun *(note ii)*	200	3,960	10,019	480	18	14,677
Pak Chi Kin	200	2,760	2,004	508	18	5,490
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
	2,890	6,720	12,023	988	36	22,657

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

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2018 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
Richard Yeung Lap Bun *(note ii)*	200	3,960	9,089	480	18	13,747
Pak Chi Kin	200	2,760	1,818	474	18	5,270
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
	2,890	6,720	10,907	954	36	21,507

Notes:

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

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

(iii) No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2019 and 2018.

(iv) During the year, no emoluments have been paid by the Group to the Directors as remuneration to accept office as director, or as remuneration in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2018: nil).

(v) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: 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:

	2019	2018
	HK$'000	HK$'000
Salaries, housing allowances, share options, other allowances and benefit in kind	**5,674**	5,505
Discretionary bonuses	**1,707**	1,674
Pension costs – defined contribution plan	**54**	54
	7,435	7,233

The emoluments of the above individuals fell within the following bands:

	Number of individuals	
	2019	2018
HK$1,000,001-HK$2,000,000	**1**	1
HK$2,000,001-HK$3,000,000	**2**	2

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 2019 and 2018.

13. FIXED ASSETS

	Land and properties HK$'000	Leasehold improvements HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2018					
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
Year ended 31 December 2018					
Opening net book amount	151,306	67,606	134,343	3,918	357,173
Additions	–	24,683	44,054	2,695	71,432
Disposals	(59)	(2,285)	(1,570)	(299)	(4,213)
Depreciation *(note 6)*	(5,030)	(26,345)	(40,912)	(1,542)	(73,829)
Exchange differences	(125)	(262)	(206)	(5)	(598)
Closing net book amount	146,092	63,397	135,709	4,767	349,965
At 31 December 2018					
Cost	203,776	313,455	612,243	15,816	1,145,290
Accumulated depreciation	(57,684)	(250,058)	(476,534)	(11,049)	(795,325)
Net book amount	146,092	63,397	135,709	4,767	349,965
Year ended 31 December 2019					
Opening net book amount	**146,092**	**63,397**	**135,709**	**4,767**	**349,965**
Transfer to right-of-use assets as at 1 January	**–**	**(2,519)**	**–**	**–**	**(2,519)**
Transfer to lease premium for land	**(96,013)**	**–**	**–**	**–**	**(96,013)**
Additions	**–**	**19,757**	**41,314**	**4,443**	**65,514**
Disposals	**–**	**(208)**	**(1,266)**	**(27)**	**(1,501)**
Depreciation *(note 6)*	**(1,489)**	**(23,794)**	**(42,114)**	**(1,718)**	**(69,115)**
Exchange differences	**(60)**	**(30)**	**(63)**	**3**	**(150)**
Closing net book amount	**48,530**	**56,603**	**133,580**	**7,468**	**246,181**
At 31 December 2019					
Cost	**74,226**	**321,975**	**632,896**	**16,260**	**1,045,357**
Accumulated depreciation	**(25,696)**	**(265,372)**	**(499,316)**	**(8,792)**	**(799,176)**
Net book amount	**48,530**	**56,603**	**133,580**	**7,468**	**246,181**

As at 31 December 2018, leasehold land of HK$86,780,000 and HK$9,233,000 included in land and properties are located in Hong Kong and outside Hong Kong respectively.

As at 31 December 2019 and 2018, freehold land of HK$11,561,000 included in land and properties is located outside Hong Kong.

Depreciation expense of HK$15,768,000 (2018: HK$16,755,000) has been charged in cost of sales, HK$45,109,000 (2018: HK$47,158,000) in store expenses, HK$1,999,000 (2018: HK$2,050,000) in distribution costs and HK$6,239,000 (2018: HK$7,866,000) in administrative expenses.

14. RIGHT-OF-USE ASSETS

	2019 HK$'000
Initial recognition as at 1 January	**649,349**
Additions	**502,408**
Disposals	**(3,148)**
Remeasurement	**(12,846)**
Depreciation *(note 6)*	**(429,186)**
Exchange differences	**(1,922)**
Closing net book amount	**704,655**

Depreciation expense of HK$2,603,000 has been charged in cost of sales, HK$401,744,000 in store expenses, HK$15,130,000 in distribution costs and HK$9,709,000 in administrative expenses.

The Group leases various retail stores, warehouses, factories and office. Rental contracts are typically made for fixed periods of 2 to 8 years, but may have extension options. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by lessor. Leased assets may not be used as security for borrowing purposes.

Some property leases contain variable payment terms that are linked to sales generated from a store. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurred.

15. INVESTMENT PROPERTIES

	2019	2018
	HK$'000	HK$'000
At 1 January	**25,363**	26,561
Depreciation *(note 6)*	**(966)**	(976)
Exchange differences	**(108)**	(222)
Net book amount	**24,289**	25,363
At 31 December		
Cost	**36,173**	36,173
Accumulated depreciation	**(11,884)**	(10,810)
Net book amount	**24,289**	25,363

Depreciation expense of HK$966,000 (2018: HK$976,000) 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 2019 (2018: HK$177,000,000) based on management's estimation with reference to the latest market transaction. The fair value measurement at 31 December 2019 is using significant other observable inputs, which is categorised within level 2 of the fair value measurement hierarchy.

16. LEASE PREMIUM FOR LAND

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

	2019	2018
	HK$'000	HK$'000
At 1 January	**32,216**	35,180
Transfer from fixed assets	**96,013**	–
Disposal	**–**	(912)
Depreciation *(note 6)*	**(4,690)**	(1,230)
Exchange differences	**(386)**	(822)
At 31 December	**123,153**	32,216

	2019	2018
	HK$'000	HK$'000
Located in:		
Hong Kong	**83,517**	–
Macau	**8,962**	–
Chinese Mainland	**30,674**	32,216
	123,153	32,216

17. INTANGIBLE ASSETS

	Goodwill	**Trademarks**	**Group**
	HK$'000	**HK$'000**	**HK$'000**
At 31 December 2019 and 2018			
Cost and net book amount	247,465	110,000	357,465

17. INTANGIBLE ASSETS (continued)

(a) Impairment test for trademarks

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

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

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

Revenue growth rate *(note i)*	6%-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 2019 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.

(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.

17. INTANGIBLE ASSETS (continued)

(b) Impairment test for goodwill (continued)

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 2019 based on the impairment assessment performed.

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

18. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	HK$'000	HK$'000
Unlisted investment in Macau	**1,895**	1,895

Note:

Financial asset at fair value through other comprehensive income is long-term strategic investment that is not expected to be sold in the short to medium term. The financial asset 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.

19. DEFERRED TAXATION

Movements on the net deferred tax assets are as follows:

	2019 HK$'000	2018 HK$'000
At 1 January	**(3,954)**	(6,318)
Charged to the consolidated profit and loss account *(note 8)*	**694**	2,255
Exchange differences	**46**	109
At 31 December	**(3,214)**	(3,954)

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	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
At 1 January	**(13,148)**	(15,046)	**(1,462)**	(2,459)	**(1,156)**	(443)	**(15,766)**	(17,948)
Charged/(credited) to the consolidated profit and loss account	**1,535**	1,789	**144**	997	**(1,690)**	(713)	**(11)**	2,073
Exchange differences	**46**	109	**–**	–	**–**	–	**46**	109
At 31 December	**(11,567)**	(13,148)	**(1,318)**	(1,462)	**(2,846)**	(1,156)	**(15,731)**	(15,766)

Deferred tax liabilities	Decelerated tax depreciation		Fair value gain		Others		Total	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
At 1 January	**5,654**	5,223	**6,158**	6,407	**–**	–	**11,812**	11,630
Charged/(credited) to the consolidated profit and loss account	**941**	431	**(248)**	(249)	**12**	–	**705**	182
At 31 December	**6,595**	5,654	**5,910**	6,158	**12**	–	**12,517**	11,812

19. DEFERRED TAXATION (continued)

	2019 HK$'000	2018 HK$'000
Deferred tax assets		
Deferred tax assets to be recovered after 12 months	**(13,318)**	(14,580)
Deferred tax assets to be recovered within 12 months	**(2,413)**	(1,186)
	(15,731)	(15,766)
Deferred tax liabilities		
Deferred tax liabilities to be settled after 12 months	**12,170**	11,561
Deferred tax liabilities to be settled within 12 months	**347**	251
	12,517	11,812

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:

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**(13,733)**	(14,114)
Deferred tax liabilities	**10,519**	10,160

The Group did not recognise deferred income tax assets amounting to HK$11,743,000 (2018: HK$19,175,000) in respect of tax losses amounting to HK$57,645,000 (2018: HK$96,381,000) 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:

	2019 HK$'000	2018 HK$'000
Within 1 year	**10,115**	11,274
Over 1 year but within 5 years	**16,136**	27,213
	26,251	38,487

Deferred income tax liabilities of HK$334,000 (2018: HK$65,000) 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$6,680,000 at 31 December 2019 (2018: HK$1,290,000).

20. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials and packing materials	**19,794**	20,036
Finished goods	**192,850**	178,830
	212,644	198,866

The cost of sales for the year ended 31 December 2019 amounted to HK$3,613,216,000 (2018: HK$3,409,248,000), which included inventories written off of HK$8,586,000 (2018: HK$8,936,000).

21. 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 2019, the aging analysis by invoice date of trade receivables is as follows:

	2019 HK$'000	2018 HK$'000
0-30 days	**61,705**	49,813
31-60 days	**8,237**	16,510
61-90 days	**2,781**	2,938
Over 90 days	**3,231**	4,678
	75,954	73,939

The amount of the provision was HK$607,000 as of 31 December 2019 (2018: HK$891,000). 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.

21. TRADE RECEIVABLES (continued)

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

	2019 **HK$'000**	2018 HK$'000
HK dollar (HK$)	**73,038**	71,002
Renminbi (RMB)	**2,038**	2,015
Patacas (MOP)	**878**	922
	75,954	73,939

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

	2019 **HK$'000**	2018 HK$'000
At 1 January	**891**	511
Provision for receivable impairment	**27**	608
Receivables written off	**(311)**	(228)
At 31 December	**607**	891

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.

22. CASH AND CASH EQUIVALENTS

	2019 HK$'000	2018 HK$'000
Cash at bank and in hand	**267,970**	281,845
Bank deposits	**374,669**	225,849
Cash and cash equivalents	**642,639**	507,694
Restricted bank deposit	**223**	–
Total cash and bank balances	**642,862**	507,694

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$550,697,000 (2018: HK$387,366,000).

As at 31 December 2019, bank and restricted bank deposits of HK$374,892,000 (2018: HK$225,849,000) bear effective interest rate of approximately 1.4% (2018: 0.9%) per annum. These deposits have an average maturity of 28 days (2018: 28 days).

As at 31 December 2019, certain cash and bank balances of HK$29,546,000 (2018: HK$19,512,000) 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 2019, the Group's total bank balances and cash are denominated in the following currencies:

	2019 HK$'000	2018 HK$'000
HK dollar (HK$)	**600,193**	478,135
Renminbi (RMB)	**29,952**	19,520
Patacas (MOP)	**12,717**	10,039
	642,862	507,694

23. TRADE PAYABLES

At 31 December 2019, the aging analysis by invoice date of the trade payables is as follows:

	2019	2018
	HK$'000	HK$'000
0-30 days	**438,642**	424,278
31-60 days	**152,094**	146,618
61-90 days	**73,922**	60,915
Over 90 days	**35,499**	30,973
	700,157	662,784

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

24. LEASE LIABILITIES

	2019
	HK$'000
Initial recognition as at 1 January	**647,966**
Additions	**500,676**
Disposals	**(3,202)**
Remeasurement	**(12,846)**
Payments	**(435,183)**
Interest expenses	**17,598**
Exchange differences	**(1,962)**
At 31 December	**713,047**
Current lease liabilities	**406,064**
Non-current lease liabilities	**306,983**
	713,047

24. LEASE LIABILITIES (continued)

At 31 December 2019, the maturities of non-current lease liabilities are as follows:

	2019
	HK$'000
Over 1 year but within 2 years	**295,351**
Over 2 years but within 5 years	**10,005**
Over 5 years	**1,627**
	306,983

25. SHARE CAPITAL

	2019		2018	
	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	**762,530,974**	**76,253**	762,464,974	76,246
Issue of shares on exercise of share options	**34,000**	**3**	66,000	7
At 31 December	**762,564,974**	**76,256**	762,530,974	76,253

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 the Directors' Report.

25. SHARE CAPITAL (continued)

Share options (continued)

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

	2019		2018	
	Number of options	Weighted average exercise price HK$	Number of options	Weighted average exercise price HK$
At 1 January	31,656,000	4.82	28,094,000	4.97
Granted	202,000	3.87	5,018,000	3.88
Lapsed	(1,932,000)	5.02	(1,390,000)	4.57
Exercised	(34,000)	2.86	(66,000)	2.86
At 31 December	29,892,000	4.80	31,656,000	4.82
Exercisable	14,966,000	5.51	16,300,000	5.51

For the year ended 31 December 2019, the weighted average share price at the date of share options exercised was HK$3.9 (2018: HK$3.7). The options outstanding at 31 December 2019 and 2018 had a weighted average remaining contractual life of 1.8 years and 2.7 years respectively.

25. SHARE CAPITAL (continued)

Share options (continued)

(iii) Share options outstanding at the year-end have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$	**2019 Number of options**	2018 Number of options
1 April 2020	5.53	**14,514,000**	15,814,000
1 April 2020	5.10	**418,000**	418,000
1 April 2020	2.86	**34,000**	68,000
1 April 2023	4.19	**10,404,000**	10,604,000
1 April 2023	3.88	**4,320,000**	4,752,000
1 April 2023	3.87	**202,000**	–
		29,892,000	31,656,000

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$0.34 (2018: HK$0.50) per option. The significant inputs into the models for the share options granted in 2019 were as follows:

Expected volatility	**24.2%**
Expected life	**3 years**
Risk free rate	**1.5%**
Expected dividends	**6.8%**

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

26. RESERVES

	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 2018	200,445	177,087	20,002	15,445	36	161,414	574,429
Profit attributable to shareholders of the Company	–	–	–	–	–	183,203	183,203
Exchange differences	–	–	–	–	(1,566)	–	(1,566)
Issue of new shares	182	–	–	–	–	–	182
Employee share option benefit	23	–	–	2,658	–	509	3,190
Dividends paid	–	–	–	–	–	(144,881)	(144,881)
At 31 December 2018	200,650	177,087	20,002	18,103	(1,530)	200,245	614,557
At 1 January 2019	**200,650**	**177,087**	**20,002**	**18,103**	**(1,530)**	**200,245**	**614,557**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**–**	**–**	**207,574**	**207,574**
Exchange differences	**–**	**–**	**–**	**–**	**(601)**	**–**	**(601)**
Issue of new shares	**94**	**–**	**–**	**–**	**–**	**–**	**94**
Employee share option benefit	**12**	**–**	**–**	**2,070**	**–**	**1,222**	**3,304**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(175,390)**	**(175,390)**
At 31 December 2019	**200,756**	**177,087**	**20,002**	**20,173**	**(2,131)**	**233,651**	**649,538**

27. LONG SERVICE PAYMENT LIABILITIES

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's defined contribution retirement scheme that is attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

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

	2019	2018
	HK$'000	HK$'000
At 1 January	**14,949**	16,084
Expenses recognised in the consolidated profit and loss account – as shown below	**327**	337
Benefit paid	**(677)**	(1,472)
At 31 December	**14,599**	14,949

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

	2019	2018
	HK$'000	HK$'000
Service cost	**97**	111
Interest cost	**230**	226
Total, included in employee benefit expense *(note 11)*	**327**	337

Of the total charge, HK$38,000 (2018: HK$34,000), HK$229,000 (2018: HK$235,000), HK$18,000 (2018: HK$23,000) and HK$42,000 (2018: HK$45,000) were included in cost of sales, store expenses, distribution costs and administrative expenses respectively.

27. LONG SERVICE PAYMENT LIABILITIES (continued)

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

	2019	2018
Discount rate	**1.6%**	1.6%
Long-term rate of salary increases		
Full time staff	**2.5%**	2.5%
Part time staff	**2.5%**	2.5%
Long-term rate of increase of maximum amount of long service payment/wages and minimum mandatory provident fund relevant income	**2.5%**	2.5%

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash generated from operations

	2019 **HK$'000**	2018 HK$'000
Profit for the year	**207,574**	183,203
Adjustments for:		
Income tax expenses	**35,595**	33,650
Interest income	**(4,870)**	(2,355)
Lease interest expenses	**17,598**	–
Depreciation of owned fixed assets	**69,115**	73,829
Depreciation of right-of-use assets	**429,186**	–
Depreciation of investment properties	**966**	976
Depreciation of lease premium for land	**4,690**	1,230
Employee share option benefit	**3,304**	3,190
Losses on disposal of fixed assets/right-of-use assets	**776**	3,652
Gain on disposal of lease premium for land	**–**	(2,947)
Long service payment costs	**327**	337
Foreign exchange losses	**449**	857
	764,710	295,622
Changes in working capital		
Inventories	**(13,778)**	(6,263)
Trade receivables, rental deposits, other receivables, deposits and prepayments	**272**	(2,809)
Trade payables, other payables and accruals	**62,130**	18,983
Long service payment liabilities	**(677)**	(1,472)
Cake coupons	**109**	(10,729)
	812,766	293,332

29. 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 2019 is HK$1,303,000 (2018: HK$1,236,000).

(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:

	2019	2018
	HK$'000	HK$'000
Within 1 year	**473**	453,781
Over 1 year but within 5 years	**–**	338,014
Over 5 years	**–**	3,940
	473	795,735

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:

	2019	2018
	HK$'000	HK$'000
Within 1 year	**2,446**	4,388
Over 1 year but within 5 years	**908**	1,197
	3,354	5,585

30. 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	**2019 HK$'000**	2018 HK$'000
Income			
Service income and reimbursement of office and administrative expenses	*(i)*		
Subsidiaries/fellow subsidiary of a substantial shareholder		**987**	2,087
Associate of a substantial shareholder		**36**	33
Rental and service income	*(ii)*		
Fellow subsidiaries of a substantial shareholder		**767**	1,323
Sales of food products	*(iii)*		
Subsidiaries of a substantial shareholder		**496**	1,235
Associate of a substantial shareholder		**–**	12
Expenses			
Reimbursement of office and administrative expenses	*(iv)*		
Subsidiaries of a substantial shareholder		**3,582**	3,869
Associates of a substantial shareholder		**1,502**	1,598
Rental payable	*(v)*		
Fellow subsidiaries of a substantial shareholder		**2,743**	2,142
Associate of a substantial shareholder		**10,432**	10,417

30. RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel compensation

	2019 **HK$'000**	2018 HK$'000
Fees	**2,890**	2,890
Bonuses	**13,344**	12,235
Salaries and other allowances	**10,572**	10,555
Employee share option benefit	**1,272**	1,195
Pension costs – defined contribution plan	**72**	72
	28,150	26,947

(c) Year-end balances with related parties

	2019 **HK$'000**	2018 HK$'000
Amounts due from:		
Subsidiaries/fellow subsidiary of a substantial shareholder	**742**	1,096
Associate of a substantial shareholder	**9**	–
Amounts due to:		
Subsidiaries/fellow subsidiary of a substantial shareholder	**(393)**	(1,204)
Associate of a substantial shareholder	**(346)**	(345)

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

Notes:

(i) Service income and reimbursements receivable from subsidiaries/fellow subsidiary/associate 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) Rentals and service income from fellow subsidiaries of a substantial shareholder were carried out in ordinary course of business and on terms mutually agreed between the Group and the fellow subsidiaries.

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

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

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

31. BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	2019 HK$'000	2018 HK$'000
Assets		
Non-current assets		
Investment in subsidiaries	**885,293**	885,293
Fixed assets	**5,990**	7,906
Right-of-use assets	**7,582**	–
Rental deposit	**–**	2,513
	898,865	895,712
Current assets		
Amounts due from subsidiaries	**67,477**	76,306
Rental deposits	**2,547**	34
Other receivables, deposits and prepayments	**1,443**	652
Cash and cash equivalents	**2,768**	1,758
	74,235	78,750
Total assets	**973,100**	974,462
Equity		
Share capital	**76,256**	76,253
Reserves	**486,377**	487,116
Total equity	**562,633**	563,369
Liabilities		
Non-current liabilities		
Lease liability	**33**	–
Long service payment liabilities	**347**	388
	380	388
Current liabilities		
Amounts due to subsidiaries	**385,260**	393,675
Other payables and accruals	**17,190**	17,030
Lease liabilities	**7,637**	–
	410,087	410,705
Total equity and liabilities	**973,100**	974,462

On behalf of the Board

Victor FUNG Kwok King
Director

Richard YEUNG Lap Bun
Director

31. 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 2018	200,445	12,792	15,445	159,381	388,063
Profit attributable to shareholders of the Company	–	–	–	240,991	240,991
Issue of new shares	182	–	–	–	182
Employee share option benefit	23	–	2,658	80	2,761
Dividends paid	–	–	–	(144,881)	(144,881)
At 31 December 2018	200,650	12,792	18,103	255,571	487,116
At 1 January 2019	**200,650**	**12,792**	**18,103**	**255,571**	**487,116**
Profit attributable to shareholders of the Company	**–**	**–**	**–**	**171,583**	**171,583**
Issue of new shares	**94**	**–**	**–**	**–**	**94**
Employee share option benefit	**12**	**–**	**2,070**	**892**	**2,974**
Dividends paid	**–**	**–**	**–**	**(175,390)**	**(175,390)**
At 31 December 2019	**200,756**	**12,792**	**20,173**	**252,656**	**486,377**

32. PRINCIPAL SUBSIDIARIES

As at 31 December 2019, 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%
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 Portuguese.
* *The legal name of the company is in Chinese.*

Note:

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

33. EVENT AFTER THE BALANCE SHEET DATE

After the outbreak of the coronavirus disease COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented in China and Hong Kong. The Group expects local retail business to be greatly impacted and this may potentially affect the Group's business performance in the first half of 2020. Management has taken relevant actions to minimise the unfavourable impact to the Group. The Group will pay close attention to the development and evaluate its impact on the financial position and operating results.

Ten-Year Financial Summary

The following table summarises the results, assets and liabilities of the Group for the ten years ended 31 December 2019.

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
						(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Revenue *(note)*	**5,632,340**	5,320,077	5,094,032	4,871,437	4,728,151	4,531,321	4,317,130	4,101,217	3,842,696	3,462,886
Core operating profit (included interest expenses on lease liabilities) *(note)*	**238,299**	214,498	182,594	169,953	162,247	176,842	188,404	198,047	199,820	164,864
Profit attributable to shareholders of the Company	**207,574**	183,203	150,311	139,627	159,178	121,032	150,353	199,951	166,320	136,359
Total assets	**2,647,519**	1,808,351	1,756,791	1,839,412	1,785,407	1,785,299	1,686,649	1,924,597	1,859,961	1,659,092
Total liabilities	**(1,921,725)**	(1,117,541)	(1,106,116)	(1,029,690)	(946,873)	(995,138)	(928,331)	(909,416)	(919,889)	(809,463)
Total equity	**725,794**	690,810	650,675	809,722	838,534	790,161	758,318	1,015,181	940,072	849,629

Note:

The comparatives of revenue and core operating profit (included interest expenses on lease liabilities) for prior years have been restated by excluding the financial results of the Discontinued Operations accordingly.

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