



Convenience Retail Asia Limited

利亞零售有限公司

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

Stock Code: 00831



Interim Report 2016

A Fung Retailing Company





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# Corporate Information

<b>Executive Directors</b>	Richard YEUNG Lap Bun ( <i>Chief Executive Officer</i> ) PAK Chi Kin ( <i>Chief Operating Officer</i> )
<b>Non-executive Directors</b>	Victor FUNG Kwok King # ( <i>Chairman</i> ) William FUNG Kwok Lun + Godfrey Ernest SCOTCHBROOK * Jeremy Paul Egerton HOBBS + Benedict CHANG Yew Teck *
<b>Independent Non-executive Directors</b>	Malcolm AU Man Chung +* Anthony LO Kai Yiu #* ZHANG Hongyi #** Sarah Mary LIAO Sau Tung +
<b>Group Chief Compliance and Risk Management Officer</b>	Jason YEUNG Chi Wai
<b>Company Secretary</b>	Maria LI Sau Ping
<b>Registered Office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Head Office and Principal Place of Business</b>	15th Floor, LiFung Centre 2 On Ping Street Siu Lek Yuen, Shatin New Territories Hong Kong
<b>Website</b>	<a href="http://www.cr-asia.com">www.cr-asia.com</a>
<b>Legal Advisers</b>	Mayer Brown JSM (as to Hong Kong Law)  Conyers Dill & Pearman, Cayman (as to Cayman Islands Law)

# *Nomination Committee members*

+ *Remuneration Committee members*

\* *Audit Committee members*

<b>Auditor</b>	PricewaterhouseCoopers <i>Certified Public Accountants</i>
<b>Principal Share Registrar and Transfer Office</b>	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road P.O. Box 1586 Grand Cayman KY1-1110 Cayman Islands
<b>Hong Kong Branch Share Registrar and Transfer Office</b>	Tricor Abacus Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal Banker</b>	The Hongkong and Shanghai Banking Corporation Limited
<b>Stock Code</b>	00831

# Highlights

## Interim Results For the six months ended 30 June 2016

	Change	2016 HK\$'000	2015 HK\$'000 (Restated)
Revenue	+3.4%	<b>2,339,035</b>	2,261,620
Core operating profit	+7.0%	<b>63,766</b>	59,620
Profit attributable to shareholders of the Company			
Continuing Operations	+7.2%	<b>51,820</b>	48,334
Included Discontinued Operations	+68.4%	<b>51,820</b>	30,766
Basic earnings per share (HK cents)			
Continuing Operations	+7.0%	<b>6.87</b>	6.42
Included Discontinued Operations	+68.0%	<b>6.87</b>	4.09
Interim dividend per share (HK cents)	+12.9%	<b>3.50</b>	3.10

## Operation Highlights

- Despite weak retail market sentiment, convenience store and bakery operations achieved satisfactory comparable store sales growth in Hong Kong
- Core operating profit increased 7% on back of stabilised operating costs and improvement in Saint Honore operations
- Net profit increased by 68.4%, primarily due to the disposal of Circle K business in Guangzhou last year
- The Group expects a difficult business environment in second half of 2016 due to weak consumer sentiment, high operating costs; latter expected to persist notwithstanding possible mild downward adjustments
- The Group maintains a strong financial position with net cash of HK\$481 million without any bank borrowings

## Number of Stores as of 30 June 2016

### Circle K Stores

Hong Kong	324
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### Franchised Circle K Stores

Guangzhou	72
Macau	28
Zhuhai	18

<b>Subtotal</b>	<b>118</b>
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<b>Total number of Circle K Stores</b>	<b>442</b>
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### Saint Honore Cake Shops

Hong Kong	94
Macau	9
Guangzhou	39
Shenzhen	2

<b>Total number of Saint Honore Cake Shops</b>	<b>144</b>
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<b>Total number of Stores under Convenience Retail Asia</b>	<b>586</b>
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# Chairman's Statement

## Financial Overview

I am pleased to report the unaudited interim results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 June 2016.

During the first six months of 2016, the Group's turnover grew by 3.4% to HK\$2,339 million, mainly because of higher comparable store sales.

Core operating profit increased by 7% compared to the same period last year to HK\$64 million. In spite of persistently high rental and retail labour costs, strong comparable store sales growth and improvement in the Saint Honore Guangzhou operations helped keep the Group's results stable relative to last year. Net profit saw a year-on-year increase of 68.4% to HK\$52 million after including last year's Discontinued Operations (namely the Circle K Guangzhou operations).

As at 30 June 2016, the Group had a net cash balance of HK\$481 million and no bank borrowings. The Board of Directors has resolved to declare an interim dividend of 3.5 HK cents per share.

## Review of the Hong Kong Retail Market

During the period under review, the Group and its retail industry competitors faced demanding market conditions amid declining visitation figures and low consumer sentiment. While total retail sales decreased by 10.1% in volume and 10.5% in value year on year in the first half of 2016, demand from local customers for daily consumable products remained stable, with the supermarket category – including convenience stores – posting a year-on-year increase in sales value of 1.0%<sup>note</sup>. We are confident in the resilience of the market in Hong Kong despite the challenges posted by global economic uncertainty.

*Note:*

*Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 2 August 2016.*



## Company Initiatives in the Hong Kong Operations

Comparable store sales performance is a benchmark indicator of the strength of a retail business' underlying operations. In this respect, we are pleased with how the Group has responded to the considerably difficult market environment. The Group was able to drive modest revenue growth at its existing convenience store and bakery outlets in Hong Kong due to efficient management and innovative marketing campaigns. This helped offset the effects of high rentals and labour costs, weak consumer sentiment, decreasing tourist arrivals and a weak economy.

Circle K's new "Dare to Try" brand platform, which was designed last year to attract a new generation of loyal customers, is gaining traction in Hong Kong with exciting new products and services that typically cannot be found elsewhere. An innovative premium redemption programme achieved great success with office workers during the period under review. The Group also continued to leverage synergies across its business lines, launching a lucky draw promotion in March to drive sales at FingerShopping.com and generate store traffic at Circle K. To ease the impact of the soft economy on customers, Circle K also introduced quality lunch deals at attractive price points.

O2O (online-to-offline) retailing platform FingerShopping.com is playing a growing role in the Group's performance, and its reputation among consumers and the industry is beginning to reflect this. We are very proud that FingerShopping.com was named one of GS1 Hong Kong and Retail Asia Expo's "2016 Top 10 eCommerce Websites". Meanwhile, membership and gross merchandise value ("GMV") are increasing at rapid rates, delivery service areas continue to expand, and more and more customers are using the platform for fast-growing categories such as health and beauty.

## Review of the Saint Honore Cake Shop Operations

Saint Honore launched a digital customer relationship management programme in Hong Kong, and introduced further automation along its production lines to streamline operations during the period under review.

One of the highlights of the first half of 2016 was the encouraging performance of Saint Honore in Guangzhou, where we operate 39 stores. This was underpinned by our own restructuring efforts to enhance supply chain efficiency and improve store and office operations. These endeavours resulted in solid improvement in financial results when compared to the same period last year.

## Corporate Governance and Sustainability

As a part of the Fung Group, we continue to adhere to the principles set out by the United Nations Global Compact on human rights, labour standards, anti-corruption efforts, environmental protection and sustainability.

Ethical governance practices, corporate social responsibility and sustainable operations all form bedrock layers of the Group's business. We serve the communities where we operate by striving to protect their environments and help the less fortunate. The Group also actively participates in charity programmes and other initiatives for the betterment of society.

## Outlook

Now that vacancy rates in the commercial property market have increased and rentals are declining, the Group has re-commenced its store expansion programme, prudently weighing rental costs against market demand and location potential. Rentals will continue to be a major expenditure for the Group, however, as will labour and raw materials.

The collective state of the Hong Kong, Chinese Mainland and global economies indicates that the road ahead will remain challenging. But we are confident that our proven abilities to innovate, market and promote will keep attracting new generations of consumers to stores – widening our customer base and placing us in a good position to capitalise when the economy brightens. As always, these efforts will be supported by further initiatives to enhance our systems and efficiency. The "HEARTS" employee engagement programme will also continue to play a key role as we seek to attract and keep the very best talent in the industry, and drive the Circle K and Saint Honore brands forward as preferred employers.

The disposal of Discontinued Operations has helped the Group shed losses and focus its efforts on more profitable endeavours. In particular we are pleased with FingerShopping.com's performance in driving revenue, boosting brand profile, increasing customer loyalty and enhancing synergy. The platform boasts an expanding base of members and a larger geographic coverage than ever, reaching customers with a fast-growing inventory of high-quality products from leading brands across myriad product categories.

In closing, I would like to thank the Group's management and employees for all their hard work during what have been trying times for the retail industry. Their dedication is instrumental in strengthening our platform for further growth, and I look forward to a time in the near future when we will be able to celebrate the fruits of our labour together.

**Victor FUNG Kwok King**

*Chairman*

Hong Kong, 11 August 2016

# Management Discussion and Analysis

## Financial Review

During the first six months of 2016, the Group's turnover increased 3.4% to HK\$2,339 million. Turnover for the convenience store business increased 4.7% to HK\$1,870 million, with comparable store sales growing 5.2% compared to the same period last year. Turnover for the bakery business slightly decreased 0.5% to HK\$496 million, with low-single-digit growth in comparable store sales in Hong Kong.

Gross margin and other income as a percentage of turnover slightly increased to 35.9% despite keen competition in the retail market and high manufacturing costs. Operating expenses slightly increased from 33.1% of turnover to 33.2% against the same period in 2015, which was primarily due to high rental and labour costs. The operating results of Saint Honore Guangzhou improved following the restructuring of the business. Overall, the Group's core operating profit increased 7% to HK\$64 million.

With the disposal of Discontinued Operations in second half of 2015, the Group's net profit increased 68.4% to HK\$52 million for the six months ended 30 June 2016. Basic earnings per share for Continuing Operations increased 7% to 6.87 HK cents, and basic earnings per share including Discontinued Operations increased 68% to 6.87 HK cents.

As at 30 June 2016, the Group had a net cash balance of HK\$481 million, which was mainly generated from daily business operations. The Group had no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and on the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held either in Hong Kong dollars or renminbi. The Group had limited foreign exchange exposure in renminbi as a result of its business operations on the Chinese Mainland, except for certain renminbi bank deposits held in Hong Kong, which are subject to foreign exchange risk. The Group is subject to interest rate risks on the interest income earned from bank deposits. The Group will continue its policy of placing surplus cash in bank deposits denominated in its operating currencies, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.

The Board of Directors has resolved to declare an interim dividend of 3.5 HK cents per share.

## Operations Review – Hong Kong

As at 30 June 2016, the total number of Circle K stores was 324 compared to 328 as at the end of 2015, and the total number of Saint Honore stores was 94 compared to 89. In the first half of 2016, the Group opened six new Circle K stores in Hong Kong and closed 10 for a net decrease of four, and it opened seven new Saint Honore stores in Hong Kong and closed two for a net increase of five.

## Employees

As at 30 June 2016, the Group had a total of 6,811 employees, with 5,039, or 74%, based in Hong Kong and 1,772, or 26%, based in Guangzhou, Shenzhen and Macau. Part-time employees accounted for 45% of total headcount. Total staff cost for Continuing Operations for the six months ended 30 June 2016 was HK\$398 million compared to HK\$383 million for the same period last year.

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

During the period under review, the Activity Organising Board arranged several activities under the HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme, which is designed to enhance job satisfaction, boost talent retention and bolster the Group's reputation as an employer of choice. Initiatives were largely distributed across key areas such as creating a happy working environment, caring for employees' families and ensuring work-life balance. The "Little Saint Honore" work experience programme for children of employees was once again a popular choice, as was representing the Group in the Standard Chartered Hong Kong Marathon 2016, where more than 200 colleagues, their families and friends took part to nurture team spirit and promote personal health.

## Operations Review – Circle K

### Marketing and Promotion

During the first half of 2016, Circle K continued to build its "Dare to Try" brand image to appeal to younger generations and strengthen its customer foundation for the future. One successful initiative was the launch of a premium promotion featuring an office relaxation kit themed on the popular Sanrio character "Gudetama". The promotion was pushed across traditional, social, mobile and in-store advertising.

Leveraging the O2O platform FingerShopping.com, the Group launched an innovative "O2O Instant Lucky Draw Promotion" in March, offering attractive prizes including Apple Watches and FingerShopping.com cash coupons totalling HK\$60 million in value. The promotion was effective in driving online sales while also increasing store traffic at Circle K.

## **Category Management**

Effective category management is one of the most important ways for Circle K to stay fresh and relevant, ensuring that in-demand products and services are available when and where customers expect them. During the period under review, the Group took steps to enhance its convenient “Quick Breakfast” offerings, revamp its successful deli and sandwich ranges and introduce new food products themed on the Gudetama premium promotion. One highlight was the January launch of a new “Japanese Egg Mayonnaise and Ham” flavour for the Hot & In line of Super Soft sandwiches. Building on its reputation for innovation, the Group introduced in May the first MasterCard gift card in Hong Kong.

## **Customer Service Excellence**

The Group continued to demonstrate industry-leading customer service during the first half of 2016. For the third consecutive year, Circle K received the “Smiling Enterprise Award 2015-2016” from the Mystery Shopper Service Association, and a store manager won the award for “Outstanding Smiling Staff 2016” in Hong Kong.

On 23 March, Circle K promoted its outstanding service culture and injected positive energy into the community by combining its annual Service Day with international “OK Day” – when people around the world commemorate the birth of the popular expression – and hosting games and activity booths in stores across Hong Kong. The Group also extended its HEARTS employee engagement programme when senior management and 100 Circle K’s Service Stars visited stores across Hong Kong to interact with customers.

## **Operations Review – Saint Honore Cake Shop**

The Group’s bakery business performed reasonably well during the period under review. Saint Honore posted low-single-digit growth in comparable store sales in Hong Kong despite a very challenging retail environment, supported in part by the introduction of successful products such as Ovaltine and mango cakes and family-pack bread.

With the stabilisation of the commercial property rental market, store expansion has once again become a key growth strategy. The first six months of the year saw new store openings in some of Hong Kong’s busiest districts.

This year the Group officially launched a digital customer relationship management programme for Saint Honore in Hong Kong, which features a recruitment programme offering tailor-made rewards for loyal customers. The Group has also invested in further automation along its factory production lines to ensure product quality and consistency, boost productivity and capacity, and reduce labour costs.

The Hong Kong operations were proud to receive three recognitions during the period under review: the “Smiling Enterprise Award 2015-2016”, a 2016 “U Favourite Food Award” from U Magazine and a “Manpower Developer 1st (2010-18)” designation from the List of Manpower Developers of Employees Retraining Board – Manpower Developer Award Scheme.

In Guangzhou, Saint Honore achieved promising performance during the first half of 2016 as we implemented restructuring efforts to enhance supply chain efficiency and improve store and office operations. The Group introduced innovative products to drive sales, including Napoleon soft-crust pizza, which is baked to order and made with fresh ingredients. Saint Honore also launched a new bread line (FIT魯邦種) that is tailored for Mainland customers with a unique formulation of natural yeast and healthy ingredients, fusing the best flavours of European bread with a soft, chewy texture.

## **Supply Chain Management and Logistics**

With the warmer months approaching, the Group strengthened the capacity of its cold chain for delivering ice cream products by partnering with proven third-party contractors. This also enabled stores to enhance the customer shopping experience by stocking additional trendy, directly imported items through global sourcing.

As for Saint Honore, additional logistics service contractors were engaged to achieve more flexibility in scheduling delivery routes.

## **FingerShopping.com**

The Group’s O2O platform FingerShopping.com continued to make good headway during the period under review. The site now carries approximately 21,000 stock-keeping units from about 1,500 brands. FingerShopping.com’s comprehensive offerings, user-friendly interface and convenient services – which allow customers to purchase products online, and pay for them and pick them up at nearby Circle K stores – helped earn it recognition as one of the “2016 Top 10 eCommerce Websites” as decided by GS1 Hong Kong and Retail Asia Expo. In addition, FingerShopping.com extended its market coverage to Macau in February.

Over the first six months of 2016, FingerShopping.com recorded nearly 100% growth in both GMV and membership compared to the first half of 2015, with a pick-up rate in excess of 95% and a payment rate of 73% at Circle K stores in Hong Kong. The fast-growing, high-potential health and beauty segment represented 78% of total GMV.

## Corporate Social Responsibility

Giving back to the community is one of the most rewarding company activities for staff and management. In the first half of 2016, Circle K Hong Kong partnered with New Life Psychiatric Rehabilitation Association for a corporate social integration project, providing real-life working environments and job training at Circle K stores in United Christian Hospital and Tseung Kwan O Hospital for people in recovery from mental illness.

In January, the Group collaborated with the Tung Wah Group of Hospitals to celebrate Chinese New Year with more than 60 senior citizens. In May, Circle K Hong Kong partnered with iBakery – a social enterprise operated by the Tung Wah Group of Hospitals – for a “Mother’s Day Cookies Programme”, selling cookie gift packs for HK\$38 to raise funds benefiting low-income families.

As part of its comprehensive sustainability efforts, the Group supported Earth Hour 2016 by displaying posters in prominent display areas and turning off non-essential store lights and signs for one hour on the day of the event. Circle K stores also continued to give excess food to Foodlink Foundation Limited (“Foodlink”), donating approximately 16,000 pieces in the first half of 2016. Saint Honore also donated excess buns and bread to Foodlink during the period.

In recognition of its numerous corporate social responsibility initiatives and strong track record of giving back to the community, Circle K and Saint Honore were once again awarded the “10 Years Plus Caring Company Logo” and “5 Years Plus Caring Company Logo” respectively from the Hong Kong Council of Social Service.

## **Future Prospects**

The Group anticipates that the macroeconomic environment will remain challenging for the rest of the year and beyond. This is due to a combination of reasons that include sluggish growth on the Chinese Mainland, US interest rate concerns, and uncertainty regarding Europe and the future of the European Union following the Brexit vote. In Hong Kong, falling visitation and tourist spending along with weak local consumer sentiment are likely to continue impacting retail sales.

In the second half of 2016, the Group will seek to grow profit at existing stores by continuing to improve efficiency, reduce costs, and drive sales through innovative product development, marketing and category management. With the commercial rental market on the downswing, cautious store expansion will play a role in driving revenue across the convenience store and bakery businesses.

Although the business environment has been challenging, the Group's core operations remain strong and healthy, and it has a solid balance sheet with a good cash position. We will continue to monitor the market closely for merger and acquisition opportunities that can help us grow our business, at the same time as we strive for healthy organic growth.

### **Richard YEUNG Lap Bun**

*Chief Executive Officer*

Hong Kong, 11 August 2016



# Corporate Governance

The Board of Directors and management are committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphasise transparency, accountability and independence.

Corporate governance practices adopted by the Company during the six months ended 30 June 2016 are in line with those practices set out in the Company's 2015 Annual Report, and are also consistent with the principles set out in the revised Corporate Governance Code and Corporate Governance Report (the "CG Code", with the amendments came into effect on 1 January 2016) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## The Board

As at 30 June 2016, the Board comprised the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and four Non-executive Directors.

In order to enhance independence, accountability and responsibility, the roles of Chairman and Chief Executive Officer are held separately by Dr Victor Fung Kwok King and Mr Richard Yeung Lap Bun. Their respective responsibilities are clearly established and defined by the Board in writing.

The Board held three meetings to date in 2016 (with an average attendance rate of directors of about 94%) to discuss the overall strategies, operational and financial performance of the Group.

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

All the committees comprise a majority of Independent Non-executive Directors. Each of the Audit Committee and Remuneration Committee is chaired by an Independent Non-executive Director, and the Nomination Committee is chaired by the Non-executive Chairman.

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.

## Audit Committee

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

Anthony LO Kai Yiu \* – *Committee Chairman*

Malcolm AU Man Chung \*

Godfrey Ernest SCOTCHBROOK +

Benedict CHANG Yew Teck +

ZHANG Hongyi \*

\* *Independent Non-executive Director*

+ *Non-executive Director*

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

The Audit Committee met three times to date in 2016 (with an average attendance rate of about 93%) to consider and review with senior management, the Company's Corporate Governance Division ("CGD", which carries out the internal audit function) and external auditor various matters as set out in the Audit Committee's terms of reference, which included the following:

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

The Audit Committee has reviewed with senior management the unaudited interim financial information for the six months ended 30 June 2016 before recommending it to the Board for approval.

## Remuneration Committee

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

Malcolm AU Man Chung \* – *Committee Chairman*

William FUNG Kwok Lun +

Jeremy Paul Egerton HOBBSINS +

ZHANG Hongyi \*

Sarah Mary LIAO Sau Tung \*

\* *Independent Non-executive Director*

+ *Non-executive Director*

The Remuneration Committee is responsible for reviewing the Group's remuneration and human resources policy and 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.

The Remuneration Committee met once to date in 2016 (with a 100% attendance rate) to consider possible alternative incentive to Directors and employees, and the grant of share options to employees.

## Nomination Committee

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

Victor FUNG Kwok King + – *Committee Chairman*

Anthony LO Kai Yiu \*

ZHANG Hongyi \*

+ *Non-executive Director*

\* *Independent Non-executive Director*

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

## **Directors' and Relevant Employees' Securities Transactions**

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

Specific confirmation of compliance has been obtained from each Director and each relevant employee for the six months ended 30 June 2016. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2016.

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

## **Risk Management and Internal Control**

The Board is responsible for ensuring that the Group maintains appropriate and effective risk management and internal control systems, and for reviewing the effectiveness and adequacy of such systems through the Audit Committee. These 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. Details of the Company's risk management and internal control systems are set out in the Corporate Governance Report on pages 38 to 41 of the Company's 2015 Annual Report.

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

CGD staff independently review the Group's risk management and internal control systems, and evaluate their adequacy, effectiveness and compliance. 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.

Based on the respective assessments made by senior management and CGD, the Audit Committee considered that for the six months ended 30 June 2016:

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

## **Compliance with the Corporate Governance Code**

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code for the six months ended 30 June 2016.

## **Investor Relations and Communication**

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

The Company maintains a corporate website ([www.cr-asia.com](http://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.

# Other Information

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

As at 30 June 2016, the Directors and chief executives of the Company and their associates had the following interests in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (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			Equity derivatives (share options)	Total interests	Approximate percentage of interests
	Personal interests	Family interests	Corporate/ Trust interests			
Victor Fung Kwok King	-	-	311,792,000 <i>(Note 1)</i>	-	311,792,000	41.32%
William Fung Kwok Lun	-	-	311,792,000 <i>(Note 1)</i>	-	311,792,000	41.32%
Richard Yeung Lap Bun	20,396,000	-	-	4,000,000 <i>(Note 2)</i>	24,396,000	3.23%
Pak Chi Kin	1,044,000	-	-	3,000,000 <i>(Note 2)</i>	4,044,000	0.54%
Jeremy Paul Egerton Hobbins	180,000	-	-	-	180,000	0.02%

Notes:

1. *King Lun Holdings Limited ("King Lun") through its indirect wholly-owned subsidiary, Fung Retailing Limited ("FRL") (a wholly-owned subsidiary of Fung Holdings (1937) Limited ("FH 1937")) held 311,792,000 shares in the Company. 50% of the issued share capital of King Lun is owned by HSBC Trustee (C.I.) Limited, the trustee of a trust established for the benefit of the family members of Dr Victor Fung Kwok King, the remaining 50% is owned by Dr William Fung Kwok Lun. Therefore, Dr Victor Fung Kwok King and Dr William Fung Kwok Lun, by virtue of their interests in King Lun, are deemed to have interests in 311,792,000 shares of the Company.*
2. *These interests represented the interests in the share options (being regarded as unlisted physically settled equity derivatives) granted by the Company to these Directors as beneficial owners, the details of which are set out in the section headed "Share Options" below.*

Save as disclosed above, as at 30 June 2016, none of the Directors, chief executives and their associates had any other interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations. Besides, at no time during the period, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

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

As at 30 June 2016, 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 <i>(Note 1)</i>	41.32%
King Lun Holdings Limited	311,792,000	Interest of controlled corporation <i>(Note 1)</i>	41.32%
Arisaig Asia Consumer Fund Limited ("Arisaig ACF")	82,580,000	Beneficial owner	10.94%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	82,580,000	Investment manager <i>(Note 2)</i>	10.94%
Arisaig Partners (Asia) Pte Ltd ("Arisaig Asia")	82,580,000	Investment manager <i>(Note 2)</i>	10.94%
Arisaig Partners (Holdings) Ltd.	82,580,000	Interest of controlled corporation <i>(Note 2)</i>	10.94%
Skye Partners Limited	82,580,000	Interest of controlled corporation <i>(Note 2)</i>	10.94%
International Financial Services Limited	82,580,000	Interest of controlled corporation <i>(Note 2)</i>	10.94%
IFS Trustees	82,580,000	Interest of controlled corporation <i>(Note 2)</i>	10.94%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	83,024,000	Investment manager <i>(Note 3)</i>	11.00%



Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
Aberdeen Global	63,912,000	Investment manager (Note 3)	8.47%
The Capital Group Companies, Inc.	51,330,000	Interest of controlled corporation	6.80%
Dempsey Hill Asia Master Fund ("Dempsey Hill Asia")	46,530,000	Beneficial owner (Note 4)	6.17%
Dempsey Hill Capital Pte Ltd ("Dempsey Hill Capital")	46,530,000	Investment manager (Note 4)	6.17%
Lim Thiam Soon ("Mr Lim")	46,530,000	Interest of controlled corporation (Note 4)	6.17%

Notes:

1. These shares were held by FRL. King Lun indirectly owns 100% interests in FRL through its wholly-owned subsidiary, FH 1937. All of HSBC Trustee (C.I.) Limited, King Lun, FH 1937 and FRL are deemed to have interests in these shares pursuant to the SFO. Please refer to Note 1 in the above section headed "Interests and Short Positions of Directors in Shares, Underlying Shares and Debentures".
2. These shares were held by Arisaig ACF, and Arisaig Mauritius and Arisaig Asia are the fund manager and the sub-investment manager of Arisaig ACF respectively. Arisaig Mauritius and Arisaig Asia are wholly-owned by Arisaig Partners (Holdings) Ltd., which is in turn wholly-owned by Skye Partners Limited. IFS Trustees and International Financial Services Limited are the trustees of the trusts, each of which owns one-third of Skye Partners Limited. Therefore Arisaig Mauritius, Arisaig Asia, Arisaig Partners (Holdings) Ltd., Skye Partners Limited, IFS Trustees and International Financial Services Limited are deemed to have interests in the shares of the Company held by Arisaig ACF. Mr Lindsay William Ernest Cooper has transferred his shareholding to IFS Trustees.
3. The Aberdeen Group held the shares on behalf of accounts (under discretionary or segregated mandates) managed by the Aberdeen Group. 63,912,000 shares were held by Aberdeen Global of which the Aberdeen Group is the investment manager and investment advisers.
4. These shares were held by Dempsey Hill Asia of which Dempsey Hill Capital is the fund manager. Dempsey Hill Capital is owned as to 70% by Mr Lim.

Save as disclosed above, as at 30 June 2016, the Company had not been notified of any other interests or short positions in shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

## Share Options

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

Details of the movements of share options under the 2010 Share Option Scheme during the six months ended 30 June 2016 are as follows:

### (A) Continuous contract employees

Number of share options										
As at 1 January 2016	Granted (Note 1)	Exercised	Lapsed (Note 2)	Expired	As at 30 June 2016	Exercise price HK\$	Grant date	Exercisable from	Exercisable until	
4,690,000	-	-	-	-	4,690,000	3.22	10 March 2011	1 April 2014	31 March 2017	
66,000	-	-	-	-	66,000	3.71	8 March 2012	1 April 2014	31 March 2017	
470,000	-	-	(34,000)	-	436,000	5.40	28 March 2013	1 April 2014	31 March 2017	
12,732,000	-	-	(54,000)	-	12,678,000	5.53	28 February 2014	1 April 2017	31 March 2020	
616,000	-	-	(132,000)	-	484,000	5.10	19 March 2015	1 April 2017	31 March 2020	
-	236,000	-	-	-	236,000	2.86	16 March 2016	1 April 2017	31 March 2020	
18,574,000	236,000	-	(220,000)	-	18,590,000					

**(B) Directors**

	Number of share options					As at 30 June 2016	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	As at 1 January 2016	Granted	Exercised	Lapsed	Expired					
Richard Yeung Lap Bun	2,000,000	-	-	-	-	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
	2,000,000	-	-	-	-	2,000,000	5.53	28 February 2014	1 April 2017	31 March 2020
Pak Chi Kin	1,000,000	-	-	-	-	1,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
	2,000,000	-	-	-	-	2,000,000	5.53	28 February 2014	1 April 2017	31 March 2020
	7,000,000	-	-	-	-	7,000,000				

**Notes:**

1. During the period, share options to subscribe for a total of 236,000 shares were granted on 16 March 2016. The closing price of the shares immediately before the date on which the options were granted was HK\$2.71.
2. Share options to subscribe for 220,000 shares lapsed during the period following the cessation of employment of certain grantees.
3. No share options under the 2010 Share Option Scheme were cancelled during the period.
4. The above options granted are recognised as expenses in the consolidated financial statements in accordance with the Company's accounting policy as set out in the annual audited financial statements for the year ended 31 December 2015.
5. The value of the options granted during the period is HK\$57,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK\$2.86 at the grant date, exercise price shown above, standard deviation of expected share price returns of 24.6%, expected life of options of three years, expected dividend paid out rate of 3.6% and annual risk-free interest rate of 1.0%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The Black-Scholes Valuation model is developed to estimate the fair value of European share options. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

Save as disclosed above, as at 30 June 2016, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates had been granted any other share options.

## Changes in Directors' Information

Pursuant to Rule 13.51B(1) of the Listing Rules, changes of Directors' information since the publication of the Company's 2015 Annual Report are set out below:

Name of Directors	Changes
Victor Fung Kwok King	<ul style="list-style-type: none"><li>Appointed advisor of the Infrastructure Financing Facilitation Office of The Hong Kong Monetary Authority in July 2016</li></ul>
Jeremy Paul Egerton Hobbins	<ul style="list-style-type: none"><li>Appointed as executive director and Chief Executive Officer of Trinity Limited on 4 June 2016</li></ul>

## Purchase, Sale or Redemption of the Company's Listed Securities

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

## Interim Dividend

The Board of Directors has resolved to declare an interim dividend for the six months ended 30 June 2016 of 3.5 HK cents (2015: 3.1 HK cents) per share to the shareholders of the Company.

## Closure of Register of Members

The Register of Members of the Company will be closed from 29 August 2016 to 30 August 2016, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 26 August 2016. Dividend warrants will be despatched on 8 September 2016.

# Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2016

		(Unaudited) Six months ended 30 June	
	Note	2016 HK\$'000	2015 HK\$'000 (Restated)
<b>Continuing Operations</b>			
Revenue	4	<b>2,339,035</b>	2,261,620
Cost of sales	5	<b>(1,551,588)</b>	(1,503,615)
Gross profit		<b>787,447</b>	758,005
Other income	4	<b>52,109</b>	49,291
Store expenses	5	<b>(614,633)</b>	(595,491)
Distribution costs	5	<b>(69,033)</b>	(58,892)
Administrative expenses	5	<b>(92,124)</b>	(93,293)
Core operating profit		<b>63,766</b>	59,620
Non-core operating gain/(loss)	5	<b>42</b>	(615)
Operating profit		<b>63,808</b>	59,005
Interest income	6	<b>1,124</b>	2,132
Profit before income tax		<b>64,932</b>	61,137
Income tax expenses	7	<b>(13,112)</b>	(12,803)
Profit for the period from Continuing Operations		<b>51,820</b>	48,334
<b>Discontinued Operations</b>			
Loss for the period from Discontinued Operations	16	–	(17,568)
Profit attributable to shareholders of the Company		<b>51,820</b>	30,766
Earnings per share (HK cents)			
Basic earnings per share	8		
Continuing Operations		<b>6.87</b>	6.42
Included Discontinued Operations		<b>6.87</b>	4.09
Diluted earnings per share	8		
Continuing Operations		<b>6.87</b>	6.39
Included Discontinued Operations		<b>6.87</b>	4.07

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Profit attributable to shareholders of the Company	<b>51,820</b>	30,766
Other comprehensive loss:		
Item that may be reclassified subsequently to profit or loss		
Exchange differences	<b>(2,121)</b>	(432)
Total comprehensive income attributable to shareholders of the Company	<b>49,699</b>	30,334
Total comprehensive income attributable to shareholders of the Company arises from:		
Continuing Operations	<b>49,699</b>	47,879
Discontinued Operations	–	(17,545)

# Condensed Consolidated Balance Sheet

As at 30 June 2016

	<i>Note</i>	(Unaudited) 30 June 2016 HK\$'000	(Audited) 31 December 2015 HK\$'000
<b>Non-current assets</b>			
Fixed assets	10	<b>329,733</b>	334,875
Investment properties	11	<b>27,936</b>	28,585
Lease premium for land		<b>36,726</b>	37,906
Intangible assets		<b>357,465</b>	357,465
Available-for-sale financial asset		<b>1,895</b>	1,895
Rental and other long-term deposits		<b>86,012</b>	74,361
Deferred tax assets		<b>17,418</b>	14,075
		<b>857,185</b>	849,162
<b>Current assets</b>			
Inventories		<b>183,982</b>	185,358
Rental deposits		<b>51,993</b>	53,794
Trade receivables	12	<b>51,724</b>	48,495
Other receivables, deposits and prepayments		<b>83,390</b>	80,527
Restricted bank deposit	13	<b>934</b>	957
Cash and cash equivalents	13	<b>480,055</b>	567,114
		<b>852,078</b>	936,245
<b>Current liabilities</b>			
Trade payables	14	<b>570,628</b>	539,783
Other payables and accruals		<b>184,897</b>	212,039
Taxation payable		<b>22,233</b>	7,430
Cake coupons		<b>163,945</b>	166,246
		<b>941,703</b>	925,498
<b>Net current (liabilities)/assets</b>		<b>(89,625)</b>	10,747
<b>Total assets less current liabilities</b>		<b>767,560</b>	859,909
<b>Financed by:</b>			
Share capital	15	<b>75,464</b>	75,464
Reserves		<b>671,673</b>	763,070
<b>Shareholders' funds</b>		<b>747,137</b>	838,534
<b>Non-current liabilities</b>			
Long service payment liabilities		<b>10,446</b>	11,505
Deferred tax liabilities		<b>9,977</b>	9,870
		<b>767,560</b>	859,909

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	(Unaudited) Attributable to shareholders of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital reserves HK\$'000	Employee share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1 January 2016	75,464	377,246	177,087	18,474	13,201	2,217	174,845	838,534
Profit attributable to shareholders of the Company	-	-	-	-	-	-	51,820	51,820
Exchange differences	-	-	-	-	-	(2,121)	-	(2,121)
Total comprehensive income for the period	-	-	-	-	-	(2,121)	51,820	49,699
Employee share option benefit	-	-	-	-	2,206	-	80	2,286
Dividends paid	-	-	-	-	-	-	(143,382)	(143,382)
	-	-	-	-	2,206	-	(143,302)	(141,096)
At 30 June 2016	75,464	377,246	177,087	18,474	15,407	96	83,363	747,137
At 1 January 2015	75,115	364,289	177,087	18,474	11,062	7,388	136,746	790,161
Profit attributable to shareholders of the Company	-	-	-	-	-	-	30,766	30,766
Exchange differences	-	-	-	-	-	(432)	-	(432)
Total comprehensive income for the period	-	-	-	-	-	(432)	30,766	30,334
Issue of new shares	314	9,793	-	-	-	-	-	10,107
Employee share option benefit	-	1,864	-	-	438	-	104	2,406
Dividend paid	-	-	-	-	-	-	(98,044)	(98,044)
	314	11,657	-	-	438	-	(97,940)	(85,531)
At 30 June 2015	75,429	375,946	177,087	18,474	11,500	6,956	69,572	734,964



# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016

	(Unaudited)	
	Six months ended	
	30 June	
	2016	2015
	HK\$'000	HK\$'000
		(Restated)
<b>Continuing Operations</b>		
Cash flows from operating activities		
Cash generated from operations	<b>84,943</b>	73,550
Hong Kong profits tax paid	–	(28)
Overseas income tax paid	<b>(1,560)</b>	(1,421)
Net cash generated from operating activities	<b>83,383</b>	72,101
Cash flows from investing activities		
Purchase of fixed assets	<b>(27,368)</b>	(40,759)
Proceeds from disposal of fixed assets	<b>150</b>	432
Decrease in bank deposits	–	6,281
Interest received	<b>1,014</b>	2,513
Net cash used in investing activities	<b>(26,204)</b>	(31,533)
Cash flows from financing activities		
Proceeds from issuance of shares	–	10,107
Fund transfer to Discontinued Operations	–	(17,622)
Dividends paid	<b>(143,382)</b>	(98,044)
Net cash used in financing activities	<b>(143,382)</b>	(105,559)
Decrease in cash and cash equivalents from		
Continuing Operations	<b>(86,203)</b>	(64,991)
Decrease in cash and cash equivalents from		
Discontinued Operations	–	(6,265)
Decrease in cash and cash equivalents	<b>(86,203)</b>	(71,256)
Cash and cash equivalents at 1 January	<b>567,114</b>	528,177
Effect of foreign exchange rate changes	<b>(856)</b>	(189)
Cash and cash equivalents at 30 June	<b>480,055</b>	456,732

# Notes to the Condensed Consolidated Interim Financial Information

## 1. General information

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

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is at 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 (the “Stock Exchange”).

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information have been approved for issue by the Board of Directors on 11 August 2016.

On 25 August 2015, the Group has disposed of certain subsidiaries which are principally engaged in the operation of the convenience store business in Guangzhou and the operation is presented as Discontinued Operations. The financial results of the Discontinued Operations for the period ended 30 June 2015 have been restated accordingly. Details of the Discontinued Operations are set out in note 16 to the condensed consolidated interim financial information.

## 2. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange.

This condensed consolidated interim financial information should be read in conjunction with the 2015 consolidated financial statements which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used and described in the 2015 consolidated financial statements.

The Group has adopted new and amended standards and interpretations of HKFRS which are mandatory for the accounting periods beginning on or after 1 January 2016 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated interim financial information and does not result in substantial changes to the Group's accounting policies.

### **3. Financial risk management and financial instruments**

#### **(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.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the 2015 consolidated financial statements, and should be read in conjunction with the 2015 consolidated financial statements.

There have been no changes in the risk management policies since the year end.

**(b) Fair value estimation**

The Group's financial instruments are measured in the condensed consolidated balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) Quoted prices in active markets for identical assets or liabilities (level 1)
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
- (iii) Inputs for the asset or liability that are not based on observable market data (level 3)

The Group's financial asset that is measured at fair value as at 30 June 2016 and 31 December 2015 are as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 31 December 2015 HK\$'000
Available-for-sale financial asset (level 3)	<b>1,895</b>	1,895

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

**(c) Group's valuation processes**

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

#### 4. Revenue, other income and segment information

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

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Revenue		
Merchandise sales revenue	<b>1,870,236</b>	1,786,189
Bakery sales revenue	<b>458,603</b>	467,462
e-commerce revenue	<b>10,196</b>	7,969
	<b>2,339,035</b>	2,261,620
Other income		
Service items and miscellaneous income	<b>52,109</b>	49,291

##### Segment information

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

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

The segment information provided to the management for the reportable segments for the six months ended 30 June 2016 and 2015 are as follows:

Continuing Operations	(Unaudited)				
	Six months ended 30 June 2016				
	Convenience Store	Bakery		e-commerce	Group
	HK & Others	HK & Others	Chinese Mainland	HK	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Total segment revenue	1,870,236	462,818	59,006	10,196	2,402,256
Inter-segment revenue	-	(63,221)	-	-	(63,221)
Revenue from external customers	1,870,236	399,597	59,006	10,196	2,339,035
Total segment other income	48,399	4,435	1,016	47	53,897
Inter-segment other income	(681)	(1,107)	-	-	(1,788)
Other income	47,718	3,328	1,016	47	52,109
	1,917,954	402,925	60,022	10,243	2,391,144
Core operating profit/(loss)	71,526	6,628	(4,003)	(10,385)	63,766
Depreciation and amortisation	(13,276)	(16,347)	(3,283)	(584)	(33,490)

Continuing Operations	(Unaudited) Six months ended 30 June 2015				
	Convenience Store HK & Others HK\$'000 (Restated)	Bakery HK & Others HK\$'000 (Restated)	Chinese Mainland HK\$'000 (Restated)	e-commerce HK HK\$'000 (Restated)	Group HK\$'000 (Restated)
Total segment revenue	1,786,189	462,361	65,265	7,969	2,321,784
Inter-segment revenue	-	(60,164)	-	-	(60,164)
Revenue from external customers	1,786,189	402,197	65,265	7,969	2,261,620
Total segment other income	46,829	3,664	225	10	50,728
Inter-segment other income	(328)	(1,109)	-	-	(1,437)
Other income	46,501	2,555	225	10	49,291
	1,832,690	404,752	65,490	7,979	2,310,911
Core operating profit/(loss)	69,962	7,866	(8,375)	(9,833)	59,620
Depreciation and amortisation	(13,035)	(14,578)	(3,814)	(588)	(32,015)

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 condensed consolidated profit and loss account. The management assesses the performance of the operating segments based on a measure of core operating profit. This measurement basis includes profit before income tax excluding interest income, corporate exchange gain or loss and gain or loss on disposal of property which are of capital nature or non-operating related.

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

The segment assets and liabilities as at 30 June 2016 and 31 December 2015 are as follows:

(Unaudited)					
As at 30 June 2016					
	Convenience Store HK & Others HK\$'000	Bakery HK & Others HK\$'000	Chinese Mainland HK\$'000	e-commerce HK HK\$'000	Group HK\$'000
Total segment assets	545,178	769,256	70,535	9,088	1,394,057
Total segment assets include:					
Additions to segment non-current assets	11,877	21,430	1,397	54	34,758
Total segment liabilities	619,481	283,557	17,184	9,694	929,916

(Audited)					
As at 31 December 2015					
	Convenience Store HK & Others HK\$'000	Bakery HK & Others HK\$'000	Chinese Mainland HK\$'000	e-commerce HK HK\$'000	Group HK\$'000
Total segment assets	546,980	733,945	70,700	10,504	1,362,129
Total segment assets include:					
Additions to segment non-current assets	38,344	39,091	7,130	1,976	86,541
Total segment liabilities	620,988	281,110	14,975	12,500	929,573

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



Reportable segment assets are reconciled to total assets as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 31 December 2015 HK\$'000
Segment assets for reportable segments	<b>1,394,057</b>	1,362,129
Unallocated:		
Deferred tax assets	<b>17,418</b>	14,075
Corporate bank deposits	<b>297,788</b>	409,203
<b>Total assets per condensed consolidated balance sheet</b>	<b>1,709,263</b>	1,785,407

Reportable segment liabilities are reconciled to total liabilities as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 31 December 2015 HK\$'000
Segment liabilities for reportable segments	<b>929,916</b>	929,573
Unallocated:		
Deferred tax liabilities	<b>9,977</b>	9,870
Taxation payable	<b>22,233</b>	7,430
<b>Total liabilities per condensed consolidated balance sheet</b>	<b>962,126</b>	946,873

The Group is domiciled in Hong Kong. The result of its revenue of Continuing Operations from external customers in Hong Kong is HK\$2,217,557,000 (2015 (restated): HK\$2,135,620,000), and the total of revenue of Continuing Operations from external customers from other countries is HK\$121,478,000 (2015 (restated): HK\$126,000,000) for the six months ended 30 June 2016.

The total of non-current assets other than available-for-sale financial asset and deferred tax assets located in Hong Kong is HK\$750,389,000 (as at 31 December 2015: HK\$742,623,000), and the total of these non-current assets located in other countries is HK\$87,483,000 (as at 31 December 2015: HK\$90,569,000) as at 30 June 2016.

## 5. Expenses by nature from Continuing Operations

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000 (Restated)
Amortisation of lease premium for land	621	785
Cost of inventories sold	1,436,827	1,393,368
Depreciation of owned fixed assets	32,380	30,883
Depreciation of investment properties	489	347
Employee benefit expense	397,581	382,651
Operating leases rental for land and buildings	245,353	231,913
Other expenses	214,085	211,959
Total cost of sales, store expenses, distribution costs, administrative expenses and non-core operating gain/(loss)	<b>2,327,336</b>	2,251,906

## 6. Interest income from Continuing Operations

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000 (Restated)
Interest income on bank deposits	1,124	2,132

## 7. Income tax expenses from Continuing Operations

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2016 and 2015. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates prevailing in the countries in which the Group operates.

The amount of income tax expenses charged/(credited) to the condensed consolidated profit and loss account represents:

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Current income tax		
Hong Kong profits tax	<b>13,196</b>	13,255
Overseas profits tax	<b>3,228</b>	1,246
Deferred income tax credit	<b>(3,312)</b>	(1,698)
	<b>13,112</b>	12,803

## 8. Earnings per share

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

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

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.

	<b>(Unaudited)</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000 (Restated)
Profit/(Loss) attributable to shareholders of the Company		
Continuing Operations	<b>51,820</b>	48,334
Discontinued Operations	–	(17,568)
	<b>51,820</b>	30,766
	<b>Number of shares</b>	Number of shares
Weighted average number of ordinary shares in issue	<b>754,640,974</b>	752,758,448
Adjustment for:		
Share options	<b>3,035</b>	3,249,382
Weighted average number of ordinary shares for diluted earnings per share	<b>754,644,009</b>	756,007,830

## 9. Dividend

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interim dividend, proposed of 3.5 HK cents (2015: 3.1 HK cents) per share	<b>26,412</b>	23,383

The proposed dividend is not reflected as dividend payable in the condensed consolidated interim financial information.

## 10. Fixed assets

	(Unaudited)	
	30 June 2016 HK\$'000	(Unaudited) 30 June 2015 HK\$'000
Opening net book amount	<b>334,875</b>	337,775
<b>Continuing Operations</b>		
Additions	<b>28,650</b>	41,219
Disposals	<b>(944)</b>	(1,910)
Depreciation	<b>(32,380)</b>	(30,883)
Exchange differences	<b>(468)</b>	(88)
<b>Discontinued Operations</b>		
Additions	–	1,606
Disposals	–	(432)
Depreciation	–	(3,383)
Exchange differences	–	(75)
Closing net book amount	<b>329,733</b>	343,829

## 11. Investment properties

	<b>(Unaudited)</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	(Unaudited) 30 June 2015 HK\$'000
Opening net book amount	<b>28,585</b>	22,567
Depreciation	<b>(489)</b>	(347)
Exchange differences	<b>(160)</b>	–
Closing net book amount	<b>27,936</b>	22,220

## 12. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from suppliers/customers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 30 June 2016, the aging analysis of trade receivables is as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 31 December 2015 HK\$'000
0-30 days	<b>42,499</b>	35,899
31-60 days	<b>4,216</b>	4,098
61-90 days	<b>1,703</b>	4,457
Over 90 days	<b>3,306</b>	4,041
	<b>51,724</b>	48,495

### 13. Cash and bank balances

	<b>(Unaudited)</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 31 December 2015 HK\$'000
Cash and cash equivalents	<b>480,055</b>	567,114
Restricted bank deposit	<b>934</b>	957
	<b>480,989</b>	568,071

### 14. Trade payables

At 30 June 2016, the aging analysis of the trade payables is as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	(Audited) 31 December 2015 HK\$'000
0-30 days	<b>339,294</b>	307,212
31-60 days	<b>147,744</b>	142,299
61-90 days	<b>55,283</b>	54,578
Over 90 days	<b>28,307</b>	35,694
	<b>570,628</b>	539,783

## 15. Share capital

	(Unaudited) 30 June 2016		(Audited) 31 December 2015	
	Shares of HK\$0.10 each		Shares of HK\$0.10 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
At end of the period	<b>2,000,000,000</b>	<b>200,000</b>	2,000,000,000	200,000
Issued and fully paid:				
At beginning of the period	<b>754,640,974</b>	<b>75,464</b>	751,151,974	75,115
Issue of shares on exercise of share options <i>(note)</i>	-	-	3,489,000	349
At end of the period	<b>754,640,974</b>	<b>75,464</b>	754,640,974	75,464

*Note:*

During the period, nil (year ended 31 December 2015: 3,489,000) shares were allotted and issued pursuant to the exercise of share options.

## 16. Discontinued Operations

On 25 August 2015, the Group completed its disposal of the entire interests of the wholly-owned subsidiaries namely, Circle K Convenience Stores PRC Limited, Circle K PRC Properties Limited, New Success Ventures Limited and Convenience Consultancy Services Limited (collectively the "Discontinued Operations") to Fung Holdings (1937) Limited ("FH 1937"). The Discontinued Operations was principally engaged in the operation of the convenience store business in Guangzhou. Accordingly, the results of convenience store business have been presented as Discontinued Operations in the condensed consolidated interim financial information for the six months ended 30 June 2015.

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



**(a) Results of the Discontinued Operations have been included in the Condensed Consolidated Profit and Loss Account as follows:**

	(Unaudited) Six months ended 30 June 2015 HK\$'000
Revenue	116,224
Cost of sales *	(72,404)
Gross profit	43,820
Other income *	1,031
Store expenses *	(45,242)
Distribution costs	(5,128)
Administrative expenses *	(12,122)
Core operating loss	(17,641)
Interest income	73
Loss for the period	(17,568)

\* Amounts before elimination of transactions between Continuing Operations and Discontinued Operations of HK\$8,116,000.

Operating loss is stated after crediting and charging the following:

	(Unaudited) Six months ended 30 June 2015 HK\$'000
Amortisation of lease premium for land	231
Cost of inventories sold	71,435
Depreciation of owned fixed assets	3,383
Employee benefit expense	26,967
Operating leases rental for land and building	17,362
Other expenses	15,518
<b>Total cost of sales, store expenses, distribution costs and administrative expenses</b>	<b>134,896</b>

**(b) Cumulative income recognised in Other Comprehensive Income relating to the Discontinued Operations:**

	(Unaudited) Six months ended 30 June 2015 HK\$'000
Exchange differences	23

**(c) An analysis of the cash flow of the Discontinued Operations is as follows:**

	(Unaudited) Six months ended 30 June 2015 HK\$'000
Net cash used in operating activities	(22,382)
Net cash used in investing activities	(1,505)
Net cash generated from financing activities	17,622
<b>Total cash outflow</b>	<b>(6,265)</b>

## **17. 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 30 June 2016 is HK\$5,517,000 (as at 31 December 2015: HK\$5,664,000).

## **18. Related party transactions**

Fung Retailing Limited ("FRL") is a substantial shareholder of the Company, which owns 41.32% of the Company's shares. All of the related party transactions of the Group are entered into with FH 1937 (the holding company of FRL and a substantial shareholder of the Company) and its subsidiaries and associates.

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

**(a) Related party transactions**

	<i>Note</i>	<b>(Unaudited)</b>	
		<b>Six months ended</b>	
		<b>2016</b>	2015
		<b>HK\$'000</b>	HK\$'000
<b>Income</b>			
Service income and reimbursement of office and administrative expenses	<i>(i)</i>		
Subsidiaries/fellow subsidiaries of a substantial shareholder		<b>869</b>	732
Associates of a substantial shareholder		<b>3</b>	25
Rental and service income	<i>(ii)</i>		
Subsidiary/fellow subsidiary of a substantial shareholder		<b>632</b>	8
Associate of a substantial shareholder		<b>2</b>	53
Sales of food products	<i>(iii)</i>		
Subsidiaries of a substantial shareholder		<b>5,572</b>	–
<b>Expenses</b>			
Reimbursement of office and administrative expenses	<i>(iv)</i>		
Subsidiaries/fellow subsidiaries of a substantial shareholder		<b>1,195</b>	1,082
Associates of a substantial shareholder		<b>1,314</b>	485
Rental payable	<i>(v)</i>		
Subsidiary/fellow subsidiaries of a substantial shareholder		<b>1,915</b>	1,509
Associates of a substantial shareholder		<b>4,792</b>	4,226
Net purchases	<i>(vi)</i>		
Subsidiaries of a substantial shareholder		<b>4,727</b>	–
Associates of a substantial shareholder		<b>5,144</b>	6,875

**(b) Key management personnel compensation**

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Fees	<b>1,570</b>	1,570
Bonuses	<b>7,021</b>	5,339
Salaries and other allowances	<b>5,806</b>	6,924
Employee share option benefit	<b>857</b>	983
Pension costs – defined contribution scheme	<b>45</b>	54
	<b>15,299</b>	14,870

**(c) Period-end balances with related parties**

	<b>(Unaudited)</b>	(Audited)
	<b>30 June</b>	31 December
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Amounts due from:		
Subsidiaries of a substantial shareholder	<b>1,808</b>	487
Associate of a substantial shareholder	–	10
Amounts due to:		
Subsidiaries/fellow subsidiary of a substantial shareholder	<b>(710)</b>	(1,252)
Associates of a substantial shareholder	<b>(3,561)</b>	(3,189)

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

- (d)** The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK\$32,888,000 (as of 31 December 2015: HK\$32,888,000). As of 30 June 2016, the banking facilities of the subsidiaries amounting to HK\$7,152,000 (as of 31 December 2015: HK\$7,152,000) were utilised.

- (e) Reference is made to the agreements made between the Company and FH 1937 in connection with the continuing connected transactions (details of which are set out in the Directors' Report of 2015 Annual Report), Dr Victor Fung Kwok King and Dr William Fung Kwok Lun are considered to have material interest in the said continuing connected transactions by virtue of their deemed interests in FH 1937.

*Notes:*

- (i) Service income and reimbursements receivable from subsidiaries/fellow subsidiaries/associates of a substantial shareholder in respect of office and administrative expenses incurred are charged on an actual cost recovery basis and in accordance with the terms of agreements.
- (ii) Rental and service income from subsidiary/fellow subsidiary/associate of a substantial shareholder were carried out in ordinary course of business and in accordance with the terms of agreements.
- (iii) Sales of food products to subsidiaries of a substantial shareholder were carried out in ordinary course of business and in accordance with the terms of agreements.
- (iv) Reimbursements payable to subsidiary/fellow subsidiaries/associates of a substantial shareholder in respect of office and administrative expenses incurred, are charged on an actual cost recovery basis.
- (v) Rentals are payable to subsidiary/fellow subsidiaries/associates of a substantial shareholder in accordance with the terms of agreements.
- (vi) Purchases from subsidiaries/associates of a substantial shareholder were carried out in ordinary course of business and in accordance with the terms of agreements.