



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 **2020**

 **Circle K**  SAINT HONORE **Zoff**

馮氏



A Fung Retailing Company



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Corporate Information

Executive Directors	Richard YEUNG Lap Bun (<i>Chief Executive Officer</i>) PAK Chi Kin (<i>Chief Operating Officer</i>)
Non-executive Directors	Victor FUNG Kwok King # (<i>Chairman</i>) William FUNG Kwok Lun + Godfrey Ernest SCOTCHBROOK * Benedict CHANG Yew Teck *
Independent Non-executive Directors	Anthony LO Kai Yiu #** ZHANG Hongyi #** Sarah Mary LIAO Sau Tung **
Group Chief Compliance and Risk Management Officer	Jason YEUNG Chi Wai
Company Secretary	Maria LI Sau Ping
Registered Office	Second 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)

Nomination Committee members

+ *Remuneration Committee members*

* *Audit Committee members*

Auditor	PricewaterhouseCoopers <i>Certified Public Accountants</i>
Principal Share Registrar and Transfer Office	Tricor Services (Cayman Islands) Limited Second Floor, Century Yard Cricket Square, P.O. Box 902 Grand Cayman, KY1-1103 Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Tricor Abacus Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal Banker	The Hongkong and Shanghai Banking Corporation Limited
Stock Code	00831

Highlights

Financial Highlights

	Change	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Revenue	+5.7%	2,858,813	2,703,757
Core operating profit	-3.2%	101,432	104,825
Core operating profit (included interest expenses on lease liabilities)	-3.6%	92,767	96,200
Profit attributable to shareholders of the Company	-0.5%	82,051	82,426
Basic earnings per share (HK cents)	Nil	10.8	10.8
Interim dividend per share (HK cents)	Nil	6.0	6.0

Operation Highlights

- COVID-19 outbreak in early 2020 severely hampered foot traffic, leading to a reduction in transaction counts across all Group business units
- The Group took immediate action in response to the pandemic to maintain business continuity while also ensuring the health and safety of staff, customers and the wider community
- Despite the industry-wide impact of COVID-19, net profit only slightly decreased 0.5% year on year, demonstrating the resilience of the Group's business model and its effective online-to-offline (O2O) customer relationship management (CRM) platforms
- Membership for Saint Honore's "Cake Easy" O2O CRM programme reached 700,000 and more customers ordered cakes online due to stay-at-home protocols; meanwhile, Japanese fast-fashion eyewear brand Zoff continued to gain market share despite pandemic via strategic store openings
- The Group expects the challenges of the first six months to continue for the remainder of the year, both in terms of response measures to minimise the spread of COVID-19 as well as potential changes in customer behaviour
- The Board of Directors has resolved to declare an interim dividend of 6 HK cents per share, the same as in 2019
- The Group maintains a healthy financial position with net cash of HK\$413 million and no bank borrowings

Number of Stores as of 30 June 2020

Circle K Stores

Hong Kong	340
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Franchised Circle K Stores

Macau	33
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Total number of Circle K Stores	373
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Saint Honore Cake Shops

Hong Kong	89
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Macau	9
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Guangzhou	27
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Total number of Saint Honore Cake Shops	125
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Zoff Eyewear Stores

Hong Kong	11
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Total number of Stores under Convenience Retail Asia	509
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Chairman's Statement

The first half of 2020 saw the world enter uncharted waters that roiled the global economy and ravaged its travel, tourism, catering and retail industries. As countries acted to stem the rapid spread of COVID-19, business ground almost to a halt. Sales fell, unemployment skyrocketed and supply chains faltered. In Hong Kong, the timing could not have been worse as the city was just beginning to recover from the social unrest it had endured over the last six months of 2019.

The Group performed admirably to weather the storm, introducing timely marketing and category management initiatives, online-friendly shopping services, stringent cost controls, and robust health and safety practices. Still, crushing macroeconomic pressure and the market realities of the “new normal” had inevitable impacts on the Group's results for the first six months of the year.

A retail market in disarray

With consumers staying home, tourism drying up, and shops reducing their hours or closing completely, the local retail market has faced extreme challenges. In the first half of the year, overall Hong Kong retail sales plunged 33.3% by value and 34.9% by volume compared to the first six months of 2019^{note}. Meanwhile, the supermarket category, which includes convenience stores, rose 10.6% by value and 2.9% by volume^{note} as more and more people stayed at home and consumer purchasing habits shifted toward items such as groceries and household necessities. Although supermarkets benefitted from this trend, gains by the convenience store segment were markedly lower as fewer people ventured out due to the threat of COVID-19.

In this together

During the period under review, store traffic plummeted by double digits across the Group's businesses as the Hong Kong Government and local companies – armed with the tough but valuable experience of combating SARS in 2003 – moved quickly to implement measures such as social distancing, school closures and work-from-home policies. As a result, the Group experienced slower sales in certain business areas.

Note:

Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 30 July 2020

However, Circle K's strong brand, loyal customers, and effective marketing and promotional efforts delivered via the industry-leading online-to-offline (O2O) customer relationship management (CRM) programme "OK Stamp It" drove higher comparable store sales for the convenience store business and helped offset the drop in footfall. The Saint Honore bakery business performed admirably, offsetting lower transactions with larger average sales to record just low-single-digit drops in same-store and total sales. We were particularly encouraged by the membership growth of its "Cake Easy" O2O CRM programme, which saw increased activity as more and more people ordered cakes via the online platform. Elsewhere, the Group's fast-fashion eyewear business Zoff continued to expand with high-traffic openings in key retail locations, which resulted in higher turnover and market share.

Indeed, we remain dedicated to serving our customers' needs, and we are doing what it takes to help in this difficult time. In the first half of the year, we applied our strong category management capabilities to launch a new range of disinfectant and sanitising products for customers' convenience and peace of mind. We donated tens of thousands of medical masks to those in need.

We are also committed to taking care of our people. Over the course of the past several months, we have continued to invest in our people by offering learning and development tools so that all our employees can maximise their career opportunities with the Group. Efforts to increase efficiency and ensure stable business operations will help our ability to navigate future down cycles together. We have also been working hard to protect our employees by ensuring that our stores, factory facilities and offices are hygienic, healthy places to work.

Outlook

Hong Kong has done a commendable job working as one to manage the coronavirus. Staying at home, social distancing, wearing masks and maintaining good hygiene have become parts of normal daily routine. People are working, teaching and learning via online platforms. They are also shopping digitally and utilising delivery services more than ever, sacrificing lifestyle and socialisation in order to help the city and its economy return to normal as quickly as possible.

As we have learned, though, the definition of the word "normal" is constantly changing. The Group expects that the measures currently in place – including testing, tracing, travel restrictions, business continuity policies and social distancing – will continue for at least the next six months, or as long as there are still new cases being diagnosed every day. As such, we do not believe that customer traffic will return to previous levels anytime soon, especially as consumers remain careful about their spending due to economic concerns.

From a business perspective, our plan is to drive sales while helping customers stay safe and enjoy their time at home as much as possible. We will keep partnering with popular delivery services to make life easier and more convenient. We will be responsive to customer needs by introducing in-demand product categories and services, offered at price points that are sensitive to the current economic environment. We will ensure that our store layouts and operations respect the prevailing standards for social and business interaction. We will continue to rely on our tried and tested O2O CRM business model, leveraging the trust and goodwill generated amongst our loyal customers to keep business moving forward. Also, despite such a challenging market situation, we will continue to seek strategic growth opportunities that can enhance stakeholder value, remaining open to merger and acquisition prospects that offer synergy as well as licences for exciting, fast-growing brands.

I would like to thank the Group's Board, management and staff – especially those on the frontlines – for their exceptional guidance and effort as we work together to navigate this very turbulent business environment. Through our dedication and collaboration, I am confident that we will emerge stronger than ever.

Victor FUNG Kwok King

Chairman

Hong Kong, 13 August 2020

CEO's Statement

Following such a difficult 2019 – when a trade dispute between the world's two largest powers, macroeconomic uncertainties, and social unrest on the streets of Hong Kong all threatened to derail the local retail industry – nobody would have predicted something even worse just over the horizon. Yet that is what Hong Kong and the global community got when COVID-19 struck in early 2020. Now, with numerous preventive measures including border closures, school suspensions, stay-at-home protocols, bans on group gatherings, quarantining and more, the retail community is still struggling to adapt to life after the outbreak.

In these challenging times, the Group has done its best to keep its various businesses moving forward. It has leveraged its effective O2O CRM programmes to stay in touch with loyal members, keeping them engaged and abreast of attractive offers and promotions. It has striven to ensure that its stores remain hygienic, safe, dependable places where people can shop with peace of mind. Perhaps most importantly, it has focused even more closely on its role within the community, serving as a trusted source for the products and services that its valued customers need in the current social and economic climate.

Operations Review – Circle K

As at 30 June 2020, the total number of Circle K stores in Hong Kong was 340 compared to 339 at the end of the first six months of 2019. The Group opened six new Circle K stores and closed two during the first half of 2020.

During the period under review, Circle K's comparable store sales increased 8.3%, which was mainly due to growth in high-value but low-margin product categories. The rise in same-store sales contributed to total sales of HK\$2,359 million compared to the HK\$2,185 million recorded in the first six months of 2019. This was considered a satisfactory result given the difficulties of the retail and economic environment. It also demonstrated Circle K's continued leadership in the convenience retail sector, both as a preferred brand and as part of people's daily lives. However, the dramatic fall-off in store traffic due to COVID-19 – particularly at locations in commercial and boundary transit hubs, which forced the Group to cut approximately 10,000 operating hours – contributed to a stagnation in profit.

In the first half of 2020, the Group continued to emphasise its proprietary O2O CRM programme "OK Stamp It" to engage with customers and generate sales. With "OK Stamp It", members download a special app to receive exclusive promotional deals and loyalty offers, which they can then redeem at a store location of their choice. Indeed, the Group's move toward a bricks-and-mortar-plus model years ago seems more prescient than ever given the current circumstances. Over the past several years, people have been shopping online and taking advantage of digital promotions more and more as they grow increasingly comfortable with the online experience. Now, online shopping is a vital necessity in a world where people are being encouraged to stay home as much as possible, putting the Group and Circle K in an advantageous position. As at 30 June 2020, "OK Stamp It" had 1.55 million members, providing the Group with a valuable base for marketing promotions as well as data analysis.

To continue its strong sales momentum from 2019, the Group kicked off the new year with a number of “Red Hot Price” offers covering a wide range of popular categories. Following the onset of the coronavirus pandemic, though, the Group quickly shifted the focus of many of its marketing and category management efforts toward hygiene products, health products and daily necessities. It also introduced promotions and services designed to make life easier and more enjoyable as people adhered to stay-at-home and social distancing guidelines.

In February, Circle K launched its “Shield Plus” range of products, including hand sanitisers and other protection accessories that kill up to 99.9% of bacteria. It also introduced vitamins and Japanese health supplements as well as “Simply Good” healthy snacks and beverages, grab-and-go packaged meals, exercise books for stay-at-home primary school students, and more. To bring more convenience to customers’ lives, the Group partnered with Foodpanda to have Circle K products carried on Pandamart for easy ordering and delivery of customers’ favourite items such as snacks, beverages and necessities. In March, the Group offered a service whereby customers could order highly in-demand medical masks and pick them up at more than 250 Circle K locations across the city.

During the first half of the year, home entertainment streaming services became more popular than ever. Capitalising on the popularity of its “Shake Shake Lucky Star” games of years past, the Group launched another edition that gave “OK Stamp It” members the chance to win one of 1,000 free one-year subscriptions to Netflix with every HK\$20 purchase. The promotion also helped Circle K boost member engagement and generate digital excitement around shopping.

Senior citizens represent one of the groups most vulnerable to the effects of COVID-19. Therefore, on 7 February – in the early stages of the outbreak, when medical masks were in short supply – Circle K arranged for the distribution of 100,000 masks to people aged 65 and above at 20 store locations across the city, setting an example for the business community as the city geared up for its long battle against the coronavirus. Additional measures of support included donating 10,000 masks to The Community Chest of Hong Kong for the elderly and families in need; giving 10,000 units of hand sanitiser to the Tung Wah Group of Hospitals, Helping Hand and St James’ Settlement for the elderly; and supporting UNICEF by providing logistics and pick-up services for 10,000 boxes containing children’s masks and goodie bags for distribution to children across the city.

Operations Review – Saint Honore Cake Shop

As at 30 June 2020, the Group was operating 98 Saint Honore stores in Hong Kong and Macau compared to 99 at the end of the first half of 2019. The total network in Guangzhou amounted to 27 locations. The Group opened three stores and closed four stores during the first six months of 2020.

The coronavirus pandemic had predictable effects on Saint Honore's results for the first half of the year as tourism drew to a halt and consumer confidence plummeted, causing total footfall to drop by double digits. However, the Group managed to mitigate the slowdown to some degree, recording just low-single-digit year-on-year decrease in same-store sales. Part of the reason was that customers increased their average basket size substantially in exchange for reducing the frequency of their shopping excursions. Meanwhile, the weakening renminbi reduced the Group's cost of sales by lowering the cost of raw materials and factory overhead, further compensating for the loss of business.

Birthday cake sales fell because of social distancing and limitations on group gatherings, whereas packaged products saw double-digit growth because of their more hygienic appeal. Festive sales of Chinese New Year, Dragon Boat Festival, Valentine's Day, Mother's Day and Father's Day products saw double-digit year-on-year growth, which was mainly due to receptive customer response to new products as well as the fact that more families were celebrating these occasions at home. The Group also continued to leverage its innovation and quality to drive sales. The Toilet Paper Roll cake, for example, which poked fun at the temporary shortage of toilet paper earlier in the year, was overwhelmingly popular with customers seeking a bit of laughter during a time of social and economic hardship.

As at the end of the first half of 2020, Saint Honore's "Cake Easy" O2O CRM programme had a membership of 700,000. More than 40% were active members. The Group saw unprecedented spikes in online demand for Saint Honore products during the period under review due to the stay-at-home and social distancing trends. "Cake Easy" has acted as an effective online platform for dealing with this sudden surge in online orders and connecting with customers while they nest at home.

Saint Honore was proud to be named a Recognised Quality E-shop by the Hong Kong Retail Management Association. Saint Honore was also active in the community during the period under review. The company donated puddings and dumplings to the Tung Wah Group of Hospitals' Wilson T.S. Wang District Elderly Community Centre, and it raised funds for the World Wildlife Fund and Society for the Prevention of Cruelty to Animals by placing donation boxes in Saint Honore stores.

In Guangzhou, turnover saw a double-digit year-on-year drop due to the effects of the coronavirus and store closures. As in Hong Kong, stores in commercial areas experienced the most significant decreases while those in residential areas fared better.

The Group also tightened the reins on expenditures and investments in order to minimise the pandemic's effects on the bottom line.

Operations Review – Zoff

The period under review saw two new Zoff stores open at prime locations in Hong Kong: the fashionable Lee Theatre Plaza in Causeway Bay and Mira Place in the heart of bustling Tsimshatsui. The Group's franchise for the trendy Japanese fast-fashion eyewear brand now has a total of 11 stores in Hong Kong, offering the latest designs for stylish young shoppers. Zoff carries more than 2,500 SKUs at each of its stores, giving it a level of variety unmatched amongst competitors. Although traffic and transactions were down for the first six months of the year, Zoff's expansion nevertheless enabled it to generate positive turnover growth and contribute to the Group's profit margin.

The year began with a successful Chinese New Year lucky draw promotion, "Eye Bring You Good Luck", which saw a high participation rate from customers. Following the outbreak of COVID-19 in late January, the Group was quick to launch the "Anti-Pollen" and "Zoff+Protect" series, which feature frames with side protection guards that can help prevent the spread of the virus via droplets. Other popular collections introduced during the year included the Disney Series with Spring Princess, Mickey & Minnie and Marvel themes; a collaboration with stylist Takashi Kumagai; a "Made in Japan" series featuring the famous Sabae City in Fukui Prefecture; and patented slide-type Zoff Sports frames with adjustable temples plus others.

To ensure safe shopping and work environments during the pandemic, the Group strengthened its preventive measures at all Zoff stores. This included frequent sanitising and cleaning of all store touchpoints, providing sanitisers for customers and ensuring proper distancing between eye examination equipment. Zoff also continued to play a role in the community, expanding its healthcare voucher payment collection service to its Tsuen Wan Citistore, Tsing Yi Maritime Square and Tseung Kwan O Plaza stores to help senior citizens receive proper eye examinations.

Committed to Our People

The outbreak of COVID-19 has posed unprecedented challenges that threaten to disrupt business performance and continuity for Hong Kong retailers. In the face of such difficulties, the Group has responded by strengthening its commitment to its employees, who are quite simply its most valuable resource and the glue that holds its numerous enterprises together. For example, the Group has focused on ensuring that it has resilient store networks and ample capacity to provide stable, secure work environments. It is working to improve efficiency throughout its operations and achieve a level of agility that will help protect Group businesses and staff against down cycles. Training programmes and e-learning modules are giving employees the valuable skills and knowledge they need to prepare for the next steps in their careers.

Meanwhile, we continue to care for our employees by conducting thorough sanitisation procedures and optimising our process flows and store layouts so as to protect them from infection. A fund is also being established to help our employees mitigate the added expense of personal protection accessories – for example, by providing free masks and hand sanitiser for staff and their families – and to support those whose household incomes have been affected during the pandemic.

Future Prospects

The Group and its brands play a part in society by providing quality, affordable products and services that make life “EFS”, or “easy, fast and simple”. In the current environment, it is more important than ever that we expand this role by championing health and safety across the community. Our customers need to feel safe at every touchpoint of their interactions with the Group’s businesses, and this starts with our people and our facilities. In the second half of the year, we will continue to spare no effort to protect our customers and employees with comprehensive cleaning and sanitisation practices as well as retail outlet safety measures that include socially distanced queueing and contactless self-scan-and-pay systems.

Meanwhile, we must remain cognisant that store traffic levels and consumer behaviour will not return to “normal” for a long time. Therefore, we will leverage our effective O2O CRM programmes as well as our online shopping and delivery partnerships to boost online interactions, sales and basket size. As always, we will keep close track of demand to introduce the categories and products that people expect and need, at affordable prices and with impeccable customer service. In the fourth quarter of the year, we will boost our efficiency by moving to a modern new logistics hub in Tsing Yi, which has more useable area and advanced automation solutions. We will also continue to monitor our store operations and supply chain to maintain high operational standards, thereby further ensuring the health and safety of our customers and staff.

Richard YEUNG Lap Bun

Chief Executive Officer

Hong Kong, 13 August 2020

Discussion and Analysis

Financial Review

During the first six months of 2020, the Group's turnover increased 5.7% to HK\$2,859 million. Turnover for the convenience store business increased 7.9% to HK\$2,359 million due to comparable store sales growth of 8.3% over the same period last year, which was mainly attributed to better sales of high-value but low-margin product categories. Transaction numbers were seriously impacted by the reduction in foot traffic in commercial and tourist districts resulting from the COVID-19 outbreak. Turnover for the bakery business decreased 5.5% to HK\$481 million as comparable store sales in Hong Kong saw a single-digit drop. Turnover for the Zoff eyewear business increased 12.7% to HK\$58 million on the back of outlet expansion.

Gross margin and other income as a percentage of turnover fell 2.3% to 35.1%. This was mainly due to an increase in the sales mix of merchandised products with lower margins. However, this unfavourable impact was offset to a degree by the subsidies received from the Hong Kong Government's Anti-epidemic Fund.

Operating expenses decreased from 33.5% of turnover to 31.6% against the same period in 2019. Including interest expenses on lease liabilities, operating expenses decreased from 33.8% of turnover to 31.8% against the same period in 2019, which was primarily due to rental concessions from landlords and reductions in rates and utility expenses from the Hong Kong Government.

Core operating profit before interest expenses on lease liabilities decreased 3.2% to HK\$101 million. Including interest expenses on lease liabilities, core operating profit decreased 3.6% to HK\$93 million. The Group's net profit decreased 0.5% to HK\$82 million for the six months ended 30 June 2020. Basic earnings per share remained unchanged at 10.8 HK cents.

As at 30 June 2020, the Group had a net cash balance of HK\$413 million, which was generated mainly from daily business operations. The Group had no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and on the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held either in Hong Kong dollars or renminbi. The Group had some foreign exchange exposure in renminbi resulting from its business operations on the Chinese Mainland. The Group is also 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 6 HK cents per share, which remains the same as that of 2019.

Employees

As at 30 June 2020, the Group had a total of 6,500 employees, with 5,100, or 79%, based in Hong Kong and 1,400, or 21%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 39% of total headcount. Total staff cost for the six months ended 30 June 2020 was HK\$474 million compared to HK\$455 million for the same period last year.

The Group offers competitive remuneration schemes for eligible employees, including salary packages supplemented by discretionary bonuses based on individual and company performance. It also provides attractive incentives such as career advancement opportunities, comprehensive, job-related skill enhancement training, and quality customer service training for frontline staff.

The Group prioritises workplace satisfaction in order to retain talented, passionate people and deliver first-rate customer service. Its HEARTS (Happy, Energised, Achievements, Respect, Training and Success) employee engagement programme, supported by the Activity Organising Board (AOB), helps ensure that staff members and their families are supported by initiatives that focus on career development, work-life balance, giving back to society and more. During the period under review, Group staff participated in a number of community activities relating to coronavirus disease prevention, resource recycling and food waste reduction.

Circle K and Saint Honore were honoured to receive the “15 Years Plus Caring Company Logo” and “10 Years Plus Caring Company Logo”, respectively, from the Hong Kong Council of Social Service. In addition, Zoff was awarded its first “Caring Company Logo”. These awards were given in recognition of the companies’ efforts to promote corporate social responsibility across areas including care for the community, staff and environment.

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.

During the period under review, the Group continued to promote conservation and sustainability by reducing, re-using and recycling in order to protect the environment, boost efficiency and create cost savings. The Group is also reducing its carbon emissions by using energy more efficiently; examples include replacing equipment with more energy-efficient versions and utilising low-carbon fuels.

In April 2020, Convenience Retail Asia Limited published its latest Environmental, Social and Governance (“ESG”) Report. This publication details the Group’s ESG policies, measures and performance and gives stakeholders an overview of the Group’s progress in terms of sustainability, stakeholder engagement, employee relations, operations, environmental conservation – including carbon footprint reduction – community relations and more.

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.

The Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) for the six months ended 30 June 2020. Corporate governance practices adopted by the Company during the six months under review were in line with those practices set out in the Company’s 2019 Annual Report, and were also consistent with the principles set out in the CG Code.

The Board and the Board Committees

The Board is currently comprised of nine members, including the Non-executive Chairman, two Executive Directors, three Independent Non-executive Directors and three Non-executive Directors. The names of the Directors are set out in the Corporate Information section on page 2.

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. 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 2020 (with an average attendance rate of directors of about 97%) to discuss the overall strategies, operational and financial performance of the Group.

The Board has established three Board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, each of which has its own defined terms of reference (available on the Company’s corporate website). These terms of reference are consistent with the principles set out in the CG Code.

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

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

<i>Chairman</i>	Anthony LO Kai Yiu *
<i>Members</i>	Godfrey Ernest SCOTCHBROOK + Benedict CHANG Yew Teck + ZHANG Hongyi * Sarah Mary LIAO Sau Tung *

* *Independent Non-executive Director*

+ *Non-executive Director*

The Audit Committee is 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 Listing Rules.

The Audit Committee met three times to date in 2020 (with an average attendance rate of about 93%) to consider and review with senior management, the Company's internal auditor under the Corporate Governance Division ("CGD") and external auditor various matters as set out in the Audit Committee's terms of reference, which included the following:

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

The Audit Committee also 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.

The Audit Committee has reviewed with senior management the unaudited interim financial information for the six months ended 30 June 2020 before recommending it to the Board for approval.

Remuneration Committee

<i>Chairman</i>	Sarah Mary LIAO Sau Tung *
<i>Members</i>	William FUNG Kwok Lun + ZHANG Hongyi *

* *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 2020 (with a 100% attendance rate) to review and approve adjustment to the remunerations of Executive Directors and senior management and to consider grant of share options to employees.

Nomination Committee

<i>Chairman</i>	Victor FUNG Kwok King +
<i>Members</i>	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 2020 (with a 100% attendance rate) to review the aforesaid matters and also the evaluation of the performance of the Board and its committees.

Directors' and Relevant Employees' Securities Transactions

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

Specific confirmation of compliance has been obtained from each Director and each relevant employee for the six months ended 30 June 2020. No incident of non-compliance by Directors and relevant employees was noted by the Company for the period under review.

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 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. Details of the Company's risk management and internal control systems are set out in the Corporate Governance Report on pages 33 to 37 of the Company's 2019 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 effectiveness, adequacy 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 Board and the Audit Committee considered that for the six months ended 30 June 2020:

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

Investor Relations and Communication

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

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

Other Information

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

As at 30 June 2020, 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 Issuers 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			Total interests	Approximate percentage of interests
	Personal interests	Corporate/ Trust interests	Equity derivatives (share options)		
Victor Fung Kwok King	–	311,792,000 <i>(Note 1)</i>	–	311,792,000	40.89%
William Fung Kwok Lun	–	311,792,000 <i>(Note 1)</i>	–	311,792,000	40.89%
Richard Yeung Lap Bun	22,396,000	–	2,000,000 <i>(Note 2)</i>	24,396,000	3.20%
Pak Chi Kin	1,134,000	–	2,000,000 <i>(Note 2)</i>	3,134,000	0.41%

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 2020, 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 period, 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 30 June 2020, 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>	40.89%
King Lun Holdings Limited	311,792,000	Interest of controlled corporation <i>(Note 1)</i>	40.89%
Aggregate of Standard Life Aberdeen plc affiliated investment management entities (together "SL & Aberdeen plc")	78,878,000	Investment manager <i>(Note 2)</i>	10.34%
Aberdeen Standard SICAV I	39,132,000	Beneficial owner <i>(Note 2)</i>	5.13%
FIL Limited	61,282,000	Interest of controlled corporation <i>(Note 3)</i>	8.04%
Pandanus Partners L.P.	61,282,000	Interest of controlled corporation <i>(Note 3)</i>	8.04%
Pandanus Associates Inc.	61,282,000	Interest of controlled corporation <i>(Note 3)</i>	8.04%
The Capital Group Companies, Inc.	51,330,000	Interest of controlled corporation	6.73%

Notes:

1. *These shares were held by FRL. King Lun indirectly owns 100% interests in FRL through its wholly-owned subsidiary, FH 1937. All of HSBC Trustee (C.I.) Limited, King Lun, FH 1937 and FRL are deemed to have interests in these shares pursuant to the SFO. Please refer to Note 1 in the above section headed "Interests and Short Positions of Directors in Shares, Underlying Shares and Debentures".*
2. *SL & Aberdeen plc held the shares on behalf of accounts (under discretionary or segregated mandates) managed by SL & Aberdeen plc. 39,132,000 shares were held by Aberdeen Standard SICAV I of which SL & Aberdeen plc is the investment manager and investment advisers.*
3. *Pandanus Associates Inc. is a general partner of Pandanus Partners L.P., who owns or control one-third or more of voting rights in FIL Limited.*

Save as disclosed above, as at 30 June 2020, 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. On 29 April 2020, shareholders approved at the annual general meeting of the Company the termination of the 2010 Share Option Scheme, pursuant to which, no further options will be granted under the 2010 Share Option Scheme after such termination 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.

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. No share options under the 2020 Share Option Scheme were granted during the period.

Details of the movements of share options under the 2010 Share Option Scheme during the six months ended 30 June 2020 are as follows:

Grantees	Number of share options					As at 30/6/2020	Exercise price HK\$	Grant date	Exercisable period
	As at 1/1/2020	Granted (Note 1)	Exercised (Note 2)	Lapsed (Note 3)	Expired (Note 4)				
Directors									
Richard Yeung Lap Bun	2,000,000	-	-	-	(2,000,000)	-	5.53	28/2/2014	1/4/2017-31/3/2020
	2,000,000	-	-	-	-	2,000,000	4.19	29/3/2017	1/4/2020-31/3/2023
Pak Chi Kin	2,000,000	-	-	-	(2,000,000)	-	5.53	28/2/2014	1/4/2017-31/3/2020
	1,222,000	-	-	-	-	1,222,000	4.19	29/3/2017	1/4/2020-31/3/2023
	778,000	-	-	-	-	778,000	3.88	8/3/2018	1/4/2020-31/3/2023
Continuous contract employees	9,020,000	-	-	-	(9,020,000)	-	5.53	28/2/2014	1/4/2017-31/3/2020
	396,000	-	-	-	(396,000)	-	5.10	19/3/2015	1/4/2017-31/3/2020
	34,000	-	(34,000)	-	-	-	2.86	16/3/2016	1/4/2017-31/3/2020
	7,182,000	-	-	(100,000)	-	7,082,000	4.19	29/3/2017	1/4/2020-31/3/2023
	3,542,000	-	-	-	-	3,542,000	3.88	8/3/2018	1/4/2020-31/3/2023
	202,000	-	-	-	-	202,000	3.87	14/3/2019	1/4/2020-31/3/2023
Other participants	1,494,000	-	-	-	(1,494,000)	-	5.53	28/2/2014	1/4/2017-31/3/2020
	22,000	-	-	-	(22,000)	-	5.10	19/3/2015	1/4/2017-31/3/2020
	29,892,000	-	(34,000)	(100,000)	(14,932,000)	14,826,000			

Notes:

1. *No share options under the 2010 Share Option Scheme were granted during the period.*
2. *Share options to subscribe for 34,000 shares were exercised by a continuous contract employee during the period. The closing price of the share immediately before the date on which the said options were exercised was HK\$3.63.*
3. *Share options to subscribe for 100,000 shares were lapsed during the period following the cessation of employment of certain grantees.*
4. *Share options to subscribe for 14,932,000 shares were expired during the period following the expiry of the exercisable period.*
5. *No share options under the 2010 Share Option Scheme were cancelled during the period.*

Save as disclosed above, as at 30 June 2020, 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 2019 Annual Report are set out below:

Name of Directors	Changes
Victor Fung Kwok King	<ul style="list-style-type: none">– He ceased as Honorary Chairman and resigned as director of Li & Fung Limited (which was privatised with effect from 26 May 2020) with effect from 1 June 2020– He resigned as independent non-executive director of Koç Holding A.Ş. in April 2020
William Fung Kwok Lun	<ul style="list-style-type: none">– He has been re-designated as Non-executive Chairman of Li & Fung Limited (which was privatised with effect from 26 May 2020) with effect from 1 June 2020
Sarah Mary Liao Sau Tung	<ul style="list-style-type: none">– She has been appointed as member of the Audit Committee and re-designated as Chairman of the Remuneration Committee of the Company on 29 April 2020
Malcolm Au Man Chung	<ul style="list-style-type: none">– He retired as Independent Non-executive Director of the Company on 29 April 2020

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 2020 of 6 HK cents (2019: 6 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 31 August 2020 to 1 September 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 28 August 2020. Dividend warrants will be despatched on 10 September 2020.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2020

	Note	(Unaudited)	
		Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Revenue	4	2,858,813	2,703,757
Cost of sales	5	(1,933,488)	(1,753,050)
Gross profit		925,325	950,707
Other income	4	76,742	60,159
Store expenses	5	(709,063)	(719,540)
Distribution costs	5	(81,090)	(82,594)
Administrative expenses	5	(110,482)	(103,907)
Core operating profit		101,432	104,825
Interest expenses, net	6	(6,624)	(6,645)
Profit before income tax		94,808	98,180
Income tax expenses	7	(12,757)	(15,754)
Profit attributable to shareholders of the Company		82,051	82,426
Basic earnings per share (HK cents)	8	10.8	10.8

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	(Unaudited)	
	Six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit attributable to shareholders of the Company	82,051	82,426
Other comprehensive (loss)/income:		
Item that may be reclassified subsequently to profit or loss		
Exchange differences	(693)	59
Total comprehensive income attributable to shareholders of the Company	81,358	82,485

Condensed Consolidated Balance Sheet

As at 30 June 2020

	Note	(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 HK\$'000
Assets			
Non-current assets			
Fixed assets	10	233,856	246,181
Right-of-use assets	11	632,052	704,655
Investment properties	12	23,718	24,289
Lease premium for land		120,485	123,153
Intangible assets		357,465	357,465
Financial asset at fair value through other comprehensive income		1,895	1,895
Rental and other long-term deposits		92,472	88,713
Deferred tax assets		14,273	13,733
		1,476,216	1,560,084
Current assets			
Inventories		205,643	212,644
Rental deposits		64,016	68,945
Trade receivables	13	88,725	75,954
Other receivables, deposits and prepayments		78,812	87,030
Restricted bank deposit		219	223
Cash and cash equivalents		412,993	642,639
		850,408	1,087,435
Total assets		2,326,624	2,647,519
Equity			
Share capital	16	76,260	76,256
Reserves		426,773	649,538
Total equity		503,033	725,794
Liabilities			
Non-current liabilities			
Lease liabilities	15	264,235	306,983
Long service payment liabilities		13,692	14,599
Deferred tax liabilities		10,683	10,519
		288,610	332,101
Current liabilities			
Trade payables	14	726,566	700,157
Other payables and accruals		242,111	272,560
Lease liabilities	15	378,195	406,064
Taxation payable		24,722	41,561
Cake coupons		163,387	169,282
		1,534,981	1,589,624
Total equity and liabilities		2,326,624	2,647,519

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	(Unaudited)							Total equity HK\$'000
	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	
At 1 January 2020	76,256	200,756	177,087	20,002	20,173	(2,131)	233,651	725,794
Profit attributable to shareholders of the Company	-	-	-	-	-	-	82,051	82,051
Exchange differences	-	-	-	-	-	(693)	-	(693)
Total comprehensive income for the period	-	-	-	-	-	(693)	82,051	81,358
Issue of new shares	4	94	-	-	-	-	-	98
Employee share option benefit	-	12	-	-	(11,360)	-	12,170	822
Transfer to retained earnings	-	-	(177,087)	-	-	-	177,087	-
Dividends paid	-	(160,145)	-	-	-	-	(144,894)	(305,039)
	4	(160,039)	(177,087)	-	(11,360)	-	44,363	(304,119)
At 30 June 2020	76,260	40,717	-	20,002	8,813	(2,824)	360,065	503,033
At 1 January 2019	76,253	200,650	177,087	20,002	18,103	(1,530)	200,245	690,810
Profit attributable to shareholders of the Company	-	-	-	-	-	-	82,426	82,426
Exchange differences	-	-	-	-	-	59	-	59
Total comprehensive income for the period	-	-	-	-	-	59	82,426	82,485
Issue of new shares	3	94	-	-	-	-	-	97
Employee share option benefit	-	12	-	-	916	-	722	1,650
Dividend paid	-	-	-	-	-	-	(129,636)	(129,636)
	3	106	-	-	916	-	(128,914)	(127,889)
At 30 June 2019	76,256	200,756	177,087	20,002	19,019	(1,471)	153,757	645,406

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2020

	(Unaudited)	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	381,471	377,378
Hong Kong profits tax paid	(28,758)	–
Overseas income tax paid	(1,232)	(1,981)
Net cash generated from operating activities	351,481	375,397
Cash flows from investing activities		
Purchase of fixed assets	(20,428)	(35,184)
Proceeds from disposal of fixed assets	22	232
Interest received	1,334	1,365
Net cash used in investing activities	(19,072)	(33,587)
Cash flows from financing activities		
Proceeds from issuance of shares	98	97
Payment of lease liabilities	(256,641)	(197,667)
Dividends paid	(305,039)	(129,636)
Net cash used in financing activities	(561,582)	(327,206)
(Decrease)/Increase in cash and cash equivalents	(229,173)	14,604
Cash and cash equivalents at 1 January	642,639	507,694
Effect of foreign exchange rate changes	(473)	(22)
Cash and cash equivalents at 30 June	412,993	522,276

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

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office was P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and changed to Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands on 1 April 2020. The principal place of business of the Company 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 (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 13 August 2020.

2. Basis of preparation and accounting policies

(a) Basis of preparation

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 2019 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 2019 consolidated financial statements except for the accounting policy on government grants.

Grants from government are recognised at their fair values where there is reasonable assurance that the grants will be received, and the Group will comply with the conditions associated with the grants.

2. Basis of preparation and accounting policies (continued)

(a) Basis of preparation (continued)

The Group has adopted new and amended standards and interpretation of HKFRS which are mandatory for the accounting periods beginning on or after 1 January 2020 and relevant to its operations. The adoption of such new and amended standards and interpretation 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.

(b) Amended standard adopted by the Group

The Group has early adopted HKFRS 16 Amendment: COVID-19 Related Rent Concessions, which is effective for annual reporting period on or after 1 June 2020, for the Group's reporting period commencing 1 January 2020. The amendment allows lessee to elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Such practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the revised lease payments are substantially the same as, or less than the consideration for the lease immediately preceding the change;
- reduction in lease payments relates to payment due on or before 30 June 2021; and
- there is no substantive change to the other terms and conditions of the lease.

Rent concessions fulfilling the above conditions are recognised in the consolidated profit and loss account over the period in which they cover.

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 2019 consolidated financial statements, and should be read in conjunction with the 2019 consolidated financial statements.

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

3. Financial risk management and financial instruments (continued)

(b) Fair value estimation

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

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

The Group's financial asset that is measured at fair value as at 30 June 2020 and 31 December 2019 are as follows:

	(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 HK\$'000
Financial asset at fair value through other comprehensive income (level 3)	1,895	1,895

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

(c) Group's valuation processes

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

4. Revenue, other income and segment information

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

	(Unaudited)	
	Six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Revenue		
Merchandise sales revenue	2,358,651	2,185,496
Bakery sales revenue	442,272	465,396
Developing businesses revenue	57,890	52,865
	2,858,813	2,703,757
Other income		
Service items and miscellaneous income	58,542	60,159
Government subsidies (note)	18,200	–
	76,742	60,159

Note:

The Government subsidies were granted under the Anti-epidemic Fund for helping the retail industry stay afloat during the challenge of COVID-19.

Segment information

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

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

4. Revenue, other income and segment information (continued)

Segment information (continued)

The segment information provided to the management for the reportable segments for the six months ended 30 June 2020 and 2019 are as follows:

	(Unaudited)				
	Six months ended 30 June 2020				
	Convenience Store	Bakery		Developing Businesses	Group HK\$'000
	HK HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK HK\$'000	
Total segment revenue	2,358,651	455,969	37,240	57,890	2,909,750
Inter-segment revenue	-	(50,937)	-	-	(50,937)
Revenue from external customers	2,358,651	405,032	37,240	57,890	2,858,813
Total segment other income	63,712	14,270	1,448	873	80,303
Inter-segment other income	(1,543)	(2,018)	-	-	(3,561)
Other income	62,169	12,252	1,448	873	76,742
	2,420,820	417,284	38,688	58,763	2,935,555
Core operating profit/(loss)	86,301	13,783	(961)	2,309	101,432
Core operating profit/(loss) (included interest expenses on lease liabilities)	80,389	12,152	(1,643)	1,869	92,767
Depreciation	(197,485)	(66,127)	(8,974)	(13,594)	(286,180)
Depreciation (excluded depreciation on right-of-use assets)	(13,944)	(16,507)	(1,977)	(2,707)	(35,135)

4. Revenue, other income and segment information (continued)

Segment information (continued)

	(Unaudited)				
	Six months ended 30 June 2019				
	Convenience Store	Bakery		Developing Businesses	Group
HK HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK HK\$'000	HK\$'000	
Total segment revenue	2,185,496	478,066	47,820	52,865	2,764,247
Inter-segment revenue	-	(60,490)	-	-	(60,490)
Revenue from external customers	2,185,496	417,576	47,820	52,865	2,703,757
Total segment other income	58,131	5,688	1,008	29	64,856
Inter-segment other income	(1,916)	(2,781)	-	-	(4,697)
Other income	56,215	2,907	1,008	29	60,159
	2,241,711	420,483	48,828	52,894	2,763,916
Core operating profit/(loss)	88,317	15,865	(2,076)	2,719	104,825
Core operating profit/(loss) (included interest expenses on lease liabilities)	82,484	14,368	(2,973)	2,321	96,200
Depreciation	(156,482)	(53,718)	(10,780)	(9,284)	(230,264)
Depreciation (excluded depreciation on right-of-use assets)	(14,556)	(18,453)	(2,803)	(1,851)	(37,663)

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 (included interest expenses on lease liabilities).

The reconciliation of the total reportable segments' core operating profit (included interest expenses on lease liabilities) to the profit before income tax can be referred to the condensed consolidated profit and loss account and interest expenses net in note 6, as the reconciliation items are not included in the measure of the segments' performance by the management.

The inter-segment revenue includes inter-product segment revenue of HK\$38,433,000 (2019: HK\$43,044,000) and inter-geographic segment revenue of HK\$12,504,000 (2019: HK\$17,446,000).

4. Revenue, other income and segment information (continued)

Segment information (continued)

The segment assets and liabilities as at 30 June 2020 and 31 December 2019 are as follows:

	(Unaudited)				
	As at 30 June 2020				
	Convenience Store	Bakery		Developing Businesses	Group
	HK	HK & Others	Chinese Mainland	HK	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Total segment assets	1,151,795	834,272	89,861	71,766	2,147,694
Total segment assets include:					
Additions to segment non-current assets	146,277	44,869	4,931	6,429	202,506
Total segment liabilities	1,296,898	420,252	25,382	45,654	1,788,186

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

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.

4. Revenue, other income and segment information (continued)

Segment information (continued)

Reportable segment assets are reconciled to total assets as follows:

	(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 HK\$'000
Segment assets for reportable segments	2,147,694	2,258,893
Unallocated:		
Deferred tax assets	14,273	13,733
Corporate bank deposits	164,657	374,893
Total assets per condensed consolidated balance sheet	2,326,624	2,647,519

Reportable segment liabilities are reconciled to total liabilities as follows:

	(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 HK\$'000
Segment liabilities for reportable segments	1,788,186	1,869,645
Unallocated:		
Deferred tax liabilities	10,683	10,519
Taxation payable	24,722	41,561
Total liabilities per condensed consolidated balance sheet	1,823,591	1,921,725

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK\$2,755,951,000 (2019: HK\$2,589,418,000) and the total of its revenue from other countries is HK\$102,862,000 (2019: HK\$114,339,000) for the six months ended 30 June 2020.

The total of non-current assets other than financial asset at fair value through other comprehensive income and deferred tax assets located in Hong Kong is HK\$1,334,173,000 (as at 31 December 2019: HK\$1,418,702,000) and the total of these non-current assets located in other countries is HK\$125,875,000 (as at 31 December 2019: HK\$125,754,000) as at 30 June 2020.

5. Expenses by nature

	(Unaudited)	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Cost of inventories sold	1,817,476	1,637,027
Depreciation of owned fixed assets	32,321	36,594
Depreciation of right-of-use assets	251,045	192,601
Depreciation of investment properties	478	485
Depreciation of lease premium for land	2,336	584
Employee benefit expense	473,827	455,485
Short-term and variable lease payments (note)	17,951	93,133
Other expenses	238,689	243,182
Total cost of sales, store expenses, distribution costs and administrative expenses	2,834,123	2,659,091

Note:

Rent concessions related to the COVID-19 pandemic has been credited to store expenses of HK\$12,930,000 for the six months ended 30 June 2020.

6. Interest expenses, net

	(Unaudited)	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Interest income on bank deposits	2,041	1,980
Interest expenses on lease liabilities	(8,665)	(8,625)
	(6,624)	(6,645)

7. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2020 and 2019. 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:

	(Unaudited)	
	Six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	10,130	13,016
Overseas profits tax	3,031	1,750
Deferred income tax	(404)	988
	12,757	15,754

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.

8. Earnings per share (continued)

	(Unaudited)	
	Six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit attributable to shareholders of the Company	82,051	82,426
	Number of	Number of
	shares	shares
Weighted average number of ordinary shares in issue	762,585,897	762,550,510
Adjustment for:		
Share options	–	11,304
Weighted average number of ordinary shares for diluted earnings per share	762,585,897	762,561,814

9. Dividend

	(Unaudited)	
	Six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Interim dividend, proposed of 6 HK cents (2019: 6 HK cents) per share	45,756	45,754

At a meeting held on 13 August 2020, the Directors proposed an interim dividend and it is not reflected as dividend payable in this condensed consolidated interim financial information.

10. Fixed assets

	(Unaudited) 30 June 2020 HK\$'000	(Unaudited) 30 June 2019 HK\$'000
Opening net book amount	246,181	349,965
Transfer to right-of-use assets	–	(2,519)
Additions	20,428	35,184
Disposals	(273)	(384)
Depreciation	(32,321)	(36,594)
Exchange differences	(159)	27
Closing net book amount	233,856	345,679

11. Right-of-use assets

	(Unaudited) 30 June 2020 HK\$'000	(Unaudited) 30 June 2019 HK\$'000
Opening net book amount	704,655	646,830
Transfer from fixed assets	–	2,519
Additions	179,421	280,207
Remeasurement	(432)	–
Depreciation	(251,045)	(192,601)
Exchange differences	(547)	(1,177)
Closing net book amount	632,052	735,778

12. Investment properties

	(Unaudited) 30 June 2020 HK\$'000	(Unaudited) 30 June 2019 HK\$'000
Opening net book amount	24,289	25,363
Depreciation	(478)	(485)
Exchange differences	(93)	(5)
Closing net book amount	23,718	24,873

13. 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 2020, the aging analysis by invoice date of trade receivables is as follows:

	(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 HK\$'000
0-30 days	62,352	61,705
31-60 days	10,069	8,237
61-90 days	3,945	2,781
Over 90 days	12,359	3,231
	88,725	75,954

14. Trade payables

At 30 June 2020, the aging analysis by invoice date of the trade payables is as follows:

	(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 HK\$'000
0-30 days	469,059	438,642
31-60 days	152,545	152,094
61-90 days	62,672	73,922
Over 90 days	42,290	35,499
	726,566	700,157

15. Lease liabilities

	(Unaudited) 30 June 2020 HK\$'000	(Unaudited) 30 June 2019 HK\$'000
As at 1 January	713,047	647,966
Additions	178,366	279,777
Remeasurement	(432)	–
Payments	(256,641)	(197,667)
Interest expenses	8,665	8,625
Exchange differences	(575)	(1,215)
	642,430	737,486
Current lease liabilities	378,195	411,065
Non-current lease liabilities	264,235	326,421
	642,430	737,486

16. Share capital

	(Unaudited) 30 June 2020		(Audited) 31 December 2019	
	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	2,000,000,000	200,000	2,000,000,000	200,000
Issued and fully paid:				
At beginning of the period	762,564,974	76,256	762,530,974	76,253
Issue of shares on exercise of share options	34,000	4	34,000	3
At end of the period	762,598,974	76,260	762,564,974	76,256

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 2020 is HK\$2,860,000 (as at 31 December 2019: HK\$1,303,000).

18. Related party transactions

Fung Retailing Limited (“FRL”) is a substantial shareholder of the Company, which owns 40.89% of the Company’s shares. All of the related party transactions of the Group are entered into with Fung Holdings (1937) Limited (the holding company of FRL and a substantial shareholder of the Company) and its subsidiaries and associates.

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

(a) Related party transactions

		(Unaudited) Six months ended 30 June	
		2020	2019
		HK\$’000	HK\$’000
	Note		
Income			
Service income and reimbursement of office and administrative expenses Subsidiaries/fellow subsidiary of a substantial shareholder	(i)	92	686
Associate of a substantial shareholder		20	14
Rental and service income	(ii)		
Fellow subsidiaries of a substantial shareholder		–	654
Sales of food products	(iii)		
Subsidiaries of a substantial shareholder		–	35
Expenses			
Reimbursement of office and administrative expenses Subsidiaries/fellow subsidiaries of a substantial shareholder	(iv)	2,807	1,736
Associate of a substantial shareholder		667	717
Rental payable	(v)		
Fellow subsidiaries of a substantial shareholder		1,310	1,433
Associate of a substantial shareholder		5,281	5,214

18. Related party transactions (continued)

(b) Key management personnel compensation

	(Unaudited)	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Fees	1,401	1,445
Bonuses	7,512	6,796
Salaries and other allowances	5,484	5,301
Employee share option benefit	317	631
Pension costs – defined contribution scheme	36	36
	14,750	14,209

(c) Period-end balances with related parties

	(Unaudited)	(Audited)
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Amounts due from:		
Subsidiaries of a substantial shareholder	92	742
Associates of a substantial shareholder	12	9
Amounts due to:		
Subsidiaries/fellow subsidiary of a substantial shareholder	(2,043)	(393)
Associate of a substantial shareholder	(357)	(346)

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

18. Related party transactions (continued)

Notes:

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