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 2019

Circle K SAINT HONORE Zoff

A Fung Retailing Company

PRINTED ON POST-CONSUMER WASTE RECYCLED PAPER

Contents

Corporate Information

Executive Directors	Richard YEUNG Lap Bun *(Chief Executive Officer)* PAK Chi Kin *(Chief Operating Officer)*
Non-executive Directors	Victor FUNG Kwok King # *(Chairman)* William FUNG Kwok Lun + Godfrey Ernest SCOTCHBROOK * Benedict CHANG Yew Teck *
Independent Non-executive Directors	Malcolm AU Man Chung +* Anthony LO Kai Yiu #* ZHANG Hongyi #+* Sarah Mary LIAO Sau Tung +
Group Chief Compliance and Risk Management Officer	Jason YEUNG Chi Wai
Company Secretary	Maria LI Sau Ping
Registered Office	P.O. Box 10008 Willow House Cricket Square Grand Cayman KY1-1001 Cayman Islands
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 *Certified Public Accountants*
Principal Share Registrar and Transfer Office	Tricor Services (Cayman Islands) Limited P.O. Box 10008, Willow House Cricket Square, Grand Cayman KY1-1001 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 2019 HK$'000	2018 HK$'000
Revenue	+5.0%	**2,703,757**	2,573,932
Core operating profit	+28.9%	**104,825**	81,293
Core operating profit (included interest expenses on lease liabilities)	+18.3%	**96,200**	81,293
Profit attributable to shareholders of the Company	+22.4%	**82,426**	67,352
Basic earnings per share (HK cents)	+22.3%	**10.80**	8.83
Interim dividend per share (HK cents)	+20.0%	**6.00**	5.00

Operation Highlights

- The Group achieved satisfactory turnover growth, driven by good comparable store sales growth at Circle K and revenue contribution from Zoff
- Net profit increased by 22.4%, mainly due to effectiveness of Circle K's online-to-offline (O2O) business model and lower production costs at Saint Honore resulting from renminbi depreciation
- The Group's O2O CRM programmes continued to lead business strategy; Circle K's "OK Stamp It" and Saint Honore's "Cake Easy" had memberships of 1.4 million and 0.6 million, respectively
- The Group will continue its O2O strategy for Circle K and Saint Honore and store network expansion programme for the fast-growing Zoff business while exercising caution due to higher operating costs and potential uncertainties in macroeconomic environment
- The Board of Directors has resolved to declare an interim dividend of 6 HK cents per share, an increase of 20% compared with 2018
- The Group maintains a healthy financial position with net cash of HK$522 million and no bank borrowings

Number of Stores as of 30 June 2019

Circle K Stores	
Hong Kong	**339**
Franchised Circle K Stores	
Guangzhou	63
Macau	32
Zhuhai	14
Subtotal	**109**
Total number of Circle K Stores	**448**
Saint Honore Cake Shops	
Hong Kong	90
Macau	9
Guangzhou	28
Total number of Saint Honore Cake Shops	**127**
Zoff Eyewear Stores	
Hong Kong	**7**
Total number of Stores under Convenience Retail Asia	**582**

Chairman's Statement

It is my pleasure to present the 2019 first-half results for Convenience Retail Asia with our valued shareholders. In a year marked by external challenges and relatively low consumer sentiment, the Group maintained a robust performance overall with healthy comparable store sales, more streamlined and cost-efficient operations, and strong contributions from our developing eyewear retail business. I am particularly proud that our online-to-offline (O2O) customer relationship management (CRM) programmes, "OK Stamp It" and "Cake Easy", continue to ride at the vanguard of a retail industry that is being shaped by digital transformation more and more each day.

Committed to the Future

Businesses have to adapt constantly to an ever-changing retail landscape to ensure continued growth. It was not long ago that Circle K, Saint Honore and their competitors operated primarily as traditional chains, relying on their bricks-and-mortar presence for visibility, foot traffic and sales. Today, if the Group's store networks represent a physical body, then its digital offerings – in particular, its O2O CRM programmes – have become the heart and soul. "OK Stamp It" and "Cake Easy" use innovative apps to drive business at Circle K and Saint Honore stores, respectively, delivering attractive promotional offers and incentives to loyal programme members. In the time since these platforms were developed, they have become vital tools for sales, marketing and cross-promotion. With 2 million combined members, they also hold a treasure trove of big data that gives us profound consumer insights. In an era when tastes, trends and behaviours can change in an instant, the value of having such a large and loyal customer base cannot be understated.

By making O2O CRM the centrepiece and guiding force of our entire business model, we have been able to engage on a deeper level. We leverage the devices and shopping methods preferred by today's consumer to cut through the clutter of a crowded marketplace, grab attention and convert clicks to sales. It is a strategy that has proven itself in both strong and weak economies, and it will continue to be the core of everything we do moving forward.

Exceeding Expectations

The Hong Kong retail market has been struggling in recent times under the weight of global macroeconomic uncertainties and worries over the US-China trade dispute, which have dampened consumer sentiment and willingness to spend on discretionary items. For the first five months of 2019, total retail sales value and volume fell by 1.8% and 2.2%[note], respectively. Sales for the supermarket category, which includes convenience stores, fared only slightly better with a modest increase in value of 1.3% but a decrease in volume of 2.3%[note]. These adverse factors make what the Group was able to achieve over the first half of the year even more remarkable. With our O2O CRM programmes leading the way, comparable store sales at Circle K rose 4.4% as customers continued to respond positively to timely offers and innovative promotions delivered quickly and conveniently to their mobile devices. Saint Honore posted a mild comparable store revenue growth in Hong Kong and Macau while benefitting from lower manufacturing costs due to the decrease in value of the renminbi, which contributed to improved margins.

Note:

Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region in July 2019.

We are very pleased by the performance of our franchise for Zoff, the Japanese fast-fashion eyewear brand that has taken the Hong Kong market by storm since launching in late 2017. This April, we proudly opened our largest Zoff store yet, boosting the total number of outlets to seven in just over 18 months and further increasing the brand's visibility in key shopping areas. Zoff made a strong contribution to the Group's revenue with stylish new collections, fast and impeccable service and popular promotions, and we remain confident about its future as an important part of our business.

Outlook

The Group is closely monitoring global economic conditions and local retail and consumer sentiment in the second half of the year. In addition, while we benefitted from a weaker renminbi and its resultant cost savings over the first six months of the year, second-half renminbi fluctuation remains possible, which could potentially impact full-year profits and margins. We will be prudent as always by managing costs, striving for operational efficiency, evaluating store performance and rationalising when appropriate. We will also proceed carefully with store network expansion, keeping an eye out for promising new locations while paying close attention to rental levels.

Although we are taking a guarded approach toward the remainder of 2019, we are encouraged about our medium- to long-term prospects. We have robust sales and marketing systems based on the latest technologies. Our people deliver unsurpassed levels of customer service, and our loyalty programmes provide a rock-solid foundation upon which to continue building.

In conclusion, I would like to thank the Board, management and our colleagues across the organisation for their efforts in making the first six months of 2019 a success. I look forward to continuing working with everyone as we strive to close out a successful year.

Victor FUNG Kwok King
Chairman

Hong Kong, 15 August 2019

CEO's Statement

Over the first six months of 2019, the Group posted encouraging sales and outperformed a sluggish retail market. It did so by emphasising its industry-leading O2O CRM platforms, "OK Stamp It" and "Cake Easy", sharpening focus on core competencies, investing in growth for promising new businesses and activities, and saving costs and increasing efficiency. Elsewhere, the launch of a new thematic positioning for Circle K formally announced the Group's "Easy, Fast and Simple" ("EFS") brand promise to millions – especially the younger consumers who form such an important part of the Group's future.

Operations Review – Circle K

As at 30 June 2019, the total number of Circle K stores in Hong Kong was 339 compared to 332 at the end of the first six months of 2018. The Group opened eight new Circle K stores and closed six during the first half of 2019.

During the period under review, Circle K's comparable store sales increased 4.4%, contributing to total sales of HK$2,185 million against the HK$2,061 million recorded in the first six months of 2018. The Group's proprietary O2O CRM programme "OK Stamp It" drove sales performance by serving as the core platform for virtually all of Circle K's sales and marketing efforts. With "OK Stamp It", members can download a special app to receive exclusive promotional deals and loyalty offers that can be fulfilled at a store location of their choice. Backed by the award-winning "OK Stamp It" and its 1.4 million members, Circle K continued to enjoy an enviable promotional channel for its innovative marketing activities in the first half of 2019.

One of the Group's most enduring operational commitments is making customers' lives "EFS". This is particularly important in an age when consumers face more demands on their time and attention than ever. The Group recently took this mantra to the next level by introducing an official new thematic positioning: "We make it easy, so you can take it easy". With this pledge, the Group aims to make life even more "EFS" by digitising store operations, strengthening convenience services and reinforcing service culture at the staff level.

The Group is also taking the "EFS" approach to checkout services. Working in partnership with JD.com, the largest retailer on the Chinese Mainland, the Group launched a pilot test scheme for a convenient new self-checkout service powered by artificial intelligence (AI) at two Circle K locations. The experimental service uses an advanced AI algorithm that can recognise up to five products in just one second at a high degree of accuracy. Designed with the new generation of consumers in mind, it marks the first checkout solution in Hong Kong to feature image recognition, and it promises to reduce checkout times significantly. During the period, Circle K also introduced a "Scan & Pay" self-checkout counter trial at a pilot store in Kwun Tong that allows customers to scan and pay for their own items. Both initiatives are further examples of how the Group continues to lead the retail market in modern retail operations.

The period under review once again featured a number of successful marketing activities. Leveraging the popularity of "Kakao Friends" from South Korea, the Group launched a programme whereby customers making purchases of HK$20 or more could collect stamps and redeem them for attractive premiums such as figurines, a USB-chargeable light and a bowl and mug set. In early 2019, the Group presented AEON credit card holders with an exceptionally attractive offer: Make purchases at Circle K with an AEON credit card and receive a huge 40% rebate. The offer proved so successful that Circle K and AEON plan to hold similar credit spending promotions in the future. The Group has also made it rewarding for people to collect the Government's transport subsidy at Circle K stores by presenting commuters with HK$10 cash coupons for future purchases.

The Group continues to roll out appealing products that meet the needs of modern consumers. Delivering on its "We make it easy, so you can take it easy" brand promise, Circle K introduced value-for-money meal boxes priced at HK$27 or less with a HK$10 add-on option for fresh fruit, providing busy workers with convenient, tasty, wholesome and affordable meals on the go. Category management also remains an important part of the Group's sales strategy. In June, the Group unveiled a new promotion that leveraged the health and wellness trend as well as the popularity of Japanese pharmacies by offering Japanese health supplements in Circle K stores. The range is now available at 50 pilot stores, and results have been positive despite relatively little formal marketing.

Capping off a successful first six months of the year, the Group was delighted to celebrate two wins for "OK Stamp It" at Marketing Magazine's prestigious Mob-Ex Awards 2019, including Silver for "Best App – Retail" and Bronze for "Best Use of Interactive Media". The Mob-Ex Awards are considered Hong Kong's premier event celebrating mobile marketing excellence.

To deliver an enhanced customer experience, the Group deepened its "Service from the Heart" service value to include learning and development (Learn with Heart), operational excellence (Work with Heart) and customer service (Win One's Heart). The new guidelines have already shown positive results as the Group strives to maintain its industry-leading service standards.

In supply chain management, the Group successfully restructured its individual cold chain distribution model into a daily dual-temperature distribution solution, which will ease cost pressures and quicken the product development process. It also devised an auto-replenishment system to achieve faster response to orders, lower costs, more stable inventory supply and higher sales. In addition, the Group established a nutrition labelling centre to boost speed to market for new direct sourcing products.

Operations Review – Saint Honore Cake Shop

As at 30 June 2019, the Group was operating 99 Saint Honore stores in Hong Kong and Macau compared to 103 at the end of the first half of 2018. The total network in Guangzhou amounted to 28 locations. The Group opened one store and closed five stores during the first six months of 2019.

During the period under review, the local retail market was characterised by macroeconomic uncertainty and depressed consumer sentiment. However, despite people spending less on discretionary items, the Group's bakery operations in Hong Kong and Macau were still able to achieve a single-digit increase in comparable store turnover growth on the back of healthy year-on-year growth for many of its products. Packaged bread and GrabNGo products saw continued strong growth due to new product launches and product quality enhancement. The Group also successfully introduced creative new products such as Fruit Tarts, Nutty Belgium Cake, Mango Lava Cake and Mango Coconut Cake, all of which were well received by customers. Gross profit margin improved due to initiatives including sourcing enhancement, product category rationalisation, process streamlining, equipment upgrades and stronger procurement management. A weaker renminbi also contributed to lower costs and better gross margin performance in the first half of 2019.

As at 30 June 2019, Saint Honore's "Cake Easy" O2O CRM programme had 0.6 million members. In June, the Group launched Saint Honore's first-ever lucky draw using this digital platform, featuring grand prizes of 50 Samsung S10 mobile phones – just one example of how loyal members are enjoying a truly O2O customer experience replete with attractive offers and incentives.

Saint Honore continued to do its part as a good corporate citizen by working with a number of valuable community organisations, including Foodlink Foundation Limited, Feeding Hong Kong and the Women Service Association, to donate unsold bread. Other activities included festive pudding donations and visits to the elderly during the Chinese New Year and Dragon Boat festivals. Saint Honore was proud to receive recognition as a "Social Cooperative Partner" by the Evangelical Lutheran Church of Hong Kong Login Club for New Arrivals, given for the Company's many contributions in social services for the elderly and low-income families.

Saint Honore continued to consolidate its Guangzhou store network in order to achieve a strong foundation of revamped, modern outlets that appeal to the new generation of consumers. The Group is also enhancing its factory operations in Shenzhen and implementing "lean manufacturing" to reduce its utilisation area, simplify workflow and improve operational efficiency for faster responsiveness between markets. Improvements in baking technology and skills development are expected to result in increased "premiumisation" and value for money in bakery products.

Operations Review – Developing Businesses

Zoff

The Group's franchise of the Japanese fast-fashion eyewear brand Zoff – the sole franchisee of the brand – continued to achieve remarkable results during the period under review. Just a year and a half since its launch in Hong Kong, Zoff once again made positive contributions to the Group's results. Its store network also continued to grow: There are now seven Zoff stores in Hong Kong, all strategically located in high-traffic areas that are popular with younger consumers. In April 2019, the Group opened the largest Zoff store in Hong Kong at Taipo Mega Mall, a location that carries more than 1,800 stock-keeping units.

Appealing new products and fast, friendly service continued to drive traffic and sales. The Group rolled out successful digital media campaigns for Zoff SMART, a collection of lightweight and flexible yet tough frames, and the Night & Day series, which features detachable sunglass lenses. Other popular product lines included the Disney Series, Universal Studio Series – Minions, and the Zoff x Gaspard et Lisa Series – Macaron and Esprit Lines. "Creator Collections" such as collaborations with German designer Viktor Kammerer, Italian eyewear brand Augusto Valentini and Japanese stylist Takashi Kumagai were also well received by consumers.

To provide an even higher level of professional service for customers, the Group introduced the first "Eye Q Zone" and comprehensive eye examination service at the Taipo Mega Mall store. It also held the "Eye Q Challenge" at all Zoff stores, inviting customers to test their eyesight with a series of fun activities. Such efforts in product launches, service enhancements and marketing campaigns have helped generate significant brand awareness across Hong Kong. In a survey carried out in the first quarter of 2019, an impressive 40% of respondents said they knew the Zoff brand.

FingerShopping.com

In order to focus on the success of its core businesses, the Group sold all rights, titles and interests attached to FingerShopping.com to an independent third party on 1 March 2019.

Future Prospects

The Group will approach the latter half of the year with caution and closely monitor the latest developments in order to be able to respond quickly and minimise any unfavourable impacts on our businesses. The Group will also carefully control its expenses and seek further ways to streamline operations. At the same time, we will continue to upgrade equipment, improve processes and enhance skill sets for product innovation and quality.

The "OK Stamp It" and "Cake Easy" O2O CRM platforms will continue to drive most of the Group's sales and marketing efforts. Consumers – particularly members of these customer loyalty programmes – may expect to benefit from even more cross-promotions between businesses.

With a digital-savvy business model serving as its growth engine, the Group is well placed to continue enjoying success in the modern retail environment, and remains confident in the medium- and long-term prospects.

Richard YEUNG Lap Bun
Chief Executive Officer

Hong Kong, 15 August 2019

Discussion and Analysis

Financial Review

During the first six months of 2019, the Group's turnover increased 5% to HK$2,704 million. Turnover for the convenience store business increased 6% to HK$2,185 million, driven by strong growth in comparable store sales of 4.4% over the same period last year. Turnover for the bakery business slightly decreased 2.7% to HK$508 million, caused by a single-digit growth in comparable store sales in Hong Kong and Macau and decrease in total number of stores. Turnover for Developing Businesses increased 71% to HK$53 million with the expansion of the Zoff store network.

Gross margin and other income as a percentage of turnover increased 0.3% to 37.4% despite keen competition in the retail market and high rental and labour costs. Main contributors were the "OK Stamp It" O2O CRM programme's solid membership base of 1.4 million and strong sales performances for packaged drinks and food service. At Saint Honore, the depreciation of the renminbi resulted in lower manufacturing costs and improved gross margin compared to the same period last year. Fast-fashion eyewear business Zoff also began contributing to gross margin.

Operating expenses decreased from 33.9% of turnover to 33.5% against the same period in 2018. Including the interest expenses from lease liabilities arising from operating leases – required under new accounting standard HKFRS 16 "Leases", which was adopted by the Group effective 1 January 2019 – operating expenses marginally decreased from 33.9% of turnover to 33.8% against the same period in 2018. The divestment of FingerShopping.com contributed to the decrease, while high rental and labour costs continued to contribute to the increase.

Core operating profit before interest expenses from lease liabilities increased 28.9% to HK$105 million. Including interest expenses from lease liabilities, core operating profit increased 18.3% to HK$96 million. Overall, the Group's net profit increased 22.4% to HK$82 million for the six months ended 30 June 2019. Basic earnings per share increased 22.3% to 10.8 HK cents.

HKFRS 16 "Leases" changes the accounting method for the Group's operating leases including all leased stores, factories, warehouses and offices with lease period over a year. Before the adoption of this new accounting standard, all lease-related costs were charged to operating expenses. With the adoption of HKFRS 16, long term leases are recognised as right-of-use assets amounting to HK$736 million and lease liabilities amount to HK$737 million in the consolidated balance sheet as at 30 June 2019. Depreciation of right-of-use assets and interest expenses from lease liabilities are being charged to operating expenses and interest expenses. Comparing to the lease expenses under the old standard, the new treatment resulted in a higher net of tax charge of HK$4 million for the period under review. The Group has applied a modified retrospective approach and does not restate the comparative figures for the year prior to the first adoption.

As at 30 June 2019, the Group had a net cash balance of HK$522 million, which was mainly generated from daily business operations. The Group had no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and on the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held either in Hong Kong dollars or renminbi. The Group had some foreign exchange exposure in renminbi as a result of 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.

Employees

As at 30 June 2019, the Group had a total of 6,700 employees, with 5,300, or 79%, based in Hong Kong and 1,400, or 21%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 41% of total headcount. Total staff cost for the six months ended 30 June 2019 was HK$455 million compared to HK$436 million for the same period last year.

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

In order to retain talented, passionate people and continue delivering first-rate customer service, the Group places strong emphasis on workplace satisfaction. The HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme, directed by the Activity Organising Board (AOB), helps ensure that staff members and their families are well looked after through initiatives that focus on career development, achieving work-life balance, giving back to society and more. During the period under review, the AOB once again hosted several such activities.

Circle K Convenience Stores (HK) Limited and Saint Honore Cake Shop Limited were once again proud 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. These recognitions were awarded for commitment to community, staff and the environment, as well as active involvement in charity programmes and volunteer initiatives.

Sustainability and Corporate Social Responsibility

As a member of the Fung Group, the Group follows the principles of human rights, labour, anti-corruption efforts, environmental protection and sustainability as set forth in the United Nations Global Compact.

The Group is strongly committed to conserving the environment. During the period under review, it worked to reduce its use of single-use plastics in its manufacturing and operational processes, focusing on the principles of reducing, re-using and recycling to create environmental benefits as well as cost savings and better efficiency. The Group is also reducing its carbon emissions by exploring ways to use energy more efficiently, which include replacing inefficient equipment and switching to low-carbon fuels.

In April, Convenience Retail Asia Limited published its third Environmental, Social and Governance ("ESG") Report. This publication details the Group's ESG policies, measures and performance, giving stakeholders a view into the Group's progress in regard to 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.

Corporate governance practices adopted by the Company during the six months ended 30 June 2019 are in line with those practices set out in the Company's 2018 Annual Report, and are also consistent with the principles set out in the Corporate Governance Code (the "CG Code") and Corporate Governance Report contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board

The Board currently comprises the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and three Non-executive Directors.

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

The Board held four meetings to date in 2019 (with an average attendance rate of directors of about 93%) to discuss the overall strategies, operational and financial performance of the Group.

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

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

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

Audit Committee

Chairman	Anthony LO Kai Yiu *
Members	Malcolm AU Man Chung *
	Godfrey Ernest SCOTCHBROOK +
	Benedict CHANG Yew Teck +
	ZHANG Hongyi *

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

The Audit Committee 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 2019 (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 has reviewed with senior management the unaudited interim financial information for the six months ended 30 June 2019 before recommending it to the Board for approval.

Remuneration Committee

Chairman	Malcolm AU Man Chung *
Members	William FUNG Kwok Lun +
	ZHANG Hongyi *
	Sarah Mary LIAO Sau Tung *

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

The Remuneration Committee 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 2019 (with a 100% attendance rate) to consider grant of share options to employees.

Nomination Committee

Chairman	Victor FUNG Kwok King +
Members	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 2019 (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 2019. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2019.

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 35 to 39 of the Company's 2018 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 Audit Committee considered that for the six months ended 30 June 2019:

- The risk management and internal control systems, as well as accounting systems of the Group remained in place and were functioning effectively and adequately, and were designed to provide reasonable assurance that material assets were protected, business risks attributable to the Group were identified and monitored, material transactions were executed in accordance with the Group's policies 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.

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code for the six months ended 30 June 2019.

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 2019, the Directors and chief executives of the Company and their associates had the following interests in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and/or the Code for Securities Transactions by Directors and Relevant Employees adopted by the Company:

Long positions in shares and underlying shares of the Company

	Number of shares					
Name of Directors	Personal interests	Family interests	Corporate/ Trust interests	Equity derivatives (share options)	Total interests	Approximate percentage of interests
Victor Fung Kwok King	–	–	311,792,000 *(Note 1)*	–	311,792,000	40.89%
William Fung Kwok Lun	–	–	311,792,000 *(Note 1)*	–	311,792,000	40.89%
Richard Yeung Lap Bun	22,396,000	–	–	4,000,000 *(Note 2)*	26,396,000	3.46%
Pak Chi Kin	1,134,000	–	–	4,000,000 *(Note 2)*	5,134,000	0.67%

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 2019, none of the Directors, chief executives and their associates had any other interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations. Besides, at no time during the period, the Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

Interests and Short Positions of Shareholders in Shares and Underlying Shares

As at 30 June 2019, other than the interests of the Directors or chief executives of the Company as disclosed above, the following persons had notified the Company of their interests in shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Interests in shares of the Company

Name of shareholders	Number of shares	Nature of interests/ Holding capacity	Approximate percentage of interests
HSBC Trustee (C.I.) Limited	311,792,000	Trustee *(Note 1)*	40.89%
King Lun Holdings Limited	311,792,000	Interest of controlled corporation *(Note 1)*	40.89%
Aggregate of Standard Life Aberdeen plc affiliated investment management (together "SL & Aberdeen plc")	91,406,000	Investment manager *(Note 2)*	11.99%
The Capital Group Companies, Inc.	51,330,000	Interest of controlled corporation	6.73%
FIL Limited	43,074,000	Interest of controlled corporation *(Note 3)*	5.65%
Pandanus Partners L.P.	43,074,000	Interest of controlled corporation *(Note 3)*	5.65%
Pandanus Associates Inc.	43,074,000	Interest of controlled corporation *(Note 3)*	5.65%
Value Partners Group Limited	38,931,000	Interest of controlled corporation	5.11%

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.*

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 2019, the Company had not been notified of any other interests or short positions in shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

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.

Details of the movements of share options under the 2010 Share Option Scheme during the six months ended 30 June 2019 are as follows:

	Number of share options							
Grantees	As at 1/1/2019	Granted *(Note 1)*	Exercised *(Note 2)*	Lapsed *(Note 3)*	As at 30/6/2019	Exercise price HK$	Grant date	Exercisable period
Directors								
Richard Yeung Lap Bun	2,000,000	–	–	–	2,000,000	5.53	28/2/2014	1/4/2017– 31/3/2020
	2,000,000	–	–	–	2,000,000	4.19	29/3/2017	1/4/2020– 31/3/2023
Pak Chi Kin	2,000,000	–	–	–	2,000,000	5.53	28/2/2014	1/4/2017– 31/3/2020
	1,222,000	–	–	–	1,222,000	4.19	29/3/2017	1/4/2020– 31/3/2023
	778,000	–	–	–	778,000	3.88	8/3/2018	1/4/2020– 31/3/2023
Continuous contract employees	10,170,000	–	–	(750,000)	9,420,000	5.53	28/2/2014	1/4/2017– 31/3/2020
	396,000	–	–	–	396,000	5.10	19/3/2015	1/4/2017– 31/3/2020
	68,000	–	(34,000)	–	34,000	2.86	16/3/2016	1/4/2017– 31/3/2020
	7,282,000	–	–	(100,000)	7,182,000	4.19	29/3/2017	1/4/2020– 31/3/2023
	3,974,000	–	–	(366,000)	3,608,000	3.88	8/3/2018	1/4/2020– 31/3/2023
	–	202,000	–	–	202,000	3.87	14/3/2019	1/4/2020– 31/3/2023
Other participants	1,644,000	–	–	–	1,644,000	5.53	28/2/2014	1/4/2017– 31/3/2020
	22,000	–	–	–	22,000	5.10	19/3/2015	1/4/2017– 31/3/2020
	100,000	–	–	–	100,000	4.19	29/3/2017	1/4/2020– 31/3/2023
	31,656,000	202,000	(34,000)	(1,216,000)	30,608,000			

Notes:

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

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

3. *Share options to subscribe for 1,216,000 shares lapsed during the period following the cessation of employment of certain grantees.*

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

5. *No share options under the 2010 Share Option Scheme were cancelled during the period.*

6. *The above options granted are recognised as expenses in the consolidated financial statements in accordance with the Company's accounting policy as set out in the annual audited financial statements for the year ended 31 December 2018.*

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

Save as disclosed above, as at 30 June 2019, 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 2018 Annual Report are set out below:

Name of Directors	Changes
Victor Fung Kwok King	– He has become a member of the Council of the Hong Kong Laureate Forum since May 2019
	– He was conferred Fellow of the Hong Kong Academy of Finance in June 2019
William Fung Kwok Lun	– He retired as independent non-executive director of Shui On Land Limited on 31 May 2019
Zhang Hongyi	– He has been re-designated as Vice Chairman (formerly Council Member) of China Development Institute (Shenzhen) on 29 May 2019

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 2019 of 6 HK cents (2018: 5 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 2 September 2019 to 3 September 2019, 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 30 August 2019. Dividend warrants will be despatched on 12 September 2019.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2019

		(Unaudited) Six months ended 30 June	
		2019	2018
	Note	**HK$'000**	HK$'000
Revenue	*4*	**2,703,757**	2,573,932
Cost of sales	*5*	**(1,753,050)**	(1,674,991)
Gross profit		**950,707**	898,941
Other income	*4*	**60,159**	56,754
Store expenses	*5*	**(719,540)**	(687,267)
Distribution costs	*5*	**(82,594)**	(81,101)
Administrative expenses	*5*	**(103,907)**	(106,034)
Core operating profit		**104,825**	81,293
Interest (expenses)/income, net	*6*	**(6,645)**	765
Profit before income tax		**98,180**	82,058
Income tax expenses	*7*	**(15,754)**	(14,706)
Profit attributable to shareholders of the Company		**82,426**	67,352
Basic earnings per share (HK cents)	*8*	**10.80**	8.83

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Profit attributable to shareholders of the Company	**82,426**	67,352
Other comprehensive income:		
Item that may be reclassified subsequently to profit or loss		
Exchange differences	**59**	128
Total comprehensive income attributable to shareholders of the Company	**82,485**	67,480

Condensed Consolidated Balance Sheet

As at 30 June 2019

	Note	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
Assets			
Non-current assets			
Fixed assets	*10*	**345,679**	349,965
Right-of-use assets	*11*	**735,778**	–
Investment properties	*12*	**24,873**	25,363
Lease premium for land		**31,612**	32,216
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		**84,616**	97,216
Deferred tax assets		**13,111**	14,114
		1,595,029	878,234
Current assets			
Inventories		**187,542**	198,866
Rental deposits		**69,988**	58,289
Trade receivables	*13*	**81,867**	73,939
Other receivables, deposits and prepayments		**94,429**	91,329
Taxation recoverable		**734**	–
Cash and cash equivalents		**522,276**	507,694
		956,836	930,117
Total assets		**2,551,865**	1,808,351
Equity			
Share capital	*16*	**76,256**	76,253
Reserves		**569,150**	614,557
Total equity		**645,406**	690,810
Liabilities			
Non-current liabilities			
Lease liabilities	*15*	**326,421**	–
Long service payment liabilities		**14,418**	14,949
Deferred tax liabilities		**10,148**	10,160
		350,987	25,109
Current liabilities			
Trade payables	*14*	**737,017**	662,784
Other payables and accruals		**215,487**	247,207
Lease liabilities	*15*	**411,065**	–
Taxation payable		**26,794**	13,268
Cake coupons		**165,109**	169,173
		1,555,472	1,092,432
Total equity and liabilities		**2,551,865**	1,808,351

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	(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 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**
At 1 January 2018	76,246	200,445	177,087	20,002	15,445	36	161,414	650,675
Profit attributable to shareholders of the Company	–	–	–	–	–	–	67,352	67,352
Exchange differences	–	–	–	–	–	128	–	128
Total comprehensive income for the period	–	–	–	–	–	128	67,352	67,480
Issue of new shares	7	182	–	–	–	–	–	189
Employee share option benefit	–	23	–	–	1,128	–	334	1,485
Dividend paid	–	–	–	–	–	–	(106,754)	(106,754)
	7	205	–	–	1,128	–	(106,420)	(105,080)
At 30 June 2018	76,253	200,650	177,087	20,002	16,573	164	122,346	613,075

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019

	(Unaudited) Six months ended 30 June 2019 HK$'000	2018 HK$'000
Cash flows from operating activities		
Cash generated from operations	**377,378**	79,157
Overseas income tax paid	**(1,981)**	(1,792)
Net cash generated from operating activities	**375,397**	77,365
Cash flows from investing activities		
Purchase of fixed assets	**(35,184)**	(31,633)
Proceeds from disposal of fixed assets	**232**	86
Decrease in restricted bank deposit	**–**	963
Interest received	**1,365**	414
Net cash used in investing activities	**(33,587)**	(30,170)
Cash flows from financing activities		
Proceeds from issuance of shares	**97**	189
Payment of lease liabilities	**(197,667)**	–
Dividend paid	**(129,636)**	(106,754)
Net cash used in financing activities	**(327,206)**	(106,565)
Increase/(Decrease) in cash and cash equivalents	**14,604**	(59,370)
Cash and cash equivalents at 1 January	**507,694**	450,776
Effect of foreign exchange rate changes	**(22)**	(17)
Cash and cash equivalents at 30 June	**522,276**	391,389

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 is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and its principal place of business is 15th Floor, LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong.

The Company's shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 15 August 2019.

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 2018 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 2018 consolidated financial statements.

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 2019 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, except the impact of the adoption of HKFRS 16 "Leases".

2. Basis of preparation and accounting policies (continued)

(b) Change in accounting policy

The Group has adopted HKFRS 16 "Leases" which changed the accounting method for operating leases including all leased stores, factories, warehouses and offices with lease period over a year with effect from 1 January 2019. As permitted under the specific transitional provisions in the standard, the Group adopted the modified retrospective approach and has not restated the 2018 comparatives. The adjustments arising from the new standard are recognised in the consolidated balance sheet as at 1 January 2019.

Leases are initially recognised as right-of-use assets and lease liabilities at the date of which the leased assets are available for use.

Right-of-use assets are measured at cost comprised of:

– the amount of the initial measurement of lease liabilities;

– any lease payments made at or before the commencement date, less any lease incentive received; and

– restoration costs.

The right-of-use assets are depreciated over the lease terms on a straight-line basis.

Lease liabilities were measured at the present value of the remaining fixed lease payments. The discount rate used for the leases of Hong Kong and Macau was determined from retail property market yields provided by the Rating and Valuation Department of the Government of the Hong Kong Special Administrative Region. The discount rate used for the leases of Chinese Mainland was determined from the standard mortgage interest rate provided by The People's Bank of China.

Payments associated with short-term leases with lease terms less than a year are expensed on a straight-line basis in the consolidated profit and loss account.

2. Basis of preparation and accounting policies (continued)

(b) Change in accounting policy (continued)

The adjustments recognised in the opening balances of the affected items on the condensed consolidated balance sheet are as follows:

HK$'000	31 December 2018 (as previously reported)	Impact on adoption of HKFRS 16	**1 January 2019 (restated)**
Non-current assets			
Fixed assets	349,965	(2,519)	**347,446**
Right-of-use assets	–	649,349	**649,349**
Current assets			
Other receivables, deposits and prepayments	91,329	(2,417)	**88,912**
Non-current liabilities			
Lease liabilities	–	(377,122)	**(377,122)**
Current liabilities			
Lease liabilities	–	(270,844)	**(270,844)**
Other payables and accruals	(247,207)	3,553	**(243,654)**

With the adoption of HKFRS 16, earnings per share was decreased by 0.6 HK cent for the six months ended 30 June 2019.

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 2018 consolidated financial statements, and should be read in conjunction with the 2018 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 2019 and 31 December 2018 are as follows:

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'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 is 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, 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	
	2019	2018
	HK$'000	HK$'000
Revenue		
Merchandise sales revenue	**2,185,496**	2,061,358
Bakery sales revenue	**465,396**	481,735
Developing businesses revenue	**52,865**	30,839
	2,703,757	2,573,932
Other income		
Service items and miscellaneous income	**60,159**	56,754

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 sales of bakery and festival products. For developing businesses segment, revenues are mainly derived from 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)

The segment information provided to the management for the reportable segments for the six months ended 30 June 2019 and 2018 are as follows:

	(Unaudited) Six months ended 30 June 2019				
	Convenience Store	Bakery		Developing Businesses	
	HK	HK & Others	Chinese Mainland	HK	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment 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 and amortisation	(156,482)	(53,718)	(10,780)	(9,284)	(230,264)
Depreciation and amortisation (excluded depreciation on right-of-use assets)	(14,556)	(18,453)	(2,803)	(1,851)	(37,663)

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

	(Unaudited) Six months ended 30 June 2018				
	Convenience Store	Bakery		Developing Businesses	
		HK &	Chinese		
	HK	Others	Mainland	HK	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment revenue	2,061,358	488,606	57,818	30,839	2,638,621
Inter-segment revenue	–	(64,689)	–	–	(64,689)
Revenue from external customers	2,061,358	423,917	57,818	30,839	2,573,932
Total segment other income	54,661	4,325	1,033	76	60,095
Inter-segment other income	(2,228)	(1,103)	–	(10)	(3,341)
Other income	52,433	3,222	1,033	66	56,754
	2,113,791	427,139	58,851	30,905	2,630,686
Core operating profit/(loss)	75,026	11,842	(5,283)	(292)	81,293
Depreciation and amortisation	(14,166)	(19,128)	(3,848)	(632)	(37,774)

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.

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

The inter-segment revenue includes inter-product segment revenue of HK$43,044,000 (2018: HK$40,857,000) and inter-geographic segment revenue of HK$17,446,000 (2018: HK$23,832,000).

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

The segment assets and liabilities as at 30 June 2019 and 31 December 2018 are as follows:

	(Unaudited) As at 30 June 2019				
	Convenience Store	Bakery		Developing Businesses	
	HK	HK & Others	Chinese Mainland	HK	Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total segment assets	**1,278,714**	**881,551**	**88,261**	**74,323**	**2,322,849**
Total segment assets include:					
Additions to segment non-current assets	**691,085**	**179,045**	**49,673**	**42,418**	**962,221**
Total segment liabilities	**1,360,140**	**434,154**	**29,322**	**45,901**	**1,869,517**

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

The amounts provided to the management with respect to total assets and total liabilities are measured in a manner consistent with that of the 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)

Reportable segment assets are reconciled to total assets as follows:

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
Segment assets for reportable segments	**2,322,849**	1,568,388
Unallocated:		
Deferred tax assets	**13,111**	14,114
Taxation recoverable	**734**	–
Corporate bank deposits	**215,171**	225,849
Total assets per condensed consolidated balance sheet	**2,551,865**	1,808,351

Reportable segment liabilities are reconciled to total liabilities as follows:

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
Segment liabilities for reportable segments	**1,869,517**	1,094,113
Unallocated:		
Deferred tax liabilities	**10,148**	10,160
Taxation payable	**26,794**	13,268
Total liabilities per condensed consolidated balance sheet	**1,906,459**	1,117,541

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK$2,589,418,000 (2018: HK$2,450,979,000), and the total of its revenue from other countries is HK$114,339,000 (2018: HK$122,953,000) for the six months ended 30 June 2019.

The total of non-current assets other than financial asset at fair value through other comprehensive income and deferred tax assets located in Hong Kong is HK$1,456,950,000 (as at 31 December 2018: HK$785,646,000), and the total of these non-current assets located in other countries is HK$123,073,000 (as at 31 December 2018: HK$76,579,000) as at 30 June 2019.

5. Expenses by nature

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Amortisation of lease premium for land	**584**	632
Cost of inventories sold	**1,637,027**	1,556,446
Depreciation of owned fixed assets	**36,594**	36,649
Depreciation of right-of-use assets	**192,601**	–
Depreciation of investment properties	**485**	493
Employee benefit expense	**455,485**	436,197
Operating leases rental for land and buildings	**93,133**	268,436
Other expenses	**243,182**	250,540
Total cost of sales, store expenses, distribution costs and administrative expenses	**2,659,091**	2,549,393

6. Interest (expenses)/income, net

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interest income on bank deposits	**1,980**	765
Interest expenses on lease liabilities	**(8,625)**	–
	(6,645)	765

7. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2019 and 2018. Taxation on overseas profits has been calculated on the estimated assessable profits for the 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	
	2019	2018
	HK$'000	HK$'000
Current income tax		
Hong Kong profits tax	**13,016**	12,628
Overseas profits tax	**1,750**	2,568
Deferred income tax	**988**	(490)
	15,754	14,706

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	
	2019	2018
	HK$'000	HK$'000
Profit attributable to shareholders of the Company	**82,426**	67,352

	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**762,550,510**	762,486,487
Adjustment for:		
Share options	**11,304**	32,641
Weighted average number of ordinary shares for diluted earnings per share	**762,561,814**	762,519,128

9. Dividend

	(Unaudited) Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interim dividend, proposed of 6 HK cents (2018: 5 HK cents) per share	**45,754**	38,127

At a meeting held on 15 August 2019, 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 2019 HK$'000	(Unaudited) 30 June 2018 HK$'000
Opening net book amount	**349,965**	357,173
Transfer to right-of-use assets	**(2,519)**	–
Additions	**35,184**	32,273
Disposals	**(384)**	(449)
Depreciation	**(36,594)**	(36,649)
Exchange differences	**27**	87
Closing net book amount	**345,679**	352,435

11. Right-of-use assets

	(Unaudited) 30 June 2019 HK$'000
Initial recognition as at 1 January	**646,830**
Transfer from fixed assets	**2,519**
Additions	**280,207**
Depreciation	**(192,601)**
Exchange differences	**(1,177)**
Closing net book amount	**735,778**

12. Investment properties

	(Unaudited) 30 June 2019 HK$'000	(Unaudited) 30 June 2018 HK$'000
Opening net book amount	**25,363**	26,561
Depreciation	**(485)**	(493)
Exchange differences	**(5)**	(1)
Closing net book amount	**24,873**	26,067

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

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
0-30 days	**68,871**	49,813
31-60 days	**9,321**	16,510
61-90 days	**1,282**	2,938
Over 90 days	**2,393**	4,678
	81,867	73,939

14. Trade payables

At 30 June 2019, the aging analysis by invoice date of the trade payables is as follows:

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
0-30 days	**481,753**	424,278
31-60 days	**160,226**	146,618
61-90 days	**64,605**	60,915
Over 90 days	**30,433**	30,973
	737,017	662,784

15. Lease liabilities

	(Unaudited) 30 June 2019 HK$'000
Initial recognition as at 1 January	**647,966**
Additions	**279,777**
Payment	**(197,667)**
Interest expenses	**8,625**
Exchange differences	**(1,215)**
	737,486
Current lease liabilities	**411,065**
Non-current lease liabilities	**326,421**
	737,486

16. Share capital

	(Unaudited) 30 June 2019 Shares of HK$0.10 each		(Audited) 31 December 2018 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	**762,530,974**	**76,253**	762,464,974	76,246
Issue of shares on exercise of share options	**34,000**	**3**	66,000	7
At end of the period	**762,564,974**	**76,256**	762,530,974	76,253

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 2019 is HK$1,898,000 (as at 31 December 2018: HK$1,236,000).

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	
		2019	2018
	Note	**HK$'000**	HK$'000
Income			
Service income and reimbursement of office and administrative expenses	*(i)*		
Subsidiaries/fellow subsidiary of a substantial shareholder		**686**	1,307
Associate of a substantial shareholder		**14**	16
Rental and service income	*(ii)*		
Subsidiary/fellow subsidiary of a substantial shareholder		**654**	680
Sales of food products	*(iii)*		
Subsidiaries of a substantial shareholder		**35**	531
Associate of a substantial shareholder		**–**	12
Expenses			
Reimbursement of office and administrative expenses	*(iv)*		
Subsidiaries of a substantial shareholder		**1,736**	1,848
Associates of a substantial shareholder		**717**	718
Rental payable	*(v)*		
Subsidiary/fellow subsidiaries of a substantial shareholder		**1,433**	1,092
Associate of a substantial shareholder		**5,214**	5,207

18. Related party transactions (continued)

(b) Key management personnel compensation

	(Unaudited) Six months ended 30 June 2019 HK$'000	2018 HK$'000
Fees	**1,445**	1,445
Bonuses	**6,796**	6,155
Salaries and other allowances	**5,301**	5,939
Employee share option benefit	**631**	592
Pension costs – defined contribution scheme	**36**	45
	14,209	14,176

(c) Period-end balances with related parties

	(Unaudited) 30 June 2019 HK$'000	(Audited) 31 December 2018 HK$'000
Amounts due from:		
Subsidiaries of a substantial shareholder	**755**	1,096
Associate of a substantial shareholder	**6**	–
Amounts due to:		
Subsidiaries/fellow subsidiary of a substantial shareholder	**(811)**	(1,204)
Associate of a substantial shareholder	**(321)**	(345)

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) Rental and service income from subsidiary/fellow subsidiary of a substantial shareholder were carried out in ordinary course of business and on terms mutually agreed between the Group and the subsidiary/fellow subsidiary.

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

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

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