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CONVENIENCE RETAIL ASIA LIMITED

利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00831)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

Financial Highlights

	Change	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	<u>340</u>
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Franchised Circle K Stores

Macau	<u>33</u>
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Total number of Circle K Stores

<u><u>373</u></u>

Saint Honore Cake Shops

Hong Kong	89
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Macau	9
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Guangzhou	<u>27</u>
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Total number of Saint Honore Cake Shops

<u><u>125</u></u>

Zoff Eyewear Stores

Hong Kong	<u>11</u>
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Total number of Stores under Convenience Retail Asia

<u><u>509</u></u>

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.

Condensed Consolidated Profit and Loss Account
For the six months ended 30 June 2020

		(Unaudited)	
		Six months ended	
		30 June	
	<i>Note</i>	2020	2019
		HK\$'000	HK\$'000
Revenue	2	2,858,813	2,703,757
Cost of sales	3	(1,933,488)	(1,753,050)
Gross profit		925,325	950,707
Other income	2	76,742	60,159
Store expenses	3	(709,063)	(719,540)
Distribution costs	3	(81,090)	(82,594)
Administrative expenses	3	(110,482)	(103,907)
Core operating profit		101,432	104,825
Interest expenses, net	4	(6,624)	(6,645)
Profit before income tax		94,808	98,180
Income tax expenses	5	(12,757)	(15,754)
Profit attributable to shareholders of the Company		82,051	82,426
Basic earnings per share (HK cents)	6	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
	<hr/>	<hr/>
Total comprehensive income attributable to shareholders of the Company	81,358	82,485
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Condensed Consolidated Balance Sheet
As at 30 June 2020

		(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 HK\$'000
Assets			
Non-current assets			
Fixed assets		233,856	246,181
Right-of-use assets		632,052	704,655
Investment properties		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
		<u>1,476,216</u>	<u>1,560,084</u>
Current assets			
Inventories		205,643	212,644
Rental deposits		64,016	68,945
Trade receivables	8	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
		<u>850,408</u>	<u>1,087,435</u>
Total assets		<u>2,326,624</u>	<u>2,647,519</u>
Equity			
Share capital		76,260	76,256
Reserves		426,773	649,538
Total equity		<u>503,033</u>	<u>725,794</u>
Liabilities			
Non-current liabilities			
Lease liabilities		264,235	306,983
Long service payment liabilities		13,692	14,599
Deferred tax liabilities		10,683	10,519
		<u>288,610</u>	<u>332,101</u>
Current liabilities			
Trade payables	9	726,566	700,157
Other payables and accruals		242,111	272,560
Lease liabilities		378,195	406,064
Taxation payable		24,722	41,561
Cake coupons		163,387	169,282
		<u>1,534,981</u>	<u>1,589,624</u>
Total equity and liabilities		<u>2,326,624</u>	<u>2,647,519</u>

Condensed Consolidated Statement of Changes in Equity For the six months ended 30 June 2020

	(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 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

Notes to the Condensed Consolidated Interim Financial Information

1. 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 of Hong Kong Limited.

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.

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.

1. Basis of preparation and accounting policies (continued)

(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.

2. 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
	<hr/> 2,858,813 <hr/>	<hr/> 2,703,757 <hr/>
Other income		
Service items and miscellaneous income	58,542	60,159
Government subsidies (note)	18,200	-
	<hr/> 76,742 <hr/>	<hr/> 60,159 <hr/>

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.

2. 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)				Group HK\$'000
	Six months ended 30 June 2020				
	Convenience Store	Bakery		Developing Businesses	
	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)

2. 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 & Others	Chinese Mainland	HK	
HK\$'000	HK\$'000	HK\$'000	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 4, 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).

3. 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
	<hr/>	<hr/>
Total cost of sales, store expenses, distribution costs and administrative expenses	2,834,123	2,659,091
	<hr/> <hr/>	<hr/> <hr/>

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.

4. 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)
	<hr/>	<hr/>
	(6,624)	(6,645)
	<hr/> <hr/>	<hr/> <hr/>

5. 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
	<hr/> 12,757 <hr/>	<hr/> 15,754 <hr/>

6. 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.

6. Earnings per share (continued)

	(Unaudited) Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Profit attributable to shareholders of the Company	82,051	82,426
	Number of shares	Number of 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

7. Dividend

	(Unaudited) Six months ended 30 June	
	2020 HK\$'000	2019 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.

8. 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
	<hr/> 88,725 <hr/>	<hr/> 75,954 <hr/>

9. 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
	<hr/> 726,566 <hr/>	<hr/> 700,157 <hr/>

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 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 role of the Chairman is separate from that of the Chief Executive Officer. Their respective responsibilities are clearly established and defined by the Board in writing.

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

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.

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.

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.

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.

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.

On behalf of the Board
Convenience Retail Asia Limited
Richard YEUNG Lap Bun
Executive Director
& *Chief Executive Officer*

Hong Kong, 13 August 2020

As at the date of this announcement, Executive Directors of the Company are Mr Richard Yeung Lap Bun and Mr Pak Chi Kin; Non-executive Directors are Dr Victor Fung Kwok King, Dr William Fung Kwok Lun, Mr Godfrey Ernest Scotchbrook and Mr Benedict Chang Yew Teck; Independent Non-executive Directors are Mr Anthony Lo Kai Yiu, Mr Zhang Hongyi and Dr Sarah Mary Liao Sau Tung.