# 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 2023


A Fung Retailing Company


*The annual store managers meeting was held in person for the first time in three years since COVID-19*

# Contents

# Corporate Information

## Executive Director
Michael TANG Tsz Kin *(Chief Executive Officer)*

## Non-executive Directors
William FUNG Kwok Lun #+ *(Chairman)*
Richard YEUNG Lap Bun
Sabrina FUNG Wing Yee
Terence FUNG Yue Ming #
Tiffany Daisy LEE Pei Ming

## Independent Non-executive Directors
Anthony LO Kai Yiu #*
Sarah Mary LIAO Sau Tung #+*
Terrence TSANG Diao-Long #+*

## Group Chief Compliance and Risk Management Officer
Jason YEUNG Chi Wai

## Company Secretary
CHAN Chor Fai

## Registered Office
Third Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

## 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*
*Registered Public Interest Entity Auditor*

## Principal Banker
The Hongkong and Shanghai Banking Corporation Limited

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

# Highlights

## Financial Highlights

| | Change | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|---|
| **Revenue** | +1.7% | **1,487,090** | 1,462,864 |
| **Core operating profit** | -12.9% | **72,973** | 83,758 |
| **Core operating profit (included interest expenses on lease liabilities)** | -14.5% | **65,707** | 76,843 |
| **Profit attributable to shareholders of the Company** | -14.9% | **57,709** | 67,785 |
| **Basic earnings per share (HK cents)** | -14.9% | **7.4** | 8.7 |
| **Dividend paid per share (HK cents)** | | | |
| Final | -20.0% | **4** | 5 |
| Full year | -14.3% | **6** | 7 |

## Operation Highlights

- The Group reported stable revenue, but profit decreased as retail sector performance fell short of expectations, even following removal of anti-pandemic travel restrictions
- Higher outbound travel by Hong Kong residents and slower-than-expected inbound travel by Mainland Chinese tourists impacted local spending, while macroeconomic concerns continued to dampen consumer sentiment
- Extreme labour shortages and high operational costs added cost pressure to store operating expenses and affected the Group's ability to achieve network expansion at pace
- The Group achieved improved gross margin on the back of effective category management, streamlined production and favourable foreign exchange
- B2B bakery business posted strong double-digit sales growth while expanding its client base
- The Group maintained a healthy financial position with net cash of HK$222 million and no bank borrowings that would put the Company in a favourable position to develop or acquire new businesses
- The Board of Directors has resolved to declare a final dividend of 4 HK cents per share

## Number of Stores

| | **31 December 2023** | 31 December 2022 |
|---|---|---|
| **Saint Honore Cake Shops** | | |
| Hong Kong | **120** | 115 |
| Macau | **14** | 12 |
| Guangzhou | **21** | 26 |
| **Subtotal** | **155** | 153 |
| **Pâtisserie Mon cher** | | |
| Hong Kong | **6** | 7 |
| **Total number of Stores under Bakery Group** | **161** | 160 |
| **Zoff Eyewear Stores** | | |
| Hong Kong | **15** | 14 |
| **Total number of Stores under Convenience Retail Asia** | **176** | 174 |

**Dr William FUNG Kwok Lun**
*Chairman*

I am pleased to report on the performance of Convenience Retail Asia in 2023, a transitional time that saw the Group operating in a tougher-than-expected retail environment despite the lifting of COVID restrictions. During the year under review, macroeconomic concerns such as high interest rates and China's slow recovery trickled down to impact local markets and consumer sentiment. Hong Kong residents took what appetite they had for discretionary spending to reducing their spending domestically, travel enthusiastically after three years of pandemic restrictions. Meanwhile, serious labour shortages challenged the Group's ability to staff stores and factories.

Despite these external difficulties, we accomplished a number of positive achievements during the year. Highlights included the impressive growth of our B2B bakery business and an acquisition that will expand our geographic footprint outside the Greater Bay Area (GBA) and into Southeast Asia. All in all, I believe 2023 may end up being regarded as a bridge year between the turmoil of the pandemic era and the new normal for both the Group and the local consumer market.

## A Tentative Recovery for Hong Kong Retail

As the COVID situation began shifting from pandemic towards endemic status in the second half of 2022, it was hoped that general economic recovery and the removal of international and cross-boundary travel restrictions would spark a retail rebound driven by increased tourism, higher foot traffic and stronger consumer sentiment. However, Mainland Chinese visitors were slow to return, while Hong Kong residents, eager to travel after three years of anti-pandemic measures, spent their dollars abroad rather than locally. Meanwhile, sentiment continued to be affected by weakness in Hong Kong's financial and real estate markets.

## A Tentative Recovery for Hong Kong Retail (continued)

The Hong Kong retail industry still enjoyed success in 2023 relative to the COVID era, but the results were not quite up to expectations. The bread, pastry, confectionery and biscuit segment – which includes Saint Honore and Mon cher – posted a -2.9%*note* decline as weekend spending remained soft due to frequent travel by Hong Kong residents. This consumption pattern may well be the new normal for the Hong Kong retail industry in the near to medium future. On the bright side, sales in the optical shop segment – including Zoff – recorded healthy increase over 2022.

## Building for the Future

The Group was able to maintain sales for its bakery business during the year, even as comparable store sales fell due to sluggish domestic demand and inbound tourism falling short of expectations. To maintain margins and protect the interest of our shareholders, we continued to practise prudent financial and operational management, which included implementing a number of initiatives to optimise our production processes and supply chain. We also strategically adjusted our store network expansion efforts to account for staffing shortage challenges amidst a tight labour market and the increased rentals being demanded by landlords.

We have now recruited over 1.3 million on-line members across Hong Kong and Macau to Cake Easy, our online-to-offline (O2O) customer relationship management (CRM) programme. Cake Easy helps power our marketing, promotional and sales efforts, and in 2023 we continued to utilise this tool to provide customers with attractive offers conveniently and efficiently.

One of the major goals of our Three-Year Plan 2023-2025 is to further develop and diversify our business portfolio. To this end, we had quite an eventful year. Our B2B bakery business continue to grow, winning high-profile new clients in the F&B and catering industries while also enjoying strong organic growth with existing clients. We were also delighted to complete our acquisition of Zoff Singapore, a transaction that rewards our hard work building Zoff into the leading fast-fashion eyewear brand in Hong Kong with an exciting new beginning and potentially lucrative foothold in Southeast Asia.

## Outlook

When it comes to building and managing brands, Convenience Retail Asia has an impressive track record. Under its stewardship, Saint Honore has grown to become one of the most successful bakery chains in Hong Kong and Macau, while Zoff attained market leadership in just a few short years. The Group has also proven to be agile and forward-thinking in formulating its business strategies, investing well ahead of many competitors in omni-channel marketing, identifying and acquiring attractive brands with high growth potential, and recognising the power of its product manufacturing capabilities in the B2B space.

*Note: Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 1 March 2024*

## Outlook (continued)

Our acquisition of Zoff Singapore demonstrates how brand owners recognise the Group's ability to help take their businesses to the next level. It also shows that we are ready to take our business to new regions, in accordance with our Three-Year Plan and longer-term growth strategies. We also look forward to expanding our B2B business in the GBA by positioning it as a solution provider for clients that serve bakery products.

The Group remains cautiously optimistic about the medium- to long-term prospects for its core businesses. The past few years have been tumultuous, and the transition period between the pandemic era and this new operating environment is requiring retailers to be agile. Consumer confidence and domestic spending are not rebounding quite as quickly as hoped due to economic concerns, both on local and global levels. At some point, however, shopping behaviours will normalise and inflation and interest rates will soften, trends that would certainly benefit the retail industry in Hong Kong and the GBA. We remain confident that the strong foundations we already have in place will benefit us as market conditions improve.

In this high interest rate environment, the Group is in an enviable financial position with no bank borrowings, and a sizable cash hoard that will put us in a favourable position to develop or acquire new businesses.

In closing, I am excited about the progress we have made towards establishing Convenience Retail Asia as a regional leader in specialty retailing. I would like to express my heartfelt thanks to my fellow Board members, Group management, and our valued frontline and factory staff for always giving their best efforts in support of our collective success amidst a very challenging retail environment.

**William FUNG Kwok Lun**
*Chairman*

Hong Kong, 21 March 2024

# CEO's Statement

**Mr Michael TANG Tsz Kin**
*Chief Executive Officer*

The year under review began with a glimmer of promise as Hong Kong gradually reopened to welcome back Mainland Chinese and overseas tourists. But although the city's retail sales did enjoy a degree of recovery overall, the rebound was not as strong as anticipated in certain categories. Mainland Chinese tourists were somewhat slow to return, while local residents seized upon the opportunity to travel without restrictions for the first time in years and took their spending abroad. The segment in which the Group primarily operates also continued to underperform as people began going out more and staying home less, resulting in lower sales for stores in residential areas. As at the end of the year, Group total revenue had risen slightly, while comparable store sales and profit saw declines compared to 2022.

## Operations Review – Saint Honore Cake Shop

In 2023, the Group opened 10 Saint Honore stores and closed three across Hong Kong and Macau for a total of 134, representing an increase of seven over 2022. The number of stores in Guangzhou was reduced to 21 as at year-end.

Total store revenue at Saint Honore marginally declined versus 2022 while comparable store sales decreased due to lighter-than-expected footfall, particularly on weekends and public holidays. These results were primarily because of substantial and continuous outbound travel by Hong Kong and Macau residents. This trend was particularly pronounced in Hong Kong, where residents can now quickly and easily travel to Mainland China for both daily necessities and discretionary spending. Meanwhile, economic uncertainties such as inflation and high interest rates continued to have dampening effects on consumer sentiment.

## Operations Review – Saint Honore Cake Shop (continued)

To drive sales and foot traffic in challenging operating conditions, the Group continued to devise effective tactical promotional campaigns and launch new products. Sales of bakery products saw an uptick during the year as people returned to their regular work and school routines. This helped offset part of the decrease in sales of pastry products, which fell as people hosted celebrations outside Hong Kong and Macau. Festive product sales increased over 2022 due to steady customer demand for our high-quality products as well as successful marketing and promotional campaigns.

The Group has long been a leader in online-to-offline (O2O) customer relationship management (CRM) among operators in the local retail market. In 2023, we continued to enhance Saint Honore's O2O CRM platform, Cake Easy, which now boasts more than 1.3 million members across Hong Kong and Macau. Cake Easy and its user-friendly app interface make it easy for customers to browse products and special offers, make purchases, and pick up orders at the location of their choice, enhancing convenience and customer service while driving foot traffic to our store network.

During the year, we continued to seek promising new Saint Honore store locations in accordance with the growth strategies laid out in our Three-Year Plan 2023-2025, but the serious labour shortages in Hong Kong and Macau forced us to take a more measured approach accounting for the higher costs required to staff and operate new outlets. High inflation and high interest rates have also been challenging for many businesses. Nevertheless, we were still able to offset higher payroll and material costs to improve our gross margin in 2023. This was due partly to the depreciation of the renminbi as well as our diligent efforts to source directly whenever possible, carry out regular price reviews and negotiate prices with vendors, practise effective category management, boost productivity, and streamline work processes.


*Delicacies from Saint Honore, including festive puddings, celebration cakes and daily bread*

## Operations Review – Saint Honore Cake Shop (continued)

It was a very encouraging year for the Group's B2B business, as many other players in the F&B and catering industries who were also experiencing labour shortages and cost pressures sought high-quality outsourcing options for their bakery production needs. During the year, our B2B business achieved satisfactory organic growth with existing clients while also attracting a number of important new clients.

Saint Honore was proud to receive once again the "Quality Trusted E-shop Award" and "Bronze Award" in the "Top 10 Quality Trusted E-Shops" category from the Hong Kong Retail Management Association. Remaining highly active in the community, Saint Honore Hong Kong continued to engage charitable organisations including Foodlink, God's Glory Ministry, Breadline, YMCA of Hong Kong ("Food Share – Bread Collection Project") & SUN CLUB to redistribute unsold bread from our participating outlets to people in need. This year, ahead of the Mid-Autumn, Dragon Boat and Chinese New Year (CNY) festivals, Saint Honore donated over 5,000 boxes of festive products to the Hong Kong community. All of our stores in Hong Kong also proudly supported the Earth Hour Event held by the World Wide Fund for Nature to help raise climate change awareness.

In Guangzhou, we continued our store renovation and upgrade programme to bring local outlets into closer alignment with the brand image of our Hong Kong network. This strategic plan of "premiumisation" has paid dividends thus far, as the four stores that have undergone renovation have all enjoyed year-on-year growth. We have also implemented a strategy to align the product range more closely with that of Hong Kong and Macau while still taking local tastes and consumer preferences into account. In November, the Group was proud to sign a cooperation agreement with SEMK Products Limited, the owners of the B.Duck IP. Subsequent to the signing, we launched a collaborative marketing campaign featuring the "B.Duck" family of IP characters in Guangzhou to promote Saint Honore's Christmas cakes and other festive products. Beyond our retail business, we continued to expand our B2B business, leveraging the strong network we have built over the years and our reputation for making quality bakery and pastry products.


*Saint Honore's Cake Easy online shopping platform was awarded "Bronze" in the "Top 10 Quality Trusted E-Shops" programme organised by the Hong Kong Retail Management Association*

## Operations Review – Saint Honore Cake Shop (continued)

To support the growth of its Saint Honore store networks and expanding B2B business, the Group continued to invest in initiatives to enhance its research and development capabilities, boost semi-automation, optimise production, improve process efficiency and provide continuous training. These included our programme to transform our facilities into digital factories through smart manufacturing systems. In 2023, efforts such as these led to increases in productivity at both our Hong Kong and Shenzhen production facilities.


*Saint Honore's flagship store at Foshan City, Guangdong province, was opened in May 2023*

## Operations Review – Mon cher

The Group acquired the Hong Kong franchise licence for Mon cher, a premium Japanese pâtisserie brand, in 2020. Among its delectable range of products, Mon cher is known in particular for its signature "Dojima" cream roll, named after a famous district within Osaka Prefecture where the first store was opened 20 years ago. As at 31 December 2023, the Group operated six Mon cher stores in Hong Kong, of which five were shop-in-shop formats inside high-traffic supermarkets. We continue to seek additional store locations in busy, high-profile areas as our customer base grows due to exciting new product development and effective social media campaigns targeting those with strong affinity for Japanese cakes and desserts.


*In addition to its signature "Dojima" cream rolls, Mon cher continues to develop new products that make tasty treats as well as great gifts*

## Operations Review – Zoff

The Group continued to receive satisfactory financial performance from Zoff, its franchise of the trendy fast-fashion eyewear chain from Tokyo, despite high levels of outbound travel from Hong Kong impacting weekend sales. Following the openings of two new locations in 2023, Tai Wai and Mong Kok, we now operate 15 outlets across the city. Zoff remains the leader in the fast-fashion eyewear segment in terms of market share. Despite the challenging business environment, we continued to see growth in transaction size as loyal customers sought higher-end models, which is a testament to their receptiveness towards Japanese-designed frames.

In 2023, the Group partnered with services including WeChat and PayMe to support its marketing efforts and provide customers with more convenience in terms of payment options. These collaborations also helped the Group leverage the rollouts of the Hong Kong Government’s consumption voucher scheme in April and July. Recognising the importance of influencers and key opinion leaders (KOLs) among younger demographics, especially in the age of social media, we continued to launch campaigns featuring KOLs on important platforms such as Instagram, Facebook and Little Red Book throughout the year. In November and December 2023, we launched our 6th-year anniversary lucky draw promotion to drive brand awareness and sales, successfully acquiring a number of new customers.

Zoff carries more than 1,400 SKUs across its store network to offer customers an unparalleled selection of stylish frames and provide the brand with differentiation in an increasingly competitive market. During the year, Zoff introduced new collections with themes ranging from Disney characters to “Demon Slayer: Kimetsu no Yaiba”, a famous Japanese comic series.


*Zoff’s new shop at Wai Fung Plaza in Mong Kok opened in December 2023*

## Operations Review – Zoff (continued)

Zoff continued to cement its leadership position in eye care in 2023 by equipping select store locations with the advanced Lenstar Myopia system by HOYA and becoming the first fast-fashion eyewear chain in Hong Kong to offer HOYA's MiYOSMART lens. These lenses are designed to reverse visual defects and slow down the progression of myopia for children in their teenage years. We will continue to market the effectiveness of this product in joint collaboration with HOYA as there is growing demand due to children's increasing use of mobile devices. Zoff also retained an active role serving the seniors in its communities during the year. A number of stores have added the service utilising the Government's health care voucher, which provides seniors with easier access to eye examinations and appropriate eyewear solutions.

In January 2024, the Group completed a 100% acquisition of Zoff Singapore, the exclusive operator of the Zoff eyewear brand in Singapore, from the brand owner. Zoff Singapore currently operates five stores in the market, including outlets in both the CBD and heartland areas. The acquisition reflects the brand owner's high degree of trust in the Group and its belief that our executional capabilities in Hong Kong can be replicated in other regions. It also marks a key milestone for the Group, which is now expanding into Southeast Asia in alignment with its Three-Year Plan 2023-2025.


*Zoff is the first fast-fashion eyewear chain in Hong Kong to offer HOYA's MiYOSMART lens*

## Future Prospects

The Group is approaching 2024 in a cautious manner due to the rather measured recovery of the local economy and the post-COVID changes in consumer behaviour that are impacting the retail industry. Achieving growth remains a priority, but in the medium to long term, we will deploy our resources prudently in areas that generate higher returns.

While we continue to look for store network expansion opportunities, we will also introduce new retail formats that provide consumers with differentiated customer experiences. To accelerate the growth of our B2B business, we will be investing in capital expenditures in both our Hong Kong and Shenzhen production facilities to increase capacity and introduce new product lines, adding to our bakery offerings and providing more solutions for hotels, restaurants and caterers.

Elsewhere, we will strive to retain Zoff's leading market position in fast-fashion eyewear retail in Hong Kong by expanding the store network and increasing consumer awareness via marketing campaigns designed to promote the brand's distinctive identity. We also continue to seek opportunities to expand our businesses and brand portfolio in the Greater Bay Area and Southeast Asia. Our recent acquisition of Zoff Singapore is poised to open doors to other prospects across the region as we seek attractive M&A opportunities in this turbulent environment.

In order to keep providing differentiated customer experiences to our loyal customers, we will continue to invest in upgrading our Cake Easy O2O application and add new features that provide consumers with even more attractive offers. We remain committed to developing our people through a variety of continuous learning programmes, incentive schemes and team-building initiatives as we strive to attract and retain talent, particularly in the current, highly competitive labour environment. We will also continue to invest in our production facilities and supply chain resources to support our business growth while using on-trend technologies to improve productivity and efficiency.

**Michael TANG Tsz Kin**
*Chief Executive Officer*

Hong Kong, 21 March 2024

# Management Discussion and Analysis

## Financial Review

In 2023, the Group's turnover increased by 1.7% to HK$1,487 million. Turnover for the bakery business increased by 1.5% to HK$1,345 million. Growth in B2B and festive sales was offset by a decline in daily store sales resulting from frequent outbound travel by Hong Kong residents post pandemic. Turnover for the bakery business in Guangzhou decreased by 10.7% amidst a weak economic environment across Mainland China. Turnover for the Zoff eyewear business increased by 2.7% to HK$142 million owed to store network expansion.

Gross margin as a percentage of turnover improved by 2.8 percentage points to 53.4%. This was achieved through effective pricing strategy, category management, production efficiency enhancement and favourable foreign exchange rates against the renminbi and Japanese yen. Other income decreased by 13.6% or HK$1 million in 2023, which was mainly due to one-off subsidy in 2022 from the local government in Mainland China.

Operating expenses as a percentage of turnover increased from 45.5% to 49.1%. This was mainly caused by a rise in staff-related costs, which escalated due to an extremely tight labour market. Wages and fringe benefits were adjusted during the year to enable the Group to retain and recruit frontline and production staff. Distribution expenses were reduced following the normalisation of cross-border traffic between Hong Kong and Shenzhen. Including interest expenses on lease liabilities arising from operating leases, operating expenses increased to 49.6% of turnover, up from 46.0% in 2022.

Core operating profit before interest expenses on lease liabilities decreased by 12.9% to HK$73 million. Including interest expenses on lease liabilities, core operating profit decreased by 14.5% to HK$66 million. Net profit decreased by 14.9%, from HK$68 million to HK$58 million.

Basic earnings per share decreased by 14.9% to 7.4 HK cents from 8.7 HK cents.

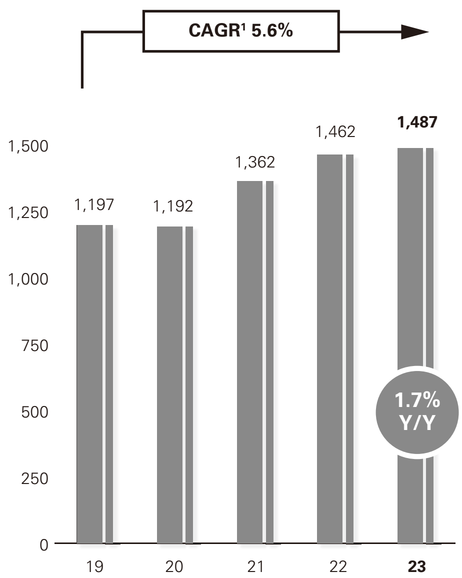
As at 31 December 2023, the Group had a net cash balance of HK$222 million, generated mainly from daily business operations. The Group had no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and Mainland China. The majority of the Group's assets, liabilities, revenues and payments were held in either Hong Kong dollars, renminbi or Japanese yen. The Group had foreign exchange exposure as the Group's trade suppliers transact in renminbi and Japanese yen. 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 term deposits denominated in its operating currencies, with appropriate maturity periods to meet the operating requirements and capital expenditure requirements in the future. The Group has banking facilities of HK$148 million in support of treasury planning and management.

The Board of Directors has resolved to declare a final dividend of 4 HK cents per share.

## Financial Review (continued)

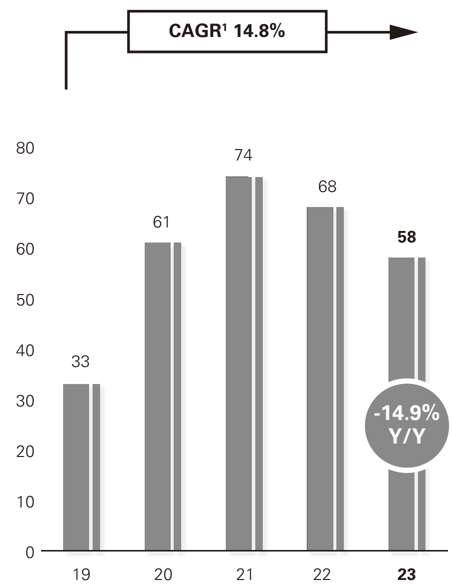
### Revenue*

(HK$ million)



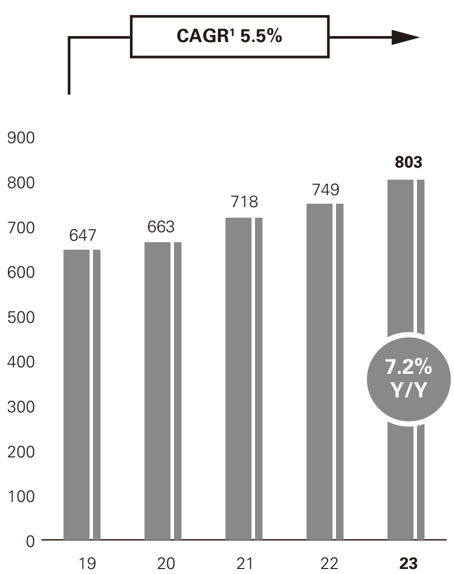

### Net Profit*

(HK$ million)



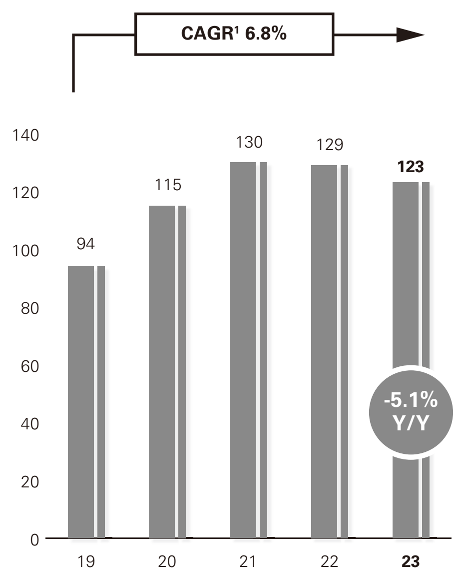

### Gross Profit and Other Income*

(HK$ million)




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

(HK$ million)

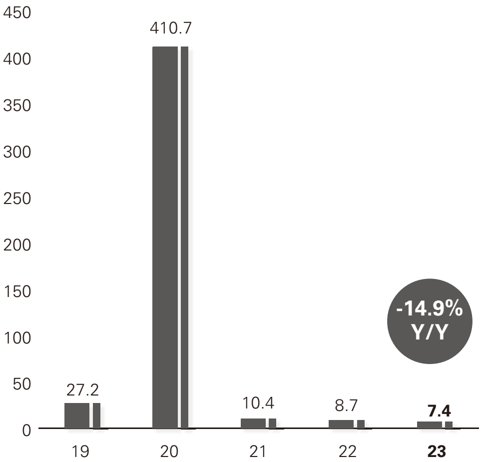



* *The comparatives for prior years have been excluding the results of the discontinued operations*

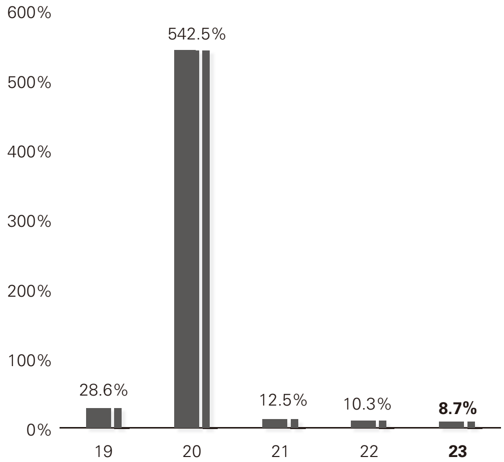
## Financial Review (continued)

### Earnings per Share

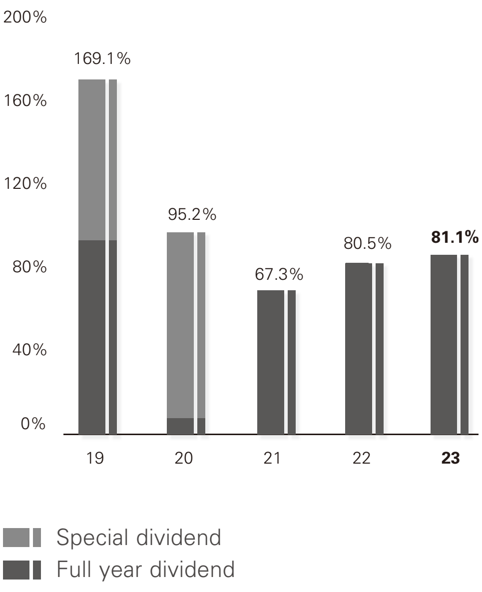
(HK cents)




### Return on Total Equity[2]

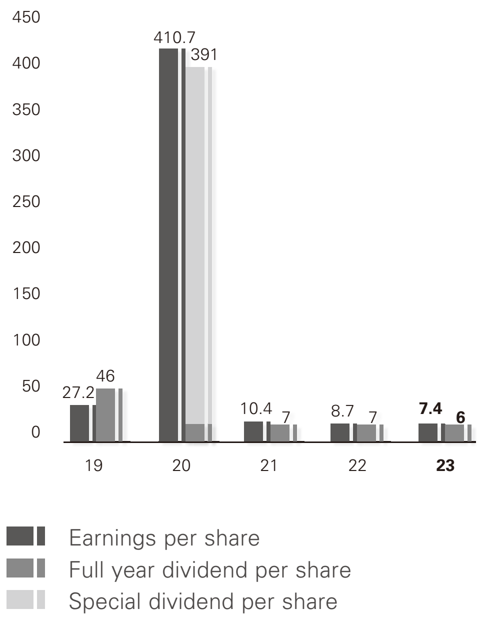



### Dividend Payout[3]




### Dividend per Share

(HK cents)




*Notes:*

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

## Business Model and Corporate Strategy

Convenience Retail Asia is a member of the Fung Retailing Group. It owns the famous Saint Honore Cake Shop bakery chain, operating stores in Hong Kong, Macau and the Greater Bay Area. As at 31 December 2023, there were 155 Saint Honore stores in total across Hong Kong, Macau and Guangzhou.

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 among young consumers. There are currently 15 Zoff stores in Hong Kong, all located in high-traffic commercial areas. In January 2024, the Group acquired Zoff Singapore, the exclusive operator of the Zoff eyewear brand in Singapore and a wholly owned subsidiary of the Japan-based brand owner. There are currently five stores across a mix of commercial and residential areas.

In 2020, the Group obtained the franchise licence to operate Mon cher pâtisserie, a premium Japanese dessert and pastry brand, in Hong Kong and Macau. There are currently six locations in Hong Kong.

The Group aims to be the most innovative, customer-preferred specialty retailer, employing a multi-pronged strategy that includes:

- Innovative and on-trend products inspired by our in-house R&D team
- Wide physical store network providing convenience to customers
- On-line shopping experience through "Cake Easy" application and store website
- Excellent customer service by our highly motivated and well trained employees
- Maximised efficiency through the adoption of new equipment and latest technology
- Synchronised supply chain management infrastructure and processes
- Continuous investment in brand awareness, store design, people development, eCRM platforms and R&D resources

The Group strives to achieve sustainable, long-term value for shareholders through total commitment to its customers, employees and businesses. Its keys to success are excellent customer focus, product innovation, production efficiency, retail operation excellence, continuous focus in 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 2023, the Group had a total of 3,209 employees, with 1,571, or 49%, based in Hong Kong and 1,638, or 51%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 22% of total headcount. Employee benefit expenses for the year amounted to HK$492 million compared to HK$446 million in 2022.

The Group offers competitive remuneration schemes, and eligible employees also receive salary packages plus discretionary bonuses based on individual and company performance. Staff have access to a wide range of job-related skill enhancement programmes and attractive career advancement opportunities, and frontline employees receive comprehensive customer service training. To provide safe, healthy, stable and secure work environments, the Group places high priority on hygiene, sanitisation and workplace safety. Through these and other efforts, the Group has been acknowledged as a "Super MD" ("Manpower Developer") for the years 2020–2025 by the Employees Retraining Board (ERB) under the Manpower Developer Award Scheme.

We place great emphasis on workplace satisfaction to retain quality staff – especially at a time of high labour demand – and strive to achieve high levels of customer service in support of our business objectives. Each year, the Activity Organising Board (AOB) coordinates a number of initiatives under the HEARTS (Happy, Energised, Achievements, Respect, Training and Success) employee engagement programme – including career development and work-life balance events as well as social activities – to help colleagues succeed professionally and foster staff camaraderie. In 2023, community programmes included food donation drives, outreach engagements for the elderly, participation in recycling and food waste reduction programmes, participation in efforts to raise awareness of the importance of carbon footprint reduction, and more.

## Health and Safety

The Group sets a high standard for safety and hygiene for its customers and its employees. Saint Honore's factories in Hong Kong and Shenzhen are both ISO 9001-accredited. The Shenzhen factory has also achieved Hazard Analysis and Critical Control Points (HACCP) food safety accreditation, and its in-house microbiological laboratory has been certified by the China National Accreditation Services (CNAS). Employees receive comprehensive food safety, workplace safety and hygiene training as well as protective clothing and equipment where necessary. The Group carries out regular inspections to ensure that its factories and stores continue to meet relevant safety, hygiene and compliance guidelines. Employees in production facilities also receive continuous training on the "5S" principles of "sort, straighten, shine, standardise and sustain".

## Sustainability and Corporate Social Responsibility

As a member of the Fung Group, the Group adheres to the United Nations Global Compact on human rights, labour, anti-corruption efforts, environmental protection and sustainability. The Group is committed to achieving sustainability in its operations wherever possible, striving to protect the environment and conserve natural resources while saving costs through the "three Rs" of reducing, reusing and recycling. It also uses energy-efficient equipment and low-carbon fuels to minimise its carbon footprint.

For 2022-2023, Saint Honore once again received the "10 Years Plus Caring Company Logo" from the Hong Kong Council of Social Service, while Zoff Hong Kong was again awarded with the "Caring Company Logo". These recognitions are given to companies that demonstrate care for the community, their employees and the environment.

Further information on environmental, social and governance policies and performance will be provided in a separate report on the Group'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

### Corporate Culture

Convenience Retail Asia Limited ("CRA") strives to develop a sustainable business with people-oriented culture that nurtures successes of our business units and employees. The Board is responsible for defining the purpose, values and strategic direction of the Group, whilst management oversights the nurturance of the culture and core values over its daily operations. The Group instils and continually reinforces its purpose, vision and core values of acting lawfully, ethically and responsibly across the business environment it operates. Taking into accounts of the above measures, the Board considers that the Group's purpose, value, strategy and its culture are aligned.

**CRA's Core Values**

- Product TFP (Tastiness, Freshness and Presentation)
- Operation EFSS (Easy, Fast, Simple and Safe)
- Focus CX (Customer Experience)
- Embracing our HEARTS culture (Happy, Energised, Achievements, Respect, Training and Success)
- Strong employee engagement

**CRA's Vision**

- To be a leading high-quality specialty retailer with a sharpened focus on our bakery and eyewear businesses in Hong Kong and expanding to Greater Bay Area and Southeast Asia

**CRA's Purpose**

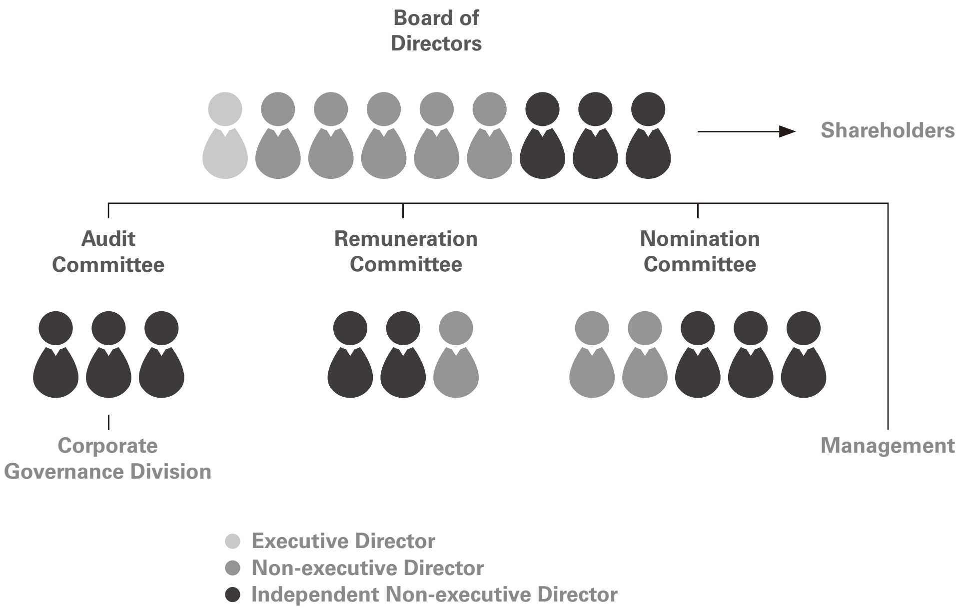
- Providing world-class product quality and service to customers
- Enhancing the quality of life of customers and the community

### Corporate Strategy

During the year, the Board discussed during the Board meetings on future strategic planning, potential business opportunities and challenges of the Group. The Board has developed an action plan to explore new sustainable long-term business opportunities in Hong Kong, Greater Bay Area and Singapore. Details of strategic achievements during the year are set out in the Chairman's Statement on pages 5 to 7.

## The Board (continued)

### Board Composition




The Board is structured to ensure it has a balance of skills, experience, knowledge, diversity and contributed valuable insights appropriate to the businesses and development of the Group. The Board is currently composed of the Non-executive Chairman, one Executive Director ("ED"), three Independent Non-executive Directors ("INED") and four Non-executive Directors ("NED"). Biographical details and relevant relationships of the Board members are set out in the Directors and Senior Management Profile section on pages 45 to 50.

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.

### 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 William Fung Kwok Lun and Mr Michael Tang Tsz Kin. Their respective responsibilities are clearly established and defined by the Board in writing. The Chairman is responsible for overseeing the proper functioning of the Board with good corporate governance practices and procedures, as well as a culture of openness and debate, 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.

## The Board (continued)

### Non-executive and Independent Non-executive Directors

The Non-executive Directors and the Independent Non-executive Directors offer to the Board their skills, experiences and diverse industry expertise. Through active participation in the meetings of the Board and the Board Committees, they bring constructive analysis and independent judgement on corporate strategies, policies, management proposals, accountability, resources, key appointments, taking the lead where potential conflicts of interests arise, as well as scrutinising performance against business goals, ensure the Board maintains high standards of financial reporting and regulatory compliance, as well as providing adequate checks and balances for safeguarding the interests of the Company and the shareholders as a whole.

### Independence of Independent Non-executive Directors

The Company has received from each Independent Non-executive Director a written confirmation of his/her independence. The Company considers all of the Independent Non-executive Directors to be independent during the year ended 31 December 2023.

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.

### 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.

The Board has reviewed the implementation and effectiveness of the Board Diversity Policy during the year. In reviewing Board composition, the Nomination Committee has considered 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.

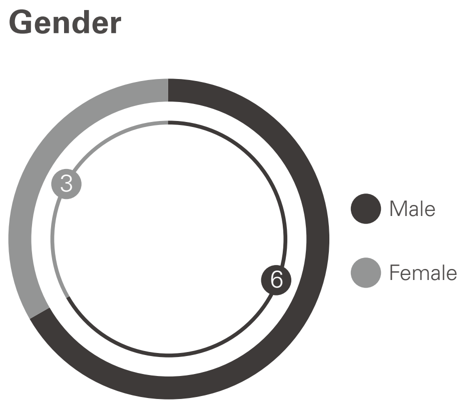
Besides, the Company is committed to maintaining a Board with a minimum representation of 20% of either gender. The Board will take opportunities to increase the proportion of female members over time when selecting and making recommendations on suitable candidates for Board appointments.

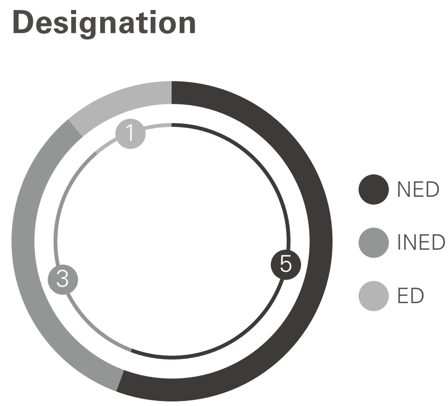
Based on the latest review, the Nomination Committee considers the Board to be diverse in respect of the aforesaid evaluation criteria. The Nomination Committee has considered but decided not to set other measurable objectives for implementing the Board Diversity Policy other than gender diversity. The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

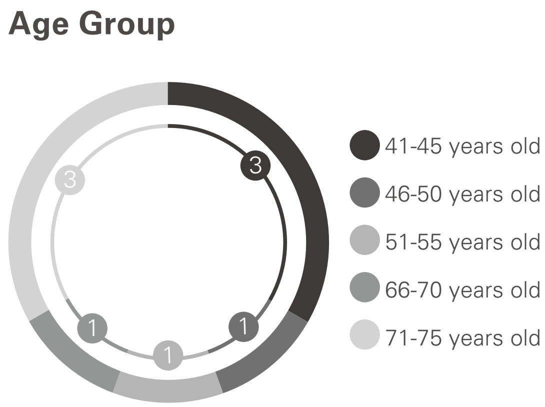
## The Board (continued)

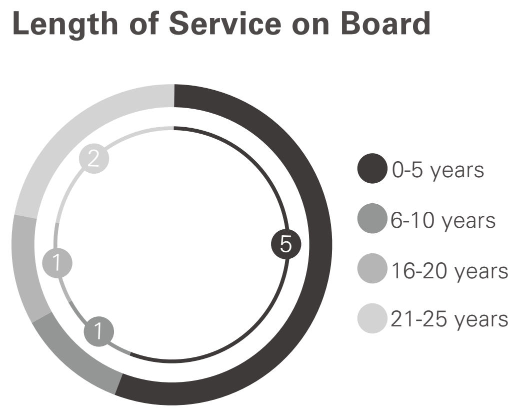
**Board Diversity** (continued)

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




The Board currently consists of three female members (33% of board composition) and gender diversity of the Board is aligned with our Board Diversity Policy. As at 31 December 2023, female workforce (included senior management) accounted for 63% of the total workforce, which is relatively in-line with the food & beverage retail industry. The Group strives to ensure a diverse culture and relevant policies are in place. Details of gender diversity on workforce is set out in the 2023 Environmental, Social and Governance Report of the Group, which is available on the websites of both the Stock Exchange and the Company.

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

## The Board (continued)

### Board Evaluation

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

The Board has conducted an annual evaluation and 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, implementation and effectiveness of shareholders' communication, 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 2023 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.

### Nomination and Appointment of Directors

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 Director Nomination 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 annual general meeting following the appointment.

## The Board (continued)

### Nomination and Appointment of Directors (continued)

In 2023, the Board reviewed its composition, the retirement and re-appointment of Directors. Changes in the Board composition during the year were as follows:

- Mr Benedict CHANG Yew Teck retired as Non-executive Director on 24 May 2023;
- Mr Richard YEUNG Lap Bun was re-designated as Non-executive Director on 1 June 2023;
- Mr Michael TANG Tsz Kin was appointed as Executive Director on 1 June 2023;
- Mr Godfrey Ernest SCOTCHBROOK resigned as Non-executive Director on 1 September 2023;
- Ms Tiffany Daisy LEE Pei Ming was appointed as Non-executive Director on 1 September 2023.

The aforesaid changes were disclosed in the Company's announcements dated 5 May, 24 May and 1 September 2023 respectively.

All Non-executive Directors and Independent Non-executive Directors will be appointed without a specific term 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.

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.

### 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 2023.

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.

### Potential Conflict of Interest

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

## The Board (continued)

### Information and Continuous Professional Development

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

All Directors are kept informed on a timely basis of major changes that may affect the Group's 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, financial 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, 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 current Directors during the year are summarised as follows:

| Directors | Types of Professional Development |
|---|---|
| William FUNG Kwok Lun | A, B |
| Richard YEUNG Lap Bun | B |
| Sabrina FUNG Wing Yee | A, B |
| Terence FUNG Yue Ming | B |
| Tiffany Daisy LEE Pei Ming | B |
| Anthony LO Kai Yiu | A, B |
| Sarah Mary LIAO Sau Tung | B |
| Terrence TSANG Diao-Long | B |
| Michael TANG Tsz Kin | 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.

### 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 and the limit of indemnity are reviewed regularly.

## Board Process

### 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 Executive Director, 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.

Day-to-day operational responsibilities are delegated by the Board to management. The management, headed by the Chief Executive Officer, is responsible for the day-to-day management of the Group's businesses and affairs. 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 Process (continued)

### Independent Reporting of Corporate Compliance Function

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

### Board and Committee Meetings

The Board held four meetings in 2023 (with an average attendance rate of 92%). The Chairman holds meetings annually with the Independent Non-executive Directors to provide an effective forum for the Chairman to listen to the views of the Independent Non-executive Directors on varies matters including corporate governance, Board effectiveness, and other issues they may wish to raise in the absence of Executive Director and senior management of the Company.

The dates of the 2023 Board meetings and committee meetings were determined in the third quarter of 2022 to facilitate maximum attendance of Directors. Amendments to the 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 three days before the intended meeting so as to give the Directors sufficient time to prepare before the meeting. Draft 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, papers and related materials of the Board meetings and committee meetings are kept by the Company Secretary and are open for inspection by all Directors.

## Board Process (continued)

### Board and Committee Meetings (continued)

A summary of the attendance at the meetings held in 2023 are set out in the following table:

| | No. of meetings **attended**/held | | | | |
|---|---|---|---|---|---|
| | **Board** | **Audit Committee** [7] | **Remuneration Committee** | **Nomination Committee** | **Annual General Meeting** [7] |
| **Non-executive Directors:** | | | | | |
| William FUNG Kwok Lun<br>*(Group Chairman and Chairman of Nomination Committee)* | **4**/4 | – | **3**/3 | **3**/3 | **1**/1 |
| Richard YEUNG Lap Bun [1] | **4**/4 | – | – | – | **1**/1 |
| Sabrina FUNG Wing Yee | **3**/4 | – | – | – | **1**/1 |
| Terence FUNG Yue Ming | **4**/4 | – | – | **3**/3 | **1**/1 |
| Tiffany Daisy LEE Pei Ming [2] | **1**/1 | – | – | – | – |
| **Independent Non-executive Directors:** | | | | | |
| Anthony LO Kai Yiu<br>*(Chairman of Audit Committee)* | **4**/4 | **4**/4 | – | **3**/3 | **1**/1 |
| Sarah Mary LIAO Sau Tung<br>*(Chairman of Remuneration Committee)* | **4**/4 | **4**/4 | **3**/3 | **3**/3 | **1**/1 |
| Terrence TSANG Diao-Long | **3**/4 | **3**/4 | **3**/3 | **2**/3 | **1**/1 |
| **Executive Director:** | | | | | |
| Michael TANG Tsz Kin [3]<br>*(Chief Executive Officer)* | **2**/2 | – | – | – | – |
| **Outgoing Directors:** | | | | | |
| Benedict CHANG Yew Teck [4] | **1**/2 | **1**/2 | – | – | **1**/1 |
| Godfrey Ernest SCOTCHBROOK [5] | **3**/3 | **3**/3 | – | – | **1**/1 |
| **Group Chief Compliance and Risk Management Officer:** | | | | | |
| Jason YEUNG Chi Wai [6] | **4**/4 | **4**/4 | **3**/3 | **3**/3 | **1**/1 |
| **Average Attendance Rate of Directors** | 92% | 88% | 100% | 93% | 100% |
| **Dates of Meeting in 2023** | 23 March<br>24 May<br>10 August<br>8 November | 23 March<br>24 May<br>10 August<br>8 November | 8 March<br>23 March<br>8 November | 23 March<br>24 May<br>10 August | 24 May |

## Board Process (continued)

### Board and Committee Meetings (continued)

*Notes:*

(1) *Re-designated as Non-executive Director on 1 June 2023.*

(2) *Appointed as Non-executive Director on 1 September 2023.*

(3) *Appointed as Executive Director on 1 June 2023.*

(4) *Retired as Non-executive Director and member of Audit Committee on 24 May 2023.*

(5) *Resigned as Non-executive Director and member of Audit Committee on 1 September 2023.*

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

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

(8) *Certain Directors did not attend some of the meetings of the Board, Audit Committee and Nomination 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.*

## Board Committees

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

All the committees comprise a majority of Independent Non-executive Directors to ensure independent views and input are available to the Board. 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* | Sarah Mary LIAO Sau Tung * |
| | Terrence TSANG Diao-Long * |
| | Benedict CHANG Yew Teck + (retired with effect from 24 May 2023) |
| | Godfrey Ernest SCOTCHBROOK + (resigned with effect from 1 September 2023) |

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

## Board Committees (continued)

### Audit Committee (continued)

The Audit Committee is primary responsible for reviewing the Group's financial reporting, risk management, internal controls and corporate governance matters, and making relevant recommendations to the Board. The committee includes members who possess appropriate professional qualifications, accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Audit Committee met four times in 2023 (with an average attendance rate of 88%) 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:

- 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);
- Quarterly business and financial performance of the Group including the Group's cash flow positions;
- Independence of external auditor, their related terms of engagement and fees;
- Adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions, as well as ESG performance and reporting; 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.

### Whistleblowing Arrangements

Under the Group's Whistleblowing Policy, employees can report any concern, including actual or potential misconduct, possible impropriety or fraud in financial reporting, accounting, risk management and internal control matters, to either senior management or the Group Chief Compliance and Risk Management Officer. Any shareholders or stakeholders, including customers and suppliers, can also report similar concerns by writing in confidence and anonymity to the Group Chief Compliance and Risk Management Officer at the Company's principal place of business in Hong Kong.

No incident of fraud or misconduct that has material effect on the Company's financial statements and overall business operations was reported by employees, shareholders or stakeholders in 2023.

## Board Committees (continued)

### Audit Committee (continued)

#### 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. 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 2023, the following fees paid or payable to PwC have been endorsed by the Audit Committee:

| | **Fees**<br>HK$'000 |
|---|---|
| Audit services | 1,354 |
| Non-audit services (including agreed-upon procedures regarding interim financial information and tax services) | 674 |
| Total | 2,028 |

Prior to the commencement of the audit of the Company's financial statements for the year ended 31 December 2023, 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 2024 at the forthcoming AGM.

## Board Committees (continued)

### Remuneration Committee

| | |
|---|---|
| *Chairman* | Sarah Mary LIAO Sau Tung * |
| *Members* | William FUNG Kwok Lun + |
| | Terrence TSANG Diao-Long * |

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

The Remuneration Committee is primarily responsible for:

- Making 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;
- Making recommendations to the Board on the remuneration packages of Executive Director and senior management;
- Making recommendations to the Board on the remuneration of Non-executive Directors; and
- Reviewing the Group's remuneration and human resources policy.

The Remuneration Committee met three times in 2023 (with a 100% attendance rate) to review the proposal for the grant of share options and the remuneration packages of senior management.

### Remuneration Policy for Executive Director

Remuneration for the Executive Director 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.

The remuneration package of Executive Director was approved by the Remuneration Committee at the beginning of the Group's Three-Year Business Plan.

## Board Committees (continued)

### Remuneration Committee (continued)

**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.

**Remuneration of Senior Management**

The remuneration of the senior management is subject to review and approval of the Remuneration Committee. Results-based bonuses and share options are granted as a means to reward and retain a high-calibre team.

Details of Directors' emoluments of the Company are set out in note 12a to the consolidated financial statements on pages 102 to 103.

### Nomination Committee

| | |
|---|---|
| *Chairman* | William FUNG Kwok Lun + |
| *Members* | Anthony LO Kai Yiu * |
| | Sarah Mary LIAO Sau Tung * |
| | Terence FUNG Yue Ming + |
| | Terrence TSANG Diao-Long * |

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

The Nomination Committee is primarily responsible for:

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

The Nomination Committee met three times in 2023 (with an average attendance rate of 93%) to review the aforesaid matters and also the evaluation of the performance of the Board and its committees. In particular, the Nomination Committee reviewed the proposed appointment of new Non-executive Director.

## Company Secretary

Mr CHAN Chor Fai has been the Company Secretary of the Company since 2022. Mr Chan is the Finance Director of the Group and has over 25 years of experience in auditing, finance and accounting with day-to-day knowledge of the Group's affairs. He reports to the Group Chairman on company secretarial duties and Board governance matters. He is also responsible for ensuring that Board policies and procedures are followed. All Board members have access to his advice and services. Besides, he arranges 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 2023, Mr Chan undertook over 15 hours of professional training and confirms that he 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 on terms no less exacting than those of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 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 2023.

## Directors' Interests

Details of Directors' interests in the shares and underlying shares of the Company and its associated corporations are set out in the Directors' Report on pages 58 to 59.

## 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 63 and 67 to 68 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<br>• Fostering a healthy risk awareness culture |
| **Risk monitoring and communication** | Corporate Governance Division and Company Secretarial Division | • Evaluation of risk management and internal control systems to identify areas for improvement<br>• Monitoring of corporate governance disclosure and compliance with the Listing Rules and statutory requirements<br>• Undertaking of investigations<br>• Ensuring that critical risks are reported to the Board, along with the status of actions taken to manage such risks |
| **Risk and control owner** | Management and business units | • Day-to-day execution and monitoring of internal controls and risk management procedures<br>• Formulation and implementation of policies and operating guidelines<br>• Balance between business operation efficiency and exercising internal controls |

## 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 89 to 90.

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 such as anti-bribery and anti-corruption 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 2023, no incident of non-compliance with the Code of Conduct and Business Ethics that had significant impact on the Group's business operations was reported.

## Risk Management and Internal Control (continued)

### Management of Key Risks (continued)

**4. Regulatory Compliance Risk Management**

The CGD and the Company Secretarial Division supported by external advisors, 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 is under the supervision of the Group Chief Compliance and Risk Management Officer. 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 and selected stores in Hong Kong, Macau and Mainland China to help embedding the compliance culture in the Group's business practices by performing on-site reviews.

The Audit Committee approved CGD's Three-Year Internal Audit Plan which is based on a risk assessment methodology and covers the Group's major operations. 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 Risk Management and 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, as well as ESG performance and reporting. 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 2023.

## 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 2023.

## 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 2023 which has been confirmed by senior management by the completion of the Risk Management and Internal Control Self-Assessment Checklist in each material business unit across the Group.

Based on the above and the assessment made by CGD, and also taking into account the results of the work conducted by the external auditor for the purpose of their audit, the Audit Committee considered that for the year ended 31 December 2023:

- 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 (including ESG 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, internal audit functions, as well as those relating to ESG performance and reporting 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 Corporate Governance Code (the "CG Code") in Appendix C1 of the Listing Rules throughout the year ended 31 December 2023.

The Company has applied the principles of the CG Code to its corporate governance structure and practices as described in this report. The Board has delegated its corporate governance functions to the Audit Committee, with its duties as set out in their terms of reference (available on the website of the Company).

## Shareholders' Rights

Under the Company's Articles of Association, on the written requisition of shareholder(s) (including a recognised clearing house (or its nominee)) holding not less than one-tenth of the voting rights, on a one vote per share basis, in the share capital of the Company, the Board shall convene an extraordinary general meeting for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of the requisition.

Any proposal to be tabled at 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 21 clear days before the meeting and at least 14 clear 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 52.

## Changes in Constitutional Documents

At the AGM held on 24 May 2023, special resolution was passed by the shareholders of the Company approving certain amendments (the "Amendments") to the Company's Articles of Association, among others, adoption of the new Memorandum and Articles of Association of the Company to allow the Company to hold hybrid and virtual meetings of the shareholders. Details of the Amendments were set out in the Company's announcement dated 3 April 2023 and circular dated 18 April 2023. The new Memorandum and Articles of Association of the Company are available on the websites of both the Stock Exchange and the Company.

## Investor Relations and Communication

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 effectiveness of engagements with shareholders is assessed during the annual evaluation of the Board's performance.

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

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

Key calendar events for shareholders' attention and share information, including market capitalisation as at 31 December 2023, are set out in the Information for Investors section on page 51.

### Annual General Meeting

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

The most recent AGM of the Company was held at 1/F, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong on 24 May 2023 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 21 clear 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.

# Directors and Senior Management Profile

## Executive Director

**Michael TANG Tsz Kin** – *Chief Executive Officer*

Mr Tang, aged 43, has over 20 years of experience in strategic development, business management and corporate finance across Greater China, Southeast Asia and Australia and has been an Executive Director of the Company and the Chief Executive Officer of the Group since 1 June 2023. Mr Tang previously served as the Managing Director at Nature's Care Holdings Pty Ltd, a leading manufacturer in health food supplements and personal care products where he was responsible for the group's expansion strategy.

Formerly, he was the Managing Director at Tamar Alliance Capital Limited, an asset management company under CITIC Pacific Limited where he was responsible for principal investments and portfolio management. Prior to that, he was at Dah Chong Hong Holdings Limited ("DCH") responsible for mergers and acquisitions and operational improvement. Before DCH, he was with BlackPine Zheng He Capital Management Limited, and was responsible for inbound & outbound investments in the consumer sector. Mr Tang held various positions at PricewaterhouseCoopers Corporate Finance Limited in Hong Kong and Deloitte in Toronto, Canada. He is a qualified Chartered Accountant and Chartered Professional Accountant in Canada. Mr Tang holds a Bachelor of Administrative Commercial Studies in Finance and Accounting from the University of Western Ontario, Canada.

## Non-executive Directors

**William FUNG Kwok Lun** – *Chairman*

Dr Fung, aged 75, father of Mr Terence Fung Yue Ming (Non-executive Director of the Company) and uncle of Ms Sabrina Fung Wing Yee and Ms Tiffany Daisy Lee Pei Ming (Non-executive Directors of the Company), has been a Non-executive Director of the Company since 3 January 2001 and Chairman of the Board since 26 May 2021. Dr Fung is Group Deputy Chairman of the Fung Group, a Hong Kong based multinational engaged in trading, logistics, distribution and retailing. 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 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 Group Non-executive Chairman of Li & Fung Limited until October 2020.

## Non-executive Directors (continued)

**Richard YEUNG Lap Bun**

Mr Yeung, aged 67, prior to re-designation as Non-executive Director of the Company on 1 June 2023, was the Chief Executive Officer of the Group and Executive Director of the Company since 1 November 2000. He has over 30 years of experience in general management, food distribution and supply chain management. 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.

**Sabrina FUNG Wing Yee**

Ms Fung, aged 52, niece of Dr William Fung Kwok Lun (Chairman of the Board and substantial shareholder of the Company) and cousin of Mr Terence Fung Yue Ming and Ms Tiffany Daisy Lee Pei Ming (Non-executive Directors of the Company), has been a Non-executive Director of the Company since 28 May 2021. Ms Fung is the Group Managing Director of Fung Retailing Limited, a substantial shareholder of the Company. Ms Fung is also the Chief Executive Officer of Asia Retail Company Limited, a business unit within the Fung Group focusing on supporting and growing international brands in Asia. She also serves as the Chair of Wellness Med Limited, a company under the Fung Group that serves the growing global health and wellness market. Currently, Ms Fung is an independent non-executive director of Chow Tai Fook Jewellery Group Limited.

Ms Fung is also the Investment Director of Fung Investment Management Limited. She started working at the private investment arm of the Fung Group in 2000 as investment manager running the family's investments. Prior to joining the Fung Group, Ms Fung worked for Brown Brothers Harriman & Co in New York and Hong Kong until 1999. Ms Fung is experienced in the retail industry and held positions in marketing and public relations for Salvatore Ferragamo Asia, as well as in merchandising, sourcing, and branding for Li & Fung group in Hong Kong and the USA. She was named in the Business of Fashion 500 in 2016, and Women's Wear Daily 10 of Tomorrow in 2017.

In Hong Kong, Ms Fung is a member of the Major Sports Events Committee of HKSAR, on the board of Alibaba Hong Kong Entrepreneurs Fund, the Advisor on Retailing and Fashion for NBA Greater China, and a member of the University Court of The University of Hong Kong (HKU) and the Executive Committee of the International Advisory Council of the Faculty of Business and Economics of HKU, the Advisory Committee of the Roger King Center for Asian Family Business and Family Office at Hong Kong University of Science and Technology, the advisory panel of IBM Collaborative Innovative Program, the Advisory Committee of the Hong Kong-Europe Business Council and the Hong Kong-France Business Council of Hong Kong Trade Development Council. Internationally, Ms Fung is a member of McLaren Advisory Group, Harvard Global Advisory Council, the Board of Trustees of The Carnegie Hall Corporation in New York, and the Co-chair of St. Paul's School Asia Council in New Hampshire, USA.

Ms Fung graduated from Harvard University, with a Bachelor of Arts degree in Economics. She attended Harvard Business School's Program for Global Leadership and its Business of Entertainment, Media, and Sports program afterwards.

## Non-executive Directors (continued)

**Terence FUNG Yue Ming**

Mr Fung, aged 44, son of Dr William Fung Kwok Lun (Chairman of the Board and substantial shareholder of the Company) and cousin of Ms Sabrina Fung Wing Yee and Ms Tiffany Daisy Lee Pei Ming (Non-executive Directors of the Company), has been a Non-executive Director of the Company since 28 May 2021. Mr Fung is an executive director of Fung Investment Management Limited and in charge of the Fung Group's corporate services including corporate communications, public relations, strategic engagement and general administration functions. Mr Fung joined Fung Group in 2004 and later held the post of executive vice-president of Corporate Services of Li & Fung (Trading) Limited until September 2017. Mr Fung attended Princeton University and Boston College in the United States.

**Tiffany Daisy LEE Pei Ming**

Ms Lee, aged 43, niece of Dr William FUNG Kwok Lun (Chairman of the Board and substantial shareholder of the Company) and cousin of Ms Sabrina FUNG Wing Yee and Mr Terence FUNG Yue Ming (Non-executive Directors of the Company), has 20 years of experience in retail, food and beverage, and consumer products industries. Ms Lee previously served as Managing Director of Wellcome Hong Kong and Macau. She also held various leadership roles at Café de Coral, Starbucks Coffee Asia Pacific, McDonald's Restaurants (Hong Kong), and Saint Honore Cake Shop. Prior to that, Ms Lee was a financial analyst at Credit Suisse Securities and a management consultant at McKinsey & Company. She holds a Master's degree in Business Administration from Harvard Business School and a Bachelor of Arts degree from Harvard College.

## Independent Non-executive Directors

**Anthony LO Kai Yiu**

Mr Lo, aged 75, 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 40 years of experience in accounting, banking, finance and investments. Mr Lo also serves as an independent non-executive director of Hong Kong listed Playmates Holdings Limited, Tristate Holdings Limited and Lam Soon (Hong Kong) Limited. He was an independent non-executive director of Malaysia and Singapore listed Top Glove Corporation Bhd. until October 2022. 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.

## Independent Non-executive Directors (continued)

### Sarah Mary LIAO Sau Tung

Dr Liao, aged 72, 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 has been a member of the Board of Trustees of the Environmental Defense Fund (2009-2017) and is on their China Advisory Board. Dr Liao was formerly the Secretary for the Environment, Transport and Works of the Hong Kong Government (2002-2007). Prior to her Government appointment, Dr Liao was in the consultancy business and amongst her many projects she was engaged as the environmental consultant to the Beijing's Olympic Bid and Organising Committee (2000-2008). Formerly, Dr Liao was a director (July 2008-April 2012) of Westport Innovations Inc. which is listed on the Toronto Stock Exchange and NASDAQ. Dr Liao is a Fellow of the Royal Society of Chemistry and the Hong Kong Institute of Engineers. She was awarded the Member of the British Empire (MBE); and Justice of Peace and the Gold Bauhinia Star by the Hong Kong Government. The Lai Chi Wo Rural Landscape project has been awarded the inaugural "Special Recognition for Sustainable Development" in the 2020 UNESCO Asia-Pacific Awards for Cultural Heritage Conservation, in which Dr Liao was one of the individuals responsible for the project.

### Terrence TSANG Diao-Long

Mr Tsang, aged 48, has been an Independent Non-executive Director of the Company since 26 May 2022. He has over 25 years of experience in the hospitality and food and beverage industry. Mr Tsang is the Founder and Managing Partner of Quality Quotient Solutions Limited, a hospitality consulting company based in Hong Kong. Previously, Mr Tsang served as Director of Project Analysis and Corporate Director of Food and Beverage of Langham Hospitality Group. Prior to that, Mr Tsang spent 12 years with the Four Seasons Hotel in Hong Kong and New York and also 2 years with the St. Regis Hotel in New York. Mr Tsang holds a Master of Business Administration, Executive Program from the J.L. Kellogg Graduate School of Management, Northwestern University in the United States and The Hong Kong University of Science and Technology. He also holds a Bachelor's degree in Hospitality Management from the University of New Hampshire in the United States.

## Group Chief Compliance and Risk Management Officer

**Jason YEUNG Chi Wai**

Mr Yeung, aged 69, 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 the Fung Group. 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

**LAI Chun Pang** – *Group Managing Director, Saint Honore Group*

Mr Lai, aged 62, is the Group Managing Director of Saint Honore. With 40 years of experience in the retail chain business, Mr Lai spent ten years in Mainland China under Convenience Retail Southern China spearheading the Circle K convenience store business from 2009 to 2019, and the Saint Honore bakery chain in Guangzhou from 2009 to 2015. In his current role, he oversees Saint Honore Group's retail and manufacturing operations in Hong Kong, Macau, Shenzhen and Guangzhou. Prior to joining the Group in 1987, Mr Lai started his career as a frontline manager and merchandiser of sports apparel for Crocodile Garments Limited. Mr Lai holds a Master of Arts degree in International Business Management and a Bachelor of Arts degree in Business Studies from City University of Hong Kong.

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

Mrs Chan, aged 61, has over 30 years of experience in the food and beverage and retail chain industry. She is currently responsible for overseeing marketing and category, retail operations, products and site development management of Saint Honore and Mon cher brands in Hong Kong and Macau. 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.

## Senior Management (continued)

**Jason YEUNG Hoi To** – *Managing Director, Manufacturing*

Mr Yeung, aged 53, has over 30 years of experience in food and bakery industry. He is currently responsible for overseeing the manufacturing and B2B business development of the Group's bakery business. Prior to joining the Group in 2013, Mr Yeung held management positions at various food related companies including Délifrance (HK) Limited, ARTAL Food Industries Limited and Wal-Mart (China) Investment Co., Ltd. responsible for production management, quality control, new product development and national sourcing. Mr Yeung holds Master's degree in Business Administration from both Jiangxi University of Finance and Economics and The University of Ballarat, Australia (currently known as Federation University Australia). He also holds Certificate of Baking Science and Technology from The Institute for Crop and Food Research in New Zealand and International Diploma in German Bread Baking from The German National Bakers Academy in Weinheim, Germany.

**CHAN Chor Fai** – *Finance Director and Company Secretary*

Mr Chan, aged 51, has been the Financial Controller of the Group since 2012, 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. He was appointed as the Company Secretary of the Company in May 2022. Mr Chan has over 25 years of experience in auditing, finance and accounting. Prior to joining the Group in 2007, he was the Finance and Accounting Manager of a leading fashion retail group in Greater China and an Internal Auditor of a multinational conglomerate. He commenced his professional career with Ernst & Young, providing assurance and business advisory services to a wide range of companies. Mr Chan graduated from The University of Hong Kong with a Bachelor's degree in Business Administration and also holds a Bachelor's degree in Law from the University of London. He has completed the Executive Programme held by the Stanford Center for Professional Development, Stanford University. Mr Chan is a member of the Hong Kong Institute of Certified Public Accountants.

# Information for Investors

## Listing Information

| | |
|---|---|
| Listing | Hong Kong Stock Exchange |
| Stock code | 00831 |

## Key Dates

| | |
|---|---|
| 21 March 2024 | Announcement of 2023 Final Results |
| 17 May 2024 | Record date for right to attend Annual General Meeting |
| 23 May 2024 | Annual General Meeting |

## Share Information

| | |
|---|---|
| Board lot size | 2,000 shares |
| Shares outstanding as at 31 December 2023 | 777,416,974 shares |
| Market capitalisation as at 31 December 2023 | HK$528,644,000 |
| Earnings per share for 2023 | |
| Interim | 2 HK cents |
| Full year | 7.4 HK cents |
| Dividend per share for 2023 | |
| Interim | 2 HK cents |
| Final | 4 HK cents |
| Full year | 6 HK cents |

## Share Registrar and Transfer Offices

**Principal:**
Tricor Services (Cayman Islands) Limited
Third Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

**Hong Kong Branch:**
Tricor Abacus Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

## Enquiries Contact

CHAN Chor Fai
Finance Director and Company Secretary

| | |
|---|---|
| Telephone | 2991 6800 |
| Fax | 2991 6808 |
| 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 2023.

## Principal Activities, Business Review and Analysis of Operations

The principal activity of the Company is investment holding. During the year, the subsidiaries are principally engaged in the operation of (i) a chain of bakeries under the brand name of Saint Honore in Hong Kong, Macau and Mainland China; (ii) a chain of premium pâtisserie under the branch name of Mon cher in Hong Kong – one of Japan's most popular pâtisserie and cake brands; and (iii) 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 15 and pages 16 to 21 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 69.

The Board of Directors had declared an interim dividend of 2 HK cents per share, totaling HK$15,548,000, which was paid on 7 September 2023.

The Board of Directors recommended the payment of a final dividend of 4 HK cents per share, totaling HK$31,097,000.

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 32 to the consolidated financial statements.

## Donations

Charitable and other donations made by the Group during the year amounted to HK$123,000.

## 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 2023 calculated under the Companies Law of the Cayman Islands amounted to HK$363,005,000 (2022: HK$420,185,000).

## 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 2023 are set out in note 33 to the consolidated financial statements.

## Five-Year Financial Summary

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

## Purchase, Sale or Redemption of Listed Securities

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

## Share Options

**1. 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 for the purpose of providing incentives and/or rewards to eligible persons as defined in the scheme. On 29 April 2020, shareholders of the Company approved at the annual general meeting the termination of the 2010 Share Option Scheme, pursuant to which, no further options will be granted under the 2010 Share Option Scheme but in all other respects the provisions of the 2010 Share Option Scheme shall remain in full force and effect. All options granted prior to the termination of the 2010 Share Option Scheme and not then exercised shall remain valid.

**2. 2020 Share Option Scheme**

On 29 April 2020, the 2020 Share Option Scheme was approved and adopted by the shareholders at the annual general meeting of the Company in view of the termination of the 2010 Share Option Scheme.

A summary of the major terms of the 2010 Share Option Scheme and the 2020 Share Option Scheme (the "Share Option Schemes") are as follows:

**(i) Purpose of the Share Option Schemes**

The purpose of the Share Option Schemes is to attract and retain the best quality personnel for the development of the Company's businesses, to provide additional incentives or rewards to selected qualifying participants of the Share Option Schemes for their contribution to the creation of the Company's shareholders value and to promote the long term financial success of the Group by aligning the interest of grantees to the shareholders of the Company.

**(ii) Qualifying participants**

Any employee or officer (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 Schemes) 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 or the 2020 Share Option Scheme must not exceed 10% of the shares in issue as at the date of approval of the respective share option scheme.

The total number of shares available for issue under the 2020 Share Option Scheme is 64,921,897, representing approximately 8.35% of the issued shares of the Company as at the date of this Report.

## Share Options (continued)

**2. 2020 Share Option Scheme** (continued)

**(iv) Limit for each participant**

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

**(v) Option period**

In respect of any particular option, such period as the Board may in its absolute discretion determine, save that such period shall not exceed 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) Vesting period**

The Share Option Schemes do not specify any holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised.

**(vii) 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.

**(viii) 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.

**(ix) The remaining life of the Share Option Schemes**

The 2010 Share Option Scheme was terminated on 29 April 2020.

In respect of the 2020 Share Option Scheme, the Board shall be entitled at any time within ten years commencing on 29 April 2020 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 and the 2020 Share Option Scheme during the year ended 31 December 2023 are as follows:

| Grantees | Number of share options | | | | Exercise price HK$ | Grant date | Vesting period | Exercisable period |
|---|---|---|---|---|---|---|---|---|
| | As at 1/1/2023 | Exercised *(Note 2)* | Expired *(Note 3)* | As at 31/12/2023 | | | | |
| **2010 Share Option Scheme** | | | | | | | | |
| **Continuous contract employees** | 100,000 | – | (100,000) | – | 4.19 | 29/3/2017 | 29/3/2017–31/3/2020 | 1/4/2020–31/3/2023 |
| | 350,000 | – | (350,000) | – | 3.88 | 8/3/2018 | 8/3/2018–31/3/2020 | 1/4/2020–31/3/2023 |
| | 70,000 | – | (70,000) | – | 3.87 | 14/3/2019 | 14/3/2019–31/3/2020 | 1/4/2020–31/3/2023 |
| | 520,000 | – | (520,000) | – | | | | |
| **2020 Share Option Scheme** | | | | | | | | |
| **Continuous contract employees** | 11,166,000 | (1,000,000) | – | 10,166,000 | 0.764 | 11/11/2021 | 11/11/2021–31/3/2023 | 1/4/2023–31/3/2026 |
| **Other participant** *(Note 1)* | 172,000 | (172,000) | – | – | 0.764 | 11/11/2021 | 11/11/2021–31/3/2023 | 1/4/2023–31/3/2026 |
| | 11,338,000 | (1,172,000) | – | 10,166,000 | | | | |

*Notes:*

1. *An employee of a subsidiary of the Company's substantial shareholder was originally granted 200,000 share options in 2021 in respect of provision of secretarial services that were instrumental for the Company to achieve its business plan. The granting of share options was on similar basis as the Company's employees and the terms of share options were also the same.*

2. *Share options to subscribe for 1,172,000 shares were exercised by continuous contract employees and other participant during the year. The weighted average closing market price per share immediately before the date on which the said options were exercised were approximately HK$0.93, HK$0.91, HK$0.89 and HK$0.79.*

3. *Share options to subscribe for 520,000 shares expired during the year following the expiry of the options.*

4. *No share options under the 2010 Share Option Scheme and the 2020 Share Option Scheme were granted, cancelled or lapsed during the year.*

The number of shares that may be issued in respect of share options granted under all share option schemes during the year divided by the weighted average number of ordinary shares in issue of the Company for the year is approximately 1.31%.

Number of share options available for grant under the 2020 Share Option Scheme as at 1 January 2023 and 31 December 2023 are as follows:

| | 31 December 2023 | 1 January 2023 |
|---|---|---|
| Share options under the mandate limit | **64,921,897** | **64,921,897** |

Save as disclosed above, as at 31 December 2023, 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*
William FUNG Kwok Lun
Anthony LO Kai Yiu*
Sarah Mary LIAO Sau Tung*
Terrence TSANG Diao-Long*
Richard YEUNG Lap Bun
(re-designated as Non-executive Director on 1 June 2023)
Sabrina FUNG Wing Yee
Terence FUNG Yue Ming
Tiffany Daisy LEE Pei Ming (appointed on 1 September 2023)
Benedict CHANG Yew Teck (retired on 24 May 2023)
Godfrey Ernest SCOTCHBROOK (resigned on 1 September 2023)

*Executive Director*
Michael TANG Tsz Kin (appointed on 1 June 2023)

* *Independent Non-executive Directors*

In accordance with Article 87 of the Company's Articles of Association, Mr Anthony LO Kai Yiu, Mr Richard YEUNG Lap Bun and Mr Terence FUNG Yue Ming will retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election. In addition, in accordance with Article 86(3) of the Company's Articles of Association, Ms Tiffany Daisy LEE Pei Ming and Mr Michael TANG Tsz Kin, who were appointed as Directors subsequent to the 2023 annual general meeting, will retire at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election.

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. 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers that each Independent Non-executive Director is independent to the Company.

## Directors' Service Contracts

Mr Richard YEUNG Lap Bun had a service contract with the Company for an initial term of three years commencing on 1 January 2001 and continue in office thereafter subject at all times to termination by not less than three months' prior notice in writing by either party to the other. The service contract was ended with effect from 1 June 2023.

Mr Michael TANG Tsz Kin has entered into a service contract with the Company with no specific term which may be terminated at any time by either party serving to the other a written notice in writing of not less than six months. The service contract is effective from 1 June 2023.

## Directors' Service Contracts (continued)

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 2023. 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 2023, 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**

| Name of Directors | Number of shares: Personal interests | Number of shares: Corporate/ Trust interests | Total interests | Approximate percentage of interests |
|---|---|---|---|---|
| William Fung Kwok Lun | 44,000,000 *(Note 2)* | 311,792,000 *(Note 1)* | 355,792,000 | 45.77% |
| Anthony Lo Kai Yiu | 2,276,000 | – | 2,276,000 | 0.29% |
| Sabrina Fung Wing Yee | – | 311,792,000 *(Note 1)* | 311,792,000 | 40.11% |
| Richard Yeung Lap Bun | 24,396,000 | – | 24,396,000 | 3.14% |

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

As at 31 December 2023, the interests of Dr William Fung Kwok Lun and Ms Sabrina Fung Wing Yee 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. Ms Sabrina Fung Wing Yee is the daughter of Dr Victor Fung Kwok King. Therefore, Dr William Fung Kwok Lun (by virtue of his interests in King Lun) and Ms Sabrina Fung Wing Yee (as family member of Dr Victor Fung Kwok King) are deemed to have interests in 311,792,000 shares of the Company.*

(2) *Dr William Fung Kwok Lun has personal interests of 44,000,000 shares in the Company.*

Save as disclosed above, as at 31 December 2023, 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

As at 31 December 2023, 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)* | 40.11% |
| King Lun Holdings Limited | 311,792,000 | Interest of controlled corporation *(Note 1)* | 40.11% |
| Aggregate of Standard Life Aberdeen plc affiliated investment management entities (together "SL & Aberdeen plc") | 93,020,000 | Investment manager *(Note 2)* | 11.97% |
| Aberdeen Standard Asia Focus PLC | 46,826,000 | Beneficial owner | 6.02% |
| FIL Limited | 46,088,000 | Interest of controlled corporation *(Note 3)* | 5.93% |
| Pandanus Associates Inc. | 46,088,000 | Interest of controlled corporation *(Note 3)* | 5.93% |
| Pandanus Partners L.P. | 46,088,000 | Interest of controlled corporation *(Note 3)* | 5.93% |
| Aberdeen Asian Income Fund Limited | 39,556,000 | Beneficial owner | 5.09% |

## 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 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.*

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

Save as disclosed above, as at 31 December 2023, 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 | 8% |
| – | five largest suppliers combined | 26% |

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

### Connected Transaction

The Group entered into the following connected transaction in 2022.

On 23 September 2022, 廣州市聖安娜餅屋有限公司 (Saint Honore Cake Shop Guangzhou Limited), an indirect wholly-owned subsidiary of the Company, entered into a tenancy agreement with Circle K PRC Properties Limited, an indirect wholly-owned subsidiary of FH 1937, in respect of a property leasing for a term of three years from 1 October 2022 to 30 September 2025 (both days inclusive). Details were disclosed in the announcement of the Company dated 26 September 2022. In accordance with the requirement of HKFRS 16 "Leases", the total value of the right-of-use asset to be recognised by the Group in respect of the leasing of the properties under the tenancy agreement is RMB3,169,000.

FH 1937 is a controlling shareholder of the Company and FH 1937 and its subsidiary are connected persons of the Company. Accordingly, the transaction contemplated under the tenancy agreement constituted a one-off connected transaction for the Company, which is subject to the reporting and announcement requirements but exempt from the circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The pricing and the terms of the above transaction has been determined in accordance with the pricing policies and guidelines as set out in the announcement of the Company dated 26 September 2022. Dr William Fung Kwok Lun and Ms Sabrina Fung Wing Yee are considered to have material interest in the abovementioned connected transaction by virtue of their deemed interests in FH 1937.

### Continuing Connected Transactions

During the year, the Group had various transactions with related parties (details are set out in note 31 to the consolidated financial statements on pages 124 to 125), such as certain reimbursement of office and administrative expenses between the Group and FH 1937, its subsidiaries and associates, also constituted continuing connected transactions of the Company which are fully exempted from the requirements under Rule 14A.98 of the Listing Rules.

## Contracts with Controlling Shareholders

Save as disclosed under "Connected Transactions" above and note 31 "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 2023, 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
**William FUNG Kwok Lun**
*Chairman*

Hong Kong, 21 March 2024

pwc 羅兵咸永道

**Independent Auditor's Report**
**To the Shareholders of Convenience Retail Asia Limited**
*(incorporated in the 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"), which are set out on pages 69 to 128, comprise:

- the consolidated balance sheet as at 31 December 2023;
- the consolidated statement of profit or loss 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, comprising material accounting policy information and other explanatory information.

### 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 2023, 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.

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*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 assessment of goodwill and trademarks with indefinite lives.

## Key Audit Matters (continued)

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Impairment assessment of goodwill and trademarks with indefinite lives**<br><br>*Refer to note 4b, 4c and note 17 to the consolidated financial statements*<br><br>The Group carried goodwill and trademarks balances of HK$247 million and HK$110 million, respectively, as of 31 December 2023, which relate to the acquisition of the Saint Honore bakery business.<br><br>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.<br><br>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.<br><br>We focused on this area as management's assessment involved significant estimates and judgements, including the revenue growth rates, gross margin, long-term growth rate, royalty rate and discount rate applied in the calculation. | We obtained the valuation models (fair value less cost to sell calculations and royalty relief valuation method) used by management for the impairment assessment of goodwill and trademarks.<br><br>We obtained an understanding of the assessment process of impairment assessments of goodwill and trademarks and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors.<br><br>We evaluated the methodologies and tested the accuracy of the underlying calculations using internal valuation experts to assist us.<br><br>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.<br><br>We also evaluated the key assumptions used in the calculations, including revenue growth rates, gross margin, long-term growth rate, royalty rate and discount rate. 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 and economic growth forecasts from a number of sources.<br><br>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.<br><br>We assessed the adequacy of the disclosures related to the impairment assessments of goodwill and trademarks in the context of HKFRSs disclosure requirements.<br><br>Based on the audit procedure performed, 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.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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, actions taken to eliminate threats or safeguards applied.

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 Ms Wan Sau Mei.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 21 March 2024

# Consolidated Profit and Loss Account

For the year ended 31 December 2023

| | Note | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **1,487,090** | 1,462,864 |
| Cost of sales | 6 | **(692,542)** | (723,325) |
| Gross profit | | **794,548** | 739,539 |
| Other income | 5 | **8,529** | 9,877 |
| Store expenses | 6 | **(533,247)** | (468,717) |
| Distribution costs | 6 | **(84,045)** | (87,819) |
| Administrative expenses | 6 | **(112,812)** | (109,122) |
| Core operating profit | | **72,973** | 83,758 |
| Interest expenses, net | 7 | **(1,847)** | (4,718) |
| Profit before income tax | | **71,126** | 79,040 |
| Income tax expenses | 8 | **(13,417)** | (11,255) |
| Profit attributable to shareholders of the Company | | **57,709** | 67,785 |
| Earnings per share (HK cents) | | | |
| Basic/diluted earnings per share | 9 | **7.4** | 8.7 |

The notes on pages 75 to 128 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Profit attributable to shareholders of the Company | **57,709** | 67,785 |
| Other comprehensive income/(loss): | | |
| Item that will not be reclassified subsequently to profit or loss | | |
| Actuarial losses on post employment benefit obligation, net of tax | **–** | (2,121) |
| Item that may be reclassified subsequently to profit or loss | | |
| Exchange differences | **51** | (642) |
| Total comprehensive income attributable to shareholders of the Company | **57,760** | 65,022 |

The notes on pages 75 to 128 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2023

| | Note | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Intangible assets | *17* | **357,465** | 357,465 |
| Fixed assets | *13* | **181,337** | 190,976 |
| Right-of-use assets | *14* | **266,323** | 252,169 |
| Investment properties | *15* | **5,494** | 5,727 |
| Lease premium for land | *16* | **66,874** | 69,821 |
| Deferred tax assets | *18* | **1,760** | 6,747 |
| Rental and other long-term deposits | | **44,087** | 43,739 |
| | | **923,340** | 926,644 |
| Current assets | | | |
| Inventories | *19* | **36,509** | 43,098 |
| Rental deposits | | **19,350** | 13,739 |
| Trade receivables | *20* | **57,003** | 48,282 |
| Other receivables, deposits and prepayments | | **27,920** | 34,412 |
| Taxation recoverable | | **77** | 278 |
| Restricted bank deposit | *21* | **1,249** | 1,268 |
| Cash and cash equivalents | *21* | **220,640** | 256,125 |
| | | **362,748** | 397,202 |
| Total assets | | **1,286,088** | 1,323,846 |

# Consolidated Balance Sheet

As at 31 December 2023

| | Note | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 25 | **77,742** | 77,624 |
| Reserves | 26 | **582,448** | 578,199 |
| Total equity | | **660,190** | 655,823 |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Lease liabilities | 24 | **129,337** | 127,656 |
| Long service payment liabilities | 27 | **12,125** | 11,710 |
| Deferred tax liabilities | 18 | **8,728** | 9,332 |
| | | **150,190** | 148,698 |
| Current liabilities | | | |
| Trade payables | 22 | **64,885** | 75,398 |
| Other payables and accruals | 23 | **135,608** | 158,965 |
| Lease liabilities | 24 | **145,266** | 129,353 |
| Taxation payable | | **3,547** | 4,367 |
| Cake coupons | | **126,402** | 151,242 |
| | | **475,708** | 519,325 |
| Total equity and liabilities | | **1,286,088** | 1,323,846 |

On behalf of the Board

**William FUNG Kwok Lun**
*Director*

**Michael TANG Tsz Kin**
*Director*

The notes on pages 75 to 128 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

| | Attributable to shareholders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'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 2022 | 77,624 | – | 20,002 | 360 | 317 | 546,045 | 644,348 |
| Profit attributable to shareholders of the Company | – | – | – | – | – | 67,785 | 67,785 |
| Exchange differences | – | – | – | – | (642) | – | (642) |
| Actuarial loss on post employment benefit obligation | | | | | | | |
| Gross | – | – | – | – | – | (2,366) | (2,366) |
| Tax | – | – | – | – | – | 245 | 245 |
| Total comprehensive income for the year | – | – | – | – | (642) | 65,664 | 65,022 |
| Employee share option benefit | – | – | – | 782 | – | 8 | 790 |
| Dividends paid | – | – | – | – | – | (54,337) | (54,337) |
| | – | – | – | 782 | – | (54,329) | (53,547) |
| At 31 December 2022 | 77,624 | – | 20,002 | 1,142 | (325) | 557,380 | 655,823 |
| At 1 January 2023 | **77,624** | **–** | **20,002** | **1,142** | **(325)** | **557,380** | **655,823** |
| Profit attributable to shareholders of the Company | **–** | **–** | **–** | **–** | **–** | **57,709** | **57,709** |
| Exchange differences | **–** | **–** | **–** | **–** | **51** | **–** | **51** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **51** | **57,709** | **57,760** |
| Issue of new shares | **118** | **778** | **–** | **–** | **–** | **–** | **896** |
| Employee share option benefit | **–** | **110** | **–** | **(188)** | **–** | **200** | **122** |
| Dividends paid | **–** | **–** | **–** | **–** | **–** | **(54,411)** | **(54,411)** |
| | **118** | **888** | **–** | **(188)** | **–** | **(54,211)** | **(53,393)** |
| At 31 December 2023 | **77,742** | **888** | **20,002** | **954** | **(274)** | **560,878** | **660,190** |

The notes on pages 75 to 128 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2023

| | Note | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | *28* | **228,742** | 244,840 |
| Hong Kong profits tax paid | | **(4,182)** | (5,958) |
| Overseas income tax paid | | **(5,456)** | (4,654) |
| Net cash generated from operating activities | | **219,104** | 234,228 |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | | **(38,027)** | (60,606) |
| Proceeds from disposal of fixed assets | | **251** | 57 |
| Increase in restricted bank deposit | | **–** | (1,044) |
| Interest received | | **5,030** | 1,989 |
| Net cash used in investing activities | | **(32,746)** | (59,604) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of shares | | **896** | – |
| Payment of lease liabilities | | **(165,070)** | (150,119) |
| Increase in rental deposits | | **(2,963)** | (1,842) |
| Dividends paid | | **(54,411)** | (54,337) |
| Drawdown of bank loan | | **–** | 30,000 |
| Repayment of bank loan | | **–** | (30,000) |
| Interest expense on bank loan paid | | **–** | (6) |
| Net cash used in financing activities | | **(221,548)** | (206,304) |
| Decrease in cash and cash equivalents | | **(35,190)** | (31,680) |
| Cash and cash equivalents at 1 January | | **256,125** | 290,285 |
| Effect of foreign exchange rate changes | | **(295)** | (2,480) |
| Cash and cash equivalents at 31 December | *21* | **220,640** | 256,125 |

The notes on pages 75 to 128 are an integral part of these 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 bakeries under the brand name of Saint Honore in Hong Kong, Macau and Mainland China; (ii) a chain of premium pâtisserie under the brand name of Mon cher in Hong Kong – one of Japan's most popular pâtisserie and cake brands; and (iii) 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 Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, 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 21 March 2024.

## 2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material 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 at 31 December 2023, the Group had net current liabilities of HK$112,960,000 (2022: HK$122,123,000). 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.

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

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

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

The Group has adopted the following new standard and amendments to standards which are mandatory for accounting periods beginning on or after 1 January 2023 and relevant to its operations:

| | |
|---|---|
| HKAS 1 Amendment and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| HKAS 8 | Definition of Accounting Estimates |
| HKAS 12 Amendment | Deferred Tax related to Assets And Liabilities from a Single Transaction |
| HKAS 12 Amendment | International Tax Reform – Pillar Two Model Rules |
| HKFRS 17 and HKFRS 17 Amendment | Insurance Contracts |
| HKFRS 17 | Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information |

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

The Group has not early adopted the following amendments to standards and interpretation of HKFRS that have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2024.

| | |
|---|---|
| HKAS 1 Amendment | Classification of Liabilities as Current or Non-current |
| HKAS 1 Amendment | Non-current Liabilities with Covenants |
| HKAS 7 and HKFRS 7 Amendment | Supplier Finance Arrangements |
| HKAS 21 Amendment | Lack of Exchangeability |
| HKFRS 10 and HKAS 28 Amendment | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| HKFRS 16 Amendment | Lease Liability in a Sales and Leaseback |
| Hong Kong Interpretation 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

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

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

### (b) Consolidation

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

*(i) Subsidiaries*

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

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

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

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

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

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

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

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

### (b) Consolidation (continued)

#### *(ii) Transactions with non-controlling interests*

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

### (c) Segment reporting

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

### (d) Foreign currency translation

#### *(i) Functional and presentation currency*

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

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

### (d) Foreign currency translation (continued)

*(ii) Transactions and balances*

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

*(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.

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

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

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

Freehold land is stated at cost without amortisation. 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.

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

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

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

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

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

### (f) Investment properties

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

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

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

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

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

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

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

### (g) Intangible assets

*(i) Goodwill*

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

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

### (g) Intangible assets (continued)

*(i) Goodwill* (continued)

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

*(ii) Trademarks*

Acquired trademarks have an infinite useful life and are carried at historical cost without amortisation. Trademarks are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses.

### (h) Impairment of non-financial assets

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

### (i) Financial assets

The Group classifies its financial assets as loans and receivables. 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 MATERIAL ACCOUNTING POLICIES (continued)

### (i) Financial assets (continued)

*Classification*

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.

*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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

*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.

### (j) Inventories

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

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

### (k) 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.

### (l) Trade payables

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

### (m) 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 MATERIAL ACCOUNTING POLICIES (continued)

### (n) Employee benefits

*(i) Employee leave entitlements*

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

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

*(ii) Profit sharing and bonus plans*

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

*(iii) Pension obligations*

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

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

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

### (n) Employee benefits (continued)

*(iv) Long service payment liabilities*

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

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

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

*(v) Share-based compensation*

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

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

### (o) Provisions

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

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

### (p) 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 bakery and eyewear business excluding other interest income, income tax expenses and gain or loss on disposal of property which are of capital nature or non-operating related.

### (q) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's business. 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. The Group recognizes the expected breakage amount of cake coupons as revenue in proportion to the pattern of rights exercised by the customers.

(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.

### (r) Leases

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

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.

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

### (r) 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.

### (s) Dividend distribution

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

## 3. FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

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

*(i) Foreign exchange risk*

The Group is exposed to foreign currency risk primarily through sales and purchases 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 purchase that are denominated in renminbi.

*(ii) Credit risk*

The credit risk of the Group mainly arises from cash and cash equivalents, restricted bank deposits, trade receivables, rental deposits and other receivables and deposits. 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 sales 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 Mainland China. All restricted 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 Mainland China 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 bank balances, 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$64,885,000 (2022: HK$75,398,000) and other payables and accruals of HK$135,608,000 (2022: HK$158,965,000) 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$1,022,000 (2022: HK$498,000) for the year ended 31 December 2023.

### (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.

## 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 and right-of-use assets

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

### (b) Estimated impairment of intangible assets

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

### (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).

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (d) Determination of the lease term (continued)

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.

### (f) Estimated breakage on cake coupons

In determining the breakage amount of cake coupons, management considers the historical redemption pattern experience and estimates. Changes in estimated breakage is accounted for by adjusting the cake coupons to reflect the remaining coupons expected to be redeemed. The accounting for estimated breakage requires a significant amount of data tracking in order to update the estimate at each reporting period. These calculations require the use of judgements and estimates.

## 5. REVENUE, OTHER INCOME AND SEGMENT INFORMATION

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

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Revenue | | |
| Bakery sales revenue | **1,344,711** | 1,324,282 |
| Eyewear sales revenue | **142,379** | 138,582 |
| | **1,487,090** | 1,462,864 |
| Other income | | |
| Service and miscellaneous income | **8,529** | 9,877 |

**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 bakery and eyewear businesses. For bakery segment, revenues are mainly comprised of sale of bakery and festival products under the brand names of Saint Honore and Mon cher. For eyewear segment, revenues are mainly derived from the sale of eyewear products under the brand name of Zoff. Geographically, the management considers the performance of retailing business in Hong Kong and others, and Mainland China.

## 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 2023 and 2022 are as follows:

| | 2023 | | | |
|---|---|---|---|---|
| | Bakery | | Eyewear | |
| | HK & Others HK$'000 | Mainland China HK$'000 | HK HK$'000 | Group HK$'000 |
| Total segment revenue | 1,298,150 | 69,440 | 142,379 | 1,509,969 |
| Inter-segment revenue | (22,843) | (36) | – | (22,879) |
| Revenue from external customers | 1,275,307 | 69,404 | 142,379 | 1,487,090 |
| Other income | 7,126 | 234 | 1,169 | 8,529 |
| | 1,282,433 | 69,638 | 143,548 | 1,495,619 |
| Core operating profit/(loss) | 59,526 | (5,258) | 18,705 | 72,973 |
| Core operating profit/(loss) (included interest expenses on lease liabilities) | 54,624 | (6,784) | 17,867 | 65,707 |
| Depreciation | (167,800) | (14,447) | (27,925) | (210,172) |
| Depreciation (excluded depreciation on right-of-use assets) | (43,900) | (1,248) | (3,878) | (49,026) |

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

**Segment information** (continued)

| | 2022 | | | |
|---|---|---|---|---|
| | Bakery | | Eyewear | |
| | HK & Others | Mainland China | HK | Group |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total segment revenue | 1,272,584 | 77,773 | 138,582 | 1,488,939 |
| Inter-segment revenue | (26,022) | (53) | – | (26,075) |
| Revenue from external customers | 1,246,562 | 77,720 | 138,582 | 1,462,864 |
| Other income | 9,132 | 10 | 735 | 9,877 |
| | 1,255,694 | 77,730 | 139,317 | 1,472,741 |
| Core operating profit/(loss) | 66,269 | (5,046) | 22,535 | 83,758 |
| Core operating profit/(loss) (included interest expenses on lease liabilities) | 61,567 | (6,585) | 21,861 | 76,843 |
| Depreciation | (151,281) | (15,661) | (23,726) | (190,668) |
| Depreciation (excluded depreciation on right-of-use assets) | (40,138) | (1,606) | (3,755) | (45,499) |

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).

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

**Segment information** (continued)

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, 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 represents internal sales within Bakery segment.

The segment assets and liabilities as at 31 December 2023 and 2022 are as follows:

| | **2023** | | | |
|---|---|---|---|---|
| | **Bakery** | | **Eyewear** | |
| | **HK & Others HK$'000** | **Mainland China HK$'000** | **HK HK$'000** | **Group HK$'000** |
| Total segment assets | **1,030,217** | **40,710** | **93,324** | **1,164,251** |
| Total segment assets include: | | | | |
| Additions to segment non-current assets | **171,206** | **10,587** | **41,006** | **222,799** |
| Total segment liabilities | **517,310** | **41,881** | **54,432** | **613,623** |

| | 2022 | | | |
|---|---|---|---|---|
| | Bakery | | Eyewear | |
| | HK & Others HK$'000 | Mainland China HK$'000 | HK HK$'000 | Group HK$'000 |
| Total segment assets | 1,099,948 | 54,491 | 79,881 | 1,234,320 |
| Total segment assets include: | | | | |
| Additions to segment non-current assets | 201,404 | 14,775 | 19,482 | 235,661 |
| Total segment liabilities | 581,676 | 26,427 | 46,221 | 654,324 |

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:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Segment assets for reportable segments | **1,164,251** | 1,234,320 |
| Unallocated: | | |
| Deferred tax assets | **1,760** | 6,747 |
| Taxation recoverable | **77** | 278 |
| Corporate bank deposits | **120,000** | 82,501 |
| Total assets per consolidated balance sheet | **1,286,088** | 1,323,846 |

Reportable segment liabilities are reconciled to total liabilities as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Segment liabilities for reportable segments | **613,623** | 654,324 |
| Unallocated: | | |
| Deferred tax liabilities | **8,728** | 9,332 |
| Taxation payable | **3,547** | 4,367 |
| Total liabilities per consolidated balance sheet | **625,898** | 668,023 |

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$1,260,497,000 (2022: HK$1,220,481,000), and the total of revenue from external customers from other regions is HK$226,593,000 (2022: HK$242,383,000) for the year ended 31 December 2023.

The total of non-current assets other than deferred tax assets located in Hong Kong is HK$821,436,000 (2022: HK$780,017,000), and the total of these non-current assets located in other regions is HK$100,144,000 (2022: HK$139,880,000) as at 31 December 2023.

As of 31 December 2023, cake coupons related to contracts with customers is HK$126,402,000 (2022: HK$151,242,000). During the year, revenue recognised in the consolidated profit and loss account related to carried-forward cake coupons is HK$59,367,000 (2022: HK$55,390,000).

## 6. EXPENSES BY NATURE

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Auditor's remuneration | | |
| Audit services | **1,354** | 1,354 |
| Non-audit services | **674** | 392 |
| Cost of inventories sold | **409,848** | 435,325 |
| Delivery charges | **49,731** | 63,949 |
| Depreciation of fixed assets *(note 13)* | **45,846** | 42,318 |
| Depreciation of right-of-use assets *(note 14)* | **161,146** | 145,169 |
| Depreciation of investment properties *(note 15)* | **233** | 234 |
| Depreciation of lease premium for land *(note 16)* | **2,947** | 2,947 |
| Impairment charge of fixed assets *(note 13)* | **681** | – |
| Impairment charge of right-of-use assets *(note 14)* | **1,789** | 430 |
| Employee benefit expense *(note 11)* | **491,880** | 446,434 |
| Losses on disposal of fixed assets/right-of-use assets | **294** | 586 |
| Advertising and promotion | **22,315** | 19,131 |
| Rates and property management fee | **17,366** | 15,363 |
| Short-term and variable lease payments *(note)* | **17,409** | 18,974 |
| Utilities | **46,983** | 42,628 |
| Foreign exchange losses | **2,759** | 4,955 |
| Other expenses | **149,391** | 148,794 |
| Total cost of sales, store expenses, distribution costs and administrative expenses | **1,422,646** | 1,388,983 |

*Note:*

*Rent concessions related to the COVID-19 pandemic has been credited to store expenses of HK$3,622,000 (2022: HK$3,182,000) for the year ended 31 December 2023.*

## 7. INTEREST EXPENSES, NET

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Interest income on bank deposits | **5,419** | 2,203 |
| Interest expenses on bank loan | **–** | (6) |
| Interest expenses on lease liabilities | **(7,266)** | (6,915) |
| | **(1,847)** | (4,718) |

## 8. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2023 and 2022. 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:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current income tax | | |
| Hong Kong profits tax | **4,450** | 3,505 |
| Overseas profits tax | **4,589** | 3,255 |
| Deferred income tax *(note 18)* | **4,378** | 4,495 |
| | **13,417** | 11,255 |

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:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before income tax | **71,126** | 79,040 |
| Calculated at a taxation rate of 16.5% | **11,736** | 13,042 |
| Effect of different taxation rates in other jurisdictions | **(662)** | (889) |
| Income not subject to taxation | **(1,075)** | (4,710) |
| Expenses not deductible for tax purposes | **740** | 1,267 |
| Tax losses not recognised | **2,555** | 2,904 |
| Reversal of previously recognised tax losses | **–** | 514 |
| Under/(over) provision in prior years | **123** | (873) |
| | **13,417** | 11,255 |

The Group is not in the scope of the OECD Pillar Two model rules, and the Group has no related current or deferred tax exposure.

## 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.

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Profit attributable to shareholders of the Company | **57,709** | 67,785 |

| | **Number of shares** | Number of shares |
|---|---|---|
| Weighted average number of ordinary shares in issue | **777,001,040** | 776,244,974 |
| Adjustment for: | | |
| Share options | **440,713** | 933,174 |
| Weighted average number of ordinary shares for diluted earnings per share | **777,441,753** | 777,178,148 |

## 10. DIVIDENDS

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Interim dividend, proposed of 2 HK cents (2022: 2 HK cents) per share | **15,545** | 15,525 |
| Final dividend, proposed of 4 HK cents (2022: 5 HK cents) per share | **31,097** | 38,812 |
| | **46,642** | 54,337 |

At a meeting held on 21 March 2024, the Directors proposed a final dividend of 4 HK cents per share. This proposed dividend is not reflected as dividend payable in these consolidated financial statement.

## 11. EMPLOYEE BENEFIT EXPENSE

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Wages and salaries *(note d)* | **476,914** | 426,487 |
| Annual leave benefit | **190** | 534 |
| Employee share option benefit | **183** | 790 |
| Pension costs – defined contribution plan *(note b & c)* | **13,538** | 12,625 |
| Long service payment costs *(note 27)* | **1,055** | 5,998 |
| | **491,880** | 446,434 |

*Notes:*

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

*(b) Forfeited contributions totalling HK$1,159,000 (2022: HK$1,856,000) were utilised during the year leaving no balance at the year-end to reduce future contributions (2022: nil).*

*(c) Contributions totalling HK$2,492,000 (2022: HK$2,393,000) were payable to the independently administered fund at the year-end.*

*(d) The Government has launched the Employment Support Scheme ("ESS") under the Anti-epidemic Fund to provide time-limited financial support to employers for paying wages of employees. The Group has received subsidies of HK$25,482,000 from the ESS for the period from May to October 2022.*

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

### (a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2023 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 |
|---|---|---|---|---|---|---|
| William Fung Kwok Lun | **360** | – | – | – | – | **360** |
| Michael Tang Tsz Kin *(note ii)* | **117** | **1,540** | **1,401** | **61** | **9** | **3,128** |
| Richard Yeung Lap Bun *(note iii)* | **200** | **1,650** | – | **34** | – | **1,884** |
| Godfrey Ernest Scotchbrook | **180** | – | – | – | – | **180** |
| Anthony Lo Kai Yiu | **390** | – | – | – | – | **390** |
| Benedict Chang Yew Teck | **107** | – | – | – | – | **107** |
| Sarah Mary Liao Sau Tung | **430** | – | – | – | – | **430** |
| Sabrina Fung Wing Yee | **200** | – | – | – | – | **200** |
| Terence Fung Yue Ming | **250** | – | – | – | – | **250** |
| Terrence Tsang Diao-Long | **370** | – | – | – | – | **370** |
| Tiffany Daisy Lee Pei Ming | **67** | – | – | – | – | **67** |
| | **2,671** | **3,190** | **1,401** | **95** | **9** | **7,366** |

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

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

The remuneration of every Director for the year ended 31 December 2022 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 |
|---|---|---|---|---|---|---|
| William Fung Kwok Lun | 360 | – | – | – | – | 360 |
| Richard Yeung Lap Bun *(note iii)* | 200 | 3,960 | 3,201 | 70 | – | 7,431 |
| Godfrey Ernest Scotchbrook | 270 | – | – | – | – | 270 |
| Anthony Lo Kai Yiu | 390 | – | – | – | – | 390 |
| Benedict Chang Yew Teck | 270 | – | – | – | – | 270 |
| Zhang Hongyi | 148 | – | – | – | – | 148 |
| Sarah Mary Liao Sau Tung | 430 | – | – | – | – | 430 |
| Sabrina Fung Wing Yee | 200 | – | – | – | – | 200 |
| Terence Fung Yue Ming | 250 | – | – | – | – | 250 |
| Terrence Tsang Diao-Long | 223 | – | – | – | – | 223 |
| | 2,741 | 3,960 | 3,201 | 70 | – | 9,972 |

*Notes:*

*(i) Other benefits include leave pay, share options and insurance premium.*

*(ii) Mr Michael Tang Tsz Kin has been appointed as the Chief Executive Officer of the Company on 1 June 2023.*

*(iii) Mr Richard Yeung Lap Bun retired as the Chief Executive Officer and has been re-designated as Non-executive Director of the Company on 1 June 2023.*

*(iv) No Director waived or agreed to waive any of their emoluments in respect of the years ended 31 December 2023 and 2022.*

*(v) During the year, no emoluments have been paid by the Group to the Directors as remuneration to accept office as director, or as remuneration in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2022: nil).*

*(vi) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2022: 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 (2022: one Director) whose emoluments are analysed in note 12a. The emoluments payable to the remaining three (2022: four) individuals during the year are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, housing allowances, other allowances and benefit in kind | **5,797** | 6,921 |
| Share options benefit | **92** | 440 |
| Discretionary bonuses | **2,696** | 2,705 |
| Pension costs – defined contribution plan | **54** | 72 |
| | **8,639** | 10,138 |

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

| | **Number of individuals** | |
|---|---|---|
| | **2023** | 2022 |
| HK$1,500,001-HK$2,000,000 | **0** | 1 |
| HK$2,000,001-HK$2,500,000 | **1** | 1 |
| HK$2,500,001-HK$3,000,000 | **1** | 1 |
| HK$3,000,001-HK$3,500,000 | **1** | 1 |

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 (2022: one Director) whose emoluments are analysed in note 12a. The emoluments payable to the remaining four (2022: three) senior executives fell within the bands between HK$1,000,001 and HK$3,500,000 during the year of 2023 and the bands between HK$1,500,001 and HK$3,500,000 during the year of 2022.

## 13. FIXED ASSETS

| | Land and properties HK$'000 | Leasehold improvements HK$'000 | Equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2022 | | | | | | |
| Cost | 69,665 | 240,455 | 324,873 | 17,899 | – | 652,892 |
| Accumulated depreciation | (27,600) | (200,608) | (241,637) | (9,470) | – | (479,315) |
| Net book amount | 42,065 | 39,847 | 83,236 | 8,429 | – | 173,577 |
| Year ended 31 December 2022 | | | | | | |
| Opening net book amount | 42,065 | 39,847 | 83,236 | 8,429 | – | 173,577 |
| Additions | – | 18,603 | 29,345 | 835 | 11,823 | 60,606 |
| Disposals | – | (47) | (404) | (192) | – | (643) |
| Depreciation *(note 6)* | (1,358) | (14,673) | (24,084) | (2,203) | – | (42,318) |
| Exchange differences | – | (108) | (138) | – | – | (246) |
| Closing net book amount | 40,707 | 43,622 | 87,955 | 6,869 | 11,823 | 190,976 |
| At 31 December 2022 | | | | | | |
| Cost | 69,665 | 255,089 | 347,668 | 17,782 | 11,823 | 702,027 |
| Accumulated depreciation | (28,958) | (211,467) | (259,713) | (10,913) | – | (511,051) |
| Net book amount | 40,707 | 43,622 | 87,955 | 6,869 | 11,823 | 190,976 |

## 13. FIXED ASSETS (continued)

| | Land and properties HK$'000 | Leasehold improvements HK$'000 | Equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2023** | | | | | | |
| Opening net book amount | 40,707 | 43,622 | 87,955 | 6,869 | 11,823 | 190,976 |
| Additions | – | 13,396 | 22,423 | 2,208 | – | 38,027 |
| Transfer | – | 2,763 | 9,060 | – | (11,823) | – |
| Disposals | – | (546) | (474) | (70) | – | (1,090) |
| Depreciation *(note 6)* | (1,358) | (16,935) | (25,171) | (2,382) | – | (45,846) |
| Impairment *(note 6)* | – | (681) | – | – | – | (681) |
| Exchange differences | – | (28) | (21) | – | – | (49) |
| **Closing net book amount** | 39,349 | 41,591 | 93,772 | 6,625 | – | 181,337 |
| **At 31 December 2023** | | | | | | |
| Cost | 69,665 | 266,008 | 373,890 | 19,038 | – | 728,601 |
| Accumulated depreciation and impairment | (30,316) | (224,417) | (280,118) | (12,413) | – | (547,264) |
| **Net book amount** | 39,349 | 41,591 | 93,772 | 6,625 | – | 181,337 |

As at 31 December 2023 and 2022, freehold land of HK$11,561,000 included in land and properties is located outside Hong Kong.

Depreciation and impairment of HK$16,033,000 (2022: HK$14,885,000) has been charged in cost of sales, HK$24,759,000 (2022: HK$22,142,000) in store expenses, HK$2,470,000 (2022: HK$2,268,000) in distribution costs and HK$3,265,000 (2022: HK$3,023,000) in administrative expenses.

As at 31 December 2023, certain properties with aggregate net book amount of HK$1,298,000 (2022: HK$1,353,000) have been pledged as securities for the bank facilities of the Group.

## 14. RIGHT-OF-USE ASSETS

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Opening net book amount | **252,169** | 228,231 |
| Additions | **181,773** | 175,036 |
| Disposals | **(3,471)** | – |
| Remeasurement | **(644)** | (2,679) |
| Depreciation *(note 6)* | **(161,146)** | (145,169) |
| Impairment *(note 6)* | **(1,789)** | (430) |
| Exchange differences | **(569)** | (2,820) |
| Closing net book amount | **266,323** | 252,169 |

Depreciation and impairment of HK$3,415,000 (2022: HK$3,153,000) has been charged in cost of sales, HK$154,425,000 (2022: HK$132,741,000) in store expenses, HK$1,559,000 (2022: HK$1,365,000) in distribution costs and HK$3,536,000 (2022: HK$8,340,000) in administrative expenses.

The Group leases various retail stores, warehouses, factories and office. Rental contracts are typically made for fixed periods of 2 to 10 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

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| At 1 January | **5,727** | 5,961 |
| Depreciation *(note 6)* | **(233)** | (234) |
| Net book amount | **5,494** | 5,727 |
| At 31 December | | |
| Cost | **9,980** | 9,980 |
| Accumulated depreciation | **(4,486)** | (4,253) |
| Net book amount | **5,494** | 5,727 |

Depreciation expense of HK$233,000 (2022: HK$234,000) 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$51,000,000 (2022: HK$61,000,000) as at 31 December 2023 based on management's estimation with reference to the latest market transaction. The fair value measurement at 31 December 2023 is using significant other observable inputs, which is categorised within level 2 of the fair value measurement hierarchy.

As at 31 December 2023 and 2022, the investment properties have been pledged as securities for the bank facilities of the Group.

## 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:

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| At 1 January | **69,821** | 72,768 |
| Depreciation *(note 6)* | **(2,947)** | (2,947) |
| At 31 December | **66,874** | 69,821 |
| Located in: | | |
| Hong Kong | **49,193** | 51,284 |
| Macau | **7,876** | 8,148 |
| Mainland China | **9,805** | 10,389 |
| | **66,874** | 69,821 |

As at 31 December 2023, certain lease premium for land with aggregate net book amount of HK$9,535,000 (2022: HK$9,940,000) have been pledged as securities for the bank facilities of the Group.

## 17. INTANGIBLE ASSETS

| | **Goodwill** **HK$'000** | **Trademarks** **HK$'000** | **Group** **HK$'000** |
|---|---|---|---|
| At 31 December 2023 and 2022 | | | |
| 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:

| | **2023** | 2022 |
|---|---|---|
| Revenue growth rate *(note i)* | **5%-11%** | 5%-10% |
| Long-term growth rate *(note ii)* | **2.5%** | 2% |
| Discount rate *(note iii)* | **10%** | 9% |
| Royalty rate *(note iv)* | **2%** | 2% |

*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 post-tax discount rate applied to the cash flow projections which reflects specific risks relating to the relevant segment.*

*(iv) The royalty rate used is a hypothetical rate on revenue estimated by management for licensing the trademark.*

The Group does not have to recognise any impairment loss as at 31 December 2023 based on the impairment assessment performed.

If the revenue growth rate over the five-year budget period remained at 2% or the discount rate applied in the valuation increased by 1%, the trademarks' recoverable amount would still be greater than its carrying value and no impairment would be noted.

## 17. INTANGIBLE ASSETS (continued)

### (b) Impairment test for goodwill

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

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

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

| | **2023** | 2022 |
|---|---|---|
| Revenue growth rate *(note i)* | **5%-11%** | 5%-10% |
| Gross margin *(note ii)* | **51%** | 48%-49% |
| Long-term growth rate *(note iii)* | **2.5%** | 2% |
| Discount rate *(note iv)* | **10%** | 9% |

*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 budgeted gross margin over the five-year budget period is approximately 51% and is estimated by management with reference to the past performance and its expectations for the market development.*

*(iii) 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.*

*(iv) The discount rate used is post-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 2023 based on the impairment assessment performed.

If the revenue growth rate over the five-year budget period remained at 2%, or 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. DEFERRED TAXATION

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

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| At 1 January | **2,585** | (1,715) |
| Charged to the consolidated profit and loss account *(note 8)* | **4,378** | 4,495 |
| Credited directly to other comprehensive income | **–** | (241) |
| Exchange differences | **5** | 46 |
| At 31 December | **6,968** | 2,585 |

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 | |
|---|---|---|---|---|---|---|---|---|
| | 2023 HK$'000 | 2022 HK$'000 | 2023 HK$'000 | 2022 HK$'000 | 2023 HK$'000 | 2022 HK$'000 | 2023 HK$'000 | 2022 HK$'000 |
| At 1 January | **(6,123)** | (10,348) | **(1,123)** | (948) | **(411)** | (678) | **(7,657)** | (11,974) |
| Charged/(credited) to the consolidated profit and loss account | **5,164** | 4,180 | **(411)** | (175) | **(34)** | 507 | **4,719** | 4,512 |
| Exchange differences | **–** | 45 | **–** | – | **5** | 1 | **5** | 46 |
| Credited directly to other comprehensive income | **–** | – | **–** | – | **–** | (241) | **–** | (241) |
| At 31 December | **(959)** | (6,123) | **(1,534)** | (1,123) | **(440)** | (411) | **(2,933)** | (7,657) |

| Deferred tax liabilities | Decelerated tax depreciation | | Fair value gain | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2023 HK$'000 | 2022 HK$'000 | 2023 HK$'000 | 2022 HK$'000 | 2023 HK$'000 | 2022 HK$'000 | 2023 HK$'000 | 2022 HK$'000 |
| At 1 January | **4,404** | 4,766 | **5,163** | 5,412 | **675** | 81 | **10,242** | 10,259 |
| Charged/(credited) to the consolidated profit and loss account | **583** | (362) | **(249)** | (249) | **(675)** | 594 | **(341)** | (17) |
| At 31 December | **4,987** | 4,404 | **4,914** | 5,163 | **–** | 675 | **9,901** | 10,242 |

## 18. DEFERRED TAXATION (continued)

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Deferred tax assets | | |
| Deferred tax assets to be recovered after 12 months | **(1,722)** | (4,113) |
| Deferred tax assets to be recovered within 12 months | **(1,211)** | (3,544) |
| | **(2,933)** | (7,657) |
| Deferred tax liabilities | | |
| Deferred tax liabilities to be settled after 12 months | **9,315** | 9,652 |
| Deferred tax liabilities to be settled within 12 months | **586** | 590 |
| | **9,901** | 10,242 |

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:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Deferred tax assets | **(1,760)** | (6,747) |
| Deferred tax liabilities | **8,728** | 9,332 |

The Group did not recognise deferred income tax assets amounting to HK$11,114,000 (2022: HK$9,776,000) in respect of tax losses amounting to HK$55,986,000 (2022: HK$50,625,000) 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:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Within 1 year | **3,710** | 2,670 |
| Over 1 year but within 5 years | **18,360** | 14,072 |
| | **22,070** | 16,742 |

Deferred income tax liabilities of HK$341,000 (2022: HK$321,000) 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$6,805,000 (2022: HK$6,409,000) at 31 December 2023.

## 19. INVENTORIES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Raw materials and packing materials | **20,820** | 27,379 |
| Finished goods | **15,689** | 15,719 |
| | **36,509** | 43,098 |

The cost of sales for the year ended 31 December 2023 amounted to HK$692,542,000 (2022: HK$723,325,000), which included inventories written off of HK$108,000 (2022: HK$758,000).

## 20. TRADE RECEIVABLES

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from corporate 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 2023, the aging analysis by invoice date of trade receivables is as follows:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| 0-30 days | **31,431** | 26,825 |
| 31-60 days | **21,928** | 17,811 |
| 61-90 days | **1,808** | 1,855 |
| Over 90 days | **1,836** | 1,791 |
| | **57,003** | 48,282 |

The amount of the provision was HK$1,388,000 (2022: Nil). The individually impaired receivables are mainly due from a customer.

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

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| HK dollar (HK$) | **52,439** | 44,506 |
| Renminbi (RMB) | **2,111** | 1,244 |
| Patacas (MOP) | **2,453** | 2,532 |
| | **57,003** | 48,282 |

## 20. TRADE RECEIVABLES (continued)

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

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| At 1 January | – | – |
| Provision for receivable impairment | 1,388 | – |
| At 31 December | 1,388 | – |

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

## 21. CASH AND BANK BALANCES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Cash at bank and in hand | 100,640 | 101,913 |
| Bank deposits | 120,000 | 154,212 |
| Cash and cash equivalents | 220,640 | 256,125 |
| Restricted bank deposit | 1,249 | 1,268 |
| Total cash and bank balances | 221,889 | 257,393 |

The maximum exposure to credit risk relates to the cash at bank and bank deposits held at financial institutions of HK$216,010,000 (2022: HK$252,884,000).

As at 31 December 2023, bank and restricted bank deposits of HK$121,249,000 (2022: HK$155,480,000) bear effective interest rate of approximately 2.5% (2022: 2.2%) per annum. These deposits have an average maturity of 36 days (2022: 25 days).

As at 31 December 2023, certain cash and bank balances of HK$21,219,000 (2022: HK$31,687,000) are kept in Mainland China. The remittance of funds out of Mainland China is subject to rules and regulations of foreign exchange control promulgated by the Chinese Mainland government.

## 21. CASH AND BANK BALANCES (continued)

At 31 December 2023, the Group's total bank balances and cash are denominated in the following currencies:

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| HK dollar (HK$) | **185,191** | 204,918 |
| Renminbi (RMB) | **22,039** | 32,582 |
| Patacas (MOP) | **11,894** | 19,893 |
| Japanese Yen (JPY) | **2,765** | – |
| | **221,889** | 257,393 |

## 22. TRADE PAYABLES

At 31 December 2023, the aging analysis by invoice date of the trade payables is as follows:

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| 0-30 days | **39,713** | 44,813 |
| 31-60 days | **22,812** | 29,602 |
| 61-90 days | **757** | 79 |
| Over 90 days | **1,603** | 904 |
| | **64,885** | 75,398 |

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

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| HK dollar (HK$) | **22,592** | 24,757 |
| Renminbi (RMB) | **38,220** | 44,264 |
| Patacas (MOP) | **1,213** | 1,066 |
| Japanese Yen (JPY) | **2,860** | 5,311 |
| | **64,885** | 75,398 |

## 23. OTHER PAYABLES AND ACCRUALS

The Group's other payables and accruals as at end of the year are balances related mainly to the ordinary course of business in respect of provision of employee benefits, marketing and advertising activities, procurement of fixed assets and other costs incurred.

## 24. LEASE LIABILITIES

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| At 1 January | **257,009** | 234,760 |
| Additions | **180,653** | 172,176 |
| Disposals | **(4,032)** | – |
| Remeasurement | **(644)** | (2,679) |
| Payments | **(165,070)** | (150,119) |
| Interest expenses | **7,266** | 6,915 |
| Exchange differences | **(579)** | (2,950) |
| Rent concessions | **–** | (1,094) |
| At 31 December | **274,603** | 257,009 |
| Current lease liabilities | **145,266** | 129,353 |
| Non-current lease liabilities | **129,337** | 127,656 |
| | **274,603** | 257,009 |

At 31 December 2023, the maturities of non-current lease liabilities are as follows:

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Over 1 year but within 2 years | **82,640** | 84,398 |
| Over 2 years but within 5 years | **44,937** | 42,607 |
| Over 5 years | **1,760** | 651 |
| | **129,337** | 127,656 |

## 25. SHARE CAPITAL

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | 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 | 776,244,974 | 77,624 | 776,244,974 | 77,624 |
| Issue of shares on exercise of share options | 1,172,000 | 118 | – | – |
| At 31 December | 777,416,974 | 77,742 | 776,244,974 | 77,624 |

**Share options**

*(i) 2010 and 2020 Share Option Schemes*

Share options were granted under the 2010 and 2020 Share Option Schemes which were approved and adopted by the shareholders at the annual general meeting of the Company.

Summary of the major terms of the abovementioned 2010 and 2020 Share Option Schemes are 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:*

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price HK$** | Number of options | Weighted average exercise price HK$ |
| At 1 January | **11,858,000** | **0.90** | 12,886,000 | 0.89 |
| Lapsed | **–** | **–** | (1,028,000) | 0.76 |
| Exercised | **(1,172,000)** | **0.76** | – | – |
| Expired | **(520,000)** | **3.94** | – | – |
| At 31 December | **10,166,000** | **0.76** | 11,858,000 | 0.90 |
| Exercisable | **10,166,000** | **0.76** | 520,000 | 3.94 |

For the year ended 31 December 2023, the weighted average share price at the date of share options exercised was HK$0.89 (2022: no share option was exercised). The options outstanding at 31 December 2023 and 2022 had a weighted average remaining contractual life of 2.3 years and 3.1 years respectively.

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

| Expiry date | Exercise price HK$ | **2023 Number of options** | 2022 Number of options |
|---|---|---|---|
| 1 April 2023 | 4.19 | **–** | 100,000 |
| 1 April 2023 | 3.88 | **–** | 350,000 |
| 1 April 2023 | 3.87 | **–** | 70,000 |
| 1 April 2026 | 0.76 | **10,166,000** | 11,338,000 |
| | | **10,166,000** | 11,858,000 |

The fair value of options granted are determined by using the Black-Scholes valuation model.

## 26. RESERVES

| | Share Premium 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 2022 | – | 20,002 | 360 | 317 | 546,045 | 566,724 |
| Profit attributable to shareholders of the Company | – | – | – | – | 67,785 | 67,785 |
| Exchange differences | – | – | – | (642) | – | (642) |
| Actuarial loss on post employment benefit obligation | | | | | | |
| Gross | – | – | – | – | (2,366) | (2,366) |
| Tax | – | – | – | – | 245 | 245 |
| Employee share option benefit | – | – | 782 | – | 8 | 790 |
| Dividends paid | – | – | – | – | (54,337) | (54,337) |
| At 31 December 2022 | – | 20,002 | 1,142 | (325) | 557,380 | 578,199 |
| **At 1 January 2023** | **–** | **20,002** | **1,142** | **(325)** | **557,380** | **578,199** |
| Profit attributable to shareholders of the Company | **–** | **–** | **–** | **–** | **57,709** | **57,709** |
| Exchange differences | **–** | **–** | **–** | **51** | **–** | **51** |
| Issue of new shares | **778** | **–** | **–** | **–** | **–** | **778** |
| Employee share option benefit | **110** | **–** | **(188)** | **–** | **200** | **122** |
| Dividends paid | **–** | **–** | **–** | **–** | **(54,411)** | **(54,411)** |
| **At 31 December 2023** | **888** | **20,002** | **954** | **(274)** | **560,878** | **582,448** |

## 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:

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| At 1 January | **11,710** | 5,069 |
| Expenses recognised in the consolidated profit and loss account – as shown below | **1,055** | 5,998 |
| Benefit paid | **(640)** | (1,723) |
| Actuarial losses recognised in other comprehensive income | **–** | 2,366 |
| At 31 December | **12,125** | 11,710 |

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

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Service cost | **711** | 76 |
| Interest cost | **344** | 21 |
| Past service cost *(note)* | **–** | 5,901 |
| Total, included in employee benefit expense *(note 11)* | **1,055** | 5,998 |

Of the total charge, HK$169,000 (2022: HK$1,033,000), HK$724,000 (2022: HK$3,205,000), HK$64,000 (2022: HK$517,000) and HK$98,000 (2022: HK$1,243,000) were included in cost of sales, store expenses, distribution costs and administrative expenses respectively.

*Note:*

*In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022. The amendment will come into effect prospectively from a date to be appointed by the Hong Kong Government ("Transition Date"). The amendment results in:*

*(a) Change in the offsetting arrangement, such that the accrued benefits attributable to the employers' mandatory contributions under the Mandatory Provident Fund and certain employers' contributions under the Occupational Retirement Schemes would no longer be eligible to offset against the severance payment and long service payment accrued from the Transition Date; and*

*(b) Change of the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.*

## 27. LONG SERVICE PAYMENT LIABILITIES (continued)

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

| | **2023** | 2022 |
|---|---|---|
| Discount rate | **3.9%** | 3.9% |
| 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**

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Profit for the year | **57,709** | 67,785 |
| Adjustments for: | | |
| Income tax expenses | **13,417** | 11,255 |
| Interest income | **(5,419)** | (2,203) |
| Bank loan interest expenses | **–** | 6 |
| Lease interest expenses | **7,266** | 6,915 |
| Depreciation of fixed assets | **45,846** | 42,318 |
| Depreciation of right-of-use assets | **161,146** | 145,169 |
| Depreciation of investment properties | **233** | 234 |
| Depreciation of lease premium for land | **2,947** | 2,947 |
| Impairment of fixed assets | **681** | – |
| Impairment of right-of-use assets | **1,789** | 430 |
| Employee share option benefit | **183** | 790 |
| Losses on disposal of fixed assets/right-of-use assets | **294** | 586 |
| Rent concessions | **–** | (1,094) |
| Long service payment costs | **1,055** | 5,998 |
| Foreign exchange losses | **373** | 2,053 |
| | **287,520** | 283,189 |
| Changes in working capital | | |
| Inventories | **6,589** | 29 |
| Trade receivables, other receivables, deposits and prepayments | **(4,836)** | (109) |
| Trade payables, other payables and accruals | **(35,051)** | (22,567) |
| Long service payment liabilities | **(640)** | (1,723) |
| Cake coupons | **(24,840)** | (13,979) |
| | **228,742** | 244,840 |

## 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 2023 is HK$9,070,000 (2022: HK$6,754,000).

### (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:

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Within 1 year | **1,146** | 418 |

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:

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Within 1 year | **2,400** | 2,400 |
| Over 1 year but within 5 years | **800** | 3,200 |
| | **3,200** | 5,600 |

## 30. GUARANTEES

At 31 December 2023, banking facilities of HK$3,656,000 (2022: HK$3,656,000) had been utilised by a subsidiary for rental and utility deposits.

## 31. RELATED PARTY TRANSACTIONS

Fung Retailing Limited ("FRL") is a substantial shareholder of the Company, which owns 40.11% 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.

### (a) Related party transactions

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:

| | *Note* | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|---|
| **Income** | | | |
| Service income and reimbursement of office and administrative expenses | *(i)* | | |
| Subsidiary of a substantial shareholder | | **–** | 71 |
| Associate of a substantial shareholder | | **–** | 11 |
| Sales of products | *(ii)* | | |
| Subsidiary of a substantial shareholder | | **199** | 248 |
| **Charges** | | | |
| Reimbursement of office and administrative expenses | *(iii)* | | |
| Subsidiaries of a substantial shareholder | | **–** | 1,126 |
| Associate of a substantial shareholder | | **5** | 657 |
| Rental | *(iv)* | | |
| Subsidiary of a substantial shareholder | | **1,341** | 112 |
| Associates of a substantial shareholder | | **1,501** | 2,585 |

### (b) Key management personnel compensation

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Fees | **2,671** | 2,741 |
| Bonuses | **4,340** | 5,243 |
| Salaries and other allowances | **10,253** | 9,327 |
| Employee share option benefit | **108** | 338 |
| Pension costs – defined contribution plan | **81** | 54 |
| | **17,453** | 17,703 |

## 31. RELATED PARTY TRANSACTIONS (continued)

### (c) Year-end balances with related parties

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Amounts due to: | | |
| Subsidiaries/fellow subsidiary of a substantial shareholder | **(2)** | (192) |
| Associate of a substantial shareholder | **–** | (664) |

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 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)* *Sales of products to subsidiary of a substantial shareholder were carried out in ordinary course of business and terms mutually agreed between the Group and the subsidiary.*

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

*(iv)* *Rentals are payable to subsidiary/associate of a substantial shareholder in accordance with the terms of agreements.*

## 32. BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

### (a) Balance sheet of the Company

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| **Assets** | | |
| Non-current assets | | |
| Investment in subsidiaries | **647,769** | 647,769 |
| Fixed assets | **1,066** | 1,776 |
| Right-of-use assets | **8,816** | 1,328 |
| Rental deposit | **1,800** | 1,800 |
| Deferred tax assets | **805** | 770 |
| | **660,256** | 653,443 |
| Current assets | | |
| Amounts due from subsidiaries | **45,607** | 59,086 |
| Other receivables, deposits and prepayments | **1,672** | 1,819 |
| Cash and cash equivalents | **1,063** | 1,217 |
| | **48,342** | 62,122 |
| Total assets | **708,598** | 715,565 |
| **Equity** | | |
| Share capital | **77,742** | 77,624 |
| Reserves | **363,005** | 420,185 |
| Total equity | **440,747** | 497,809 |
| **Liabilities** | | |
| Non-current liabilities | | |
| Lease liability | **5,079** | – |
| Long service payment liabilities | **199** | 176 |
| | **5,278** | 176 |
| Current liabilities | | |
| Amounts due to subsidiaries | **249,637** | 196,462 |
| Other payables and accruals | **9,139** | 19,739 |
| Lease liability | **3,797** | 1,379 |
| | **262,573** | 217,580 |
| Total equity and liabilities | **708,598** | 715,565 |

On behalf of the Board

**William FUNG Kwok Lun**
*Director*

**Michael TANG Tsz Kin**
*Director*

## 32. 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 2022** | – | 12,792 | 360 | 466,480 | 479,632 |
| Loss attributable to shareholders of the Company | – | – | – | (5,882) | (5,882) |
| Actuarial losses on post employment benefit obligation | – | – | – | (10) | (10) |
| Employee share option benefit | – | – | 782 | – | 782 |
| Dividends paid | | – | – | (54,337) | (54,337) |
| **At 31 December 2022** | – | 12,792 | 1,142 | 406,251 | 420,185 |
| **At 1 January 2023** | **–** | **12,792** | **1,142** | **406,251** | **420,185** |
| Loss attributable to shareholders of the Company | **–** | **–** | **–** | **(3,469)** | **(3,469)** |
| Issue of new shares | **778** | **–** | **–** | **–** | **778** |
| Employee share option benefit | **110** | **–** | **(188)** | **–** | **(78)** |
| Dividends paid | **–** | **–** | **–** | **(54,411)** | **(54,411)** |
| **At 31 December 2023** | **888** | **12,792** | **954** | **348,371** | **363,005** |

## 33. PRINCIPAL SUBSIDIARIES

As at 31 December 2023 and 2022, 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:* | | | | |
| Omni Beauty Retailing Limited | Hong Kong | Eyewear chain operator and lease-holder | HK$10,000,000 | 100% |
| Patisserie Mon cher Company Limited | Hong Kong | Bakery chain operator and lease-holder | HK$2 | 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<br>Pastelarias Santa Ana (Macau), Limitada# | Macau | Bakery chain operator and lease-holder | MOP100,000 | 100% |
| Saint Honore Cake Shop Guangzhou Limited<br>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<br>聖安娜餅屋(深圳)有限公司* | PRC *(note)* | Food factory operator | HK$18,610,000 | 100% |

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

*Note:*

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

## 34. SUBSEQUENT EVENT

On 2 January 2024, the Group acquired from the licence owner of Zoff, all the issued shares of Zoff I Singapore Pte. Ltd. ("ZIS") with an initial consideration of SGD1,774,000. ZIS is incorporated in Singapore and is the exclusive operator of Zoff eyewear brand in the country which operated five retail outlets as at 31 December 2023. The consideration is subject to adjustment upon the finalisation of the financial statements of ZIS for the year ended 31 December 2023.

# Five-Year Financial Summary

The following table summarises the results, assets and liabilities of the Group for the five years ended 31 December 2023.

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 | 2021<br>HK$'000 | 2020<br>HK$'000<br>(Restated) | 2019<br>HK$'000<br>(Restated) |
|---|---|---|---|---|---|
| Revenue *(note)* | **1,487,090** | 1,462,864 | 1,361,840 | 1,191,701 | 1,197,453 |
| Core operating profit (included interest expenses on lease liabilities) *(note)* | **65,707** | 76,843 | 81,627 | 61,859 | 38,824 |
| Profit attributable to shareholders of the Company *(note)* | **57,709** | 67,785 | 74,399 | 61,150 | 33,213 |
| Total assets | **1,286,088** | 1,323,846 | 1,320,569 | 1,344,166 | 2,647,519 |
| Total liabilities | **(625,898)** | (668,023) | (676,221) | (765,312) | (1,921,725) |
| Total equity | **660,190** | 655,823 | 644,348 | 578,854 | 725,794 |

*Note:*

*The comparatives of revenue, core operating profit (included interest expenses on lease liabilities) and profit attributable to shareholders of the Company for prior years have been restated by excluding the financial results of the discontinued operations accordingly.*