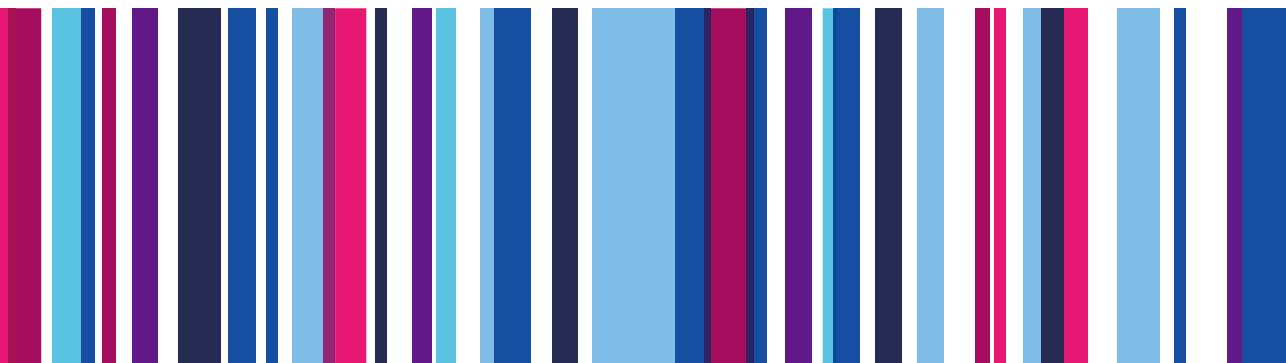




Convenience Retail Asia Limited

利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00831



Interim Report 2014

馮氏
A Fung Retailing Company
The logo for A Fung Retailing Company, featuring the company name in a stylized font and a red square containing the letters "AFRC".



PRINTED ON POST-CONSUMER WASTE RECYCLED PAPER

Contents

Corporate Information	2
Highlights	4
Chairman's Statement	6
Management Discussion and Analysis	10
Corporate Governance	16
Other Information	22
Condensed Consolidated Profit and Loss Account	30
Condensed Consolidated Statement of Comprehensive Income	31
Condensed Consolidated Balance Sheet	32
Condensed Consolidated Statement of Changes in Equity	33
Condensed Consolidated Cash Flow Statement	34
Notes to the Condensed Consolidated Interim Financial Information	35

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 *
Jeremy Paul Egerton HOBBINS +
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 Officer

Srinivasan PARTHASARATHY

Company Secretary

Maria LI Sau Ping

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

5th Floor, LiFung Tower
888 Cheung Sha Wan Road
Kowloon
Hong Kong

Website

www.cr-asia.com

Legal Advisers

Mayer Brown JSM
(as to Hong Kong Law)

Conyers Dill & Pearman, Cayman
(as to Cayman Islands Law)

Nomination Committee members

+ Remuneration Committee members

* Audit Committee members

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

Highlights

Interim Results For the six months ended 30 June 2014

	Change	2014 HK\$'000	2013 HK\$'000
Revenue	+3.1%	2,238,620	2,171,598
Core operating profit	-2.1%	64,167	65,571
Profit attributable to shareholders of the Company	-19.0%	48,697	60,146
Basic earnings per share (HK cents)	-19.6%	6.53	8.12
Interim dividend per share (HK cents)	-18.4%	3.10	3.80
Special dividend per share (HK cents)	N/A	Nil	40.00

Operation Highlights

- Convenience store and bakery businesses achieved low-single-digit comparable store sales growth amid challenging operating environment
- Core operating profit dropped by 2.1%, business performance of Circle K and Saint Honore remain healthy but under pressure
- Net profit dropped by 19% due to non-operating items (exchange loss and reduced interest income) and start-up losses of e-commerce platform FingerShopping.com
- The Group expects challenging second half in 2014 due to low market sentiment, increasing rental and labour costs, and fewer corporate orders for festive period
- The Group maintains a strong financial position with net cash of HK\$442.8 million without any bank borrowings

Number of Stores as of 30 June 2014

Circle K Stores	
Hong Kong	336
Guangzhou	69
Subtotal	405
Franchised Circle K Stores	
Guangzhou	11
Macau	25
Zhuhai	12
Subtotal	48
Total number of Circle K Stores	453
Saint Honore Cake Shops	
Hong Kong	91
Macau	8
Guangzhou	40
Shenzhen	3
Total number of Saint Honore Cake Shops	142
Total number of Stores under Convenience Retail Asia	595

Chairman's Statement

Financial Overview

I am pleased to report the unaudited interim results of Convenience Retail Asia Limited and its subsidiaries (the "Group") for the period ended 30 June 2014.

During the first six months of 2014, the Group's turnover increased 3.1% to HK\$2,238.6 million. Core operating profit decreased 2.1% to HK\$64.2 million compared to the same period last year. This is largely attributed to rising cost pressures, which outweighed growth in comparable store sales across all markets. Also, festive products sales were lower than the first half of last year following a reduction in corporate sales orders.

The Group's net profit dropped by 19%, which was mainly due to lower interest income (as a result of lower bank deposits after the special dividend payout in 2013), exchange loss from the depreciation of the renminbi and start-up losses for the new e-commerce platform FingerShopping.com.

As at 30 June 2014, the Group had a net cash balance of HK\$442.8 million with no bank borrowings.

The Board of Directors has resolved to declare an interim dividend of 3.1 HK cents per share.

Review of the Hong Kong Retail Market

The Hong Kong retail environment remained difficult during the period under review, a situation that is likely to continue into the second half of the year. Hong Kong's total retail sales saw very modest year-on-year growth of 0.1% in volume and a slight drop of 0.2% in value for the first five months of 2014¹. The slowdown of the Chinese Mainland economy has also had a notable effect on retail sales in Hong Kong. While the number of visitors from the Chinese Mainland continues to grow, length of stay is declining and spending is only marginally increasing. This has fostered weaker consumption demand among Chinese tourists.

Low unemployment, reflected in a seasonally adjusted jobless rate that has remained at just over 3%² since 2012, has contributed to wage inflation. Rents also continue to escalate despite slower growth in the retail market and reduced consumer sentiment.

Notes:

1. Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 15 July 2014.
2. Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 15 July 2014.

Company Initiatives in the Hong Kong Operations

The Group achieved comparable store sales growth of 3.3% and 2.2% for the Circle K and Saint Honore businesses, respectively, during the period under review. This was largely due to successful launches of innovative new products, and marketing and promotional campaigns targeting seasonal buying periods. To offset rising labour wages, rents and raw material prices, the Group continued to make vigorous efforts in cost management, especially supply chain and logistics management, which helped mitigate the effects of these pressures on the bottom line.

The launch of FingerShopping.com in June 2013, operated by subsidiary FingerShopping Limited, introduced an innovative omni-channel “bricks and clicks” sales platform that leverages the Group’s comprehensive logistics and store networks to facilitate convenient purchase and pick-up for customers. While this business is still in the investment phase, it has already shown promising sales and customer acceptance.

Review of the Retail Market on the Chinese Mainland

The Chinese Mainland economy has seen a downturn relative to previous years. In the first half of 2014, China’s retail sales grew 12.1% year-on-year³, down from 13.1% in 2013⁴. Consumer confidence continues to hover at lower levels, which has had a dampening effect on sales. Circle K and Saint Honore have also been somewhat affected; for example, the Group has seen fewer corporate sales orders for both festive and non-festive products.

Review of the Guangzhou Operations

To drive revenue in a challenging market, the Group has emphasised repeat purchases through its Circle K and Saint Honore loyalty programmes, as well as a series of innovative promotions targeting VIP customers. The Group has also maximised its online platforms; one example is by making it easier for customers to order and pick up cakes from Saint Honore. Marketing- and product-related initiatives such as these have offset the difficulties posed by the current market environment. These will also help the Group’s business in Southern China to fully take advantage of a future economic rebound and its attending growth in consumer confidence and spending.

Notes:

3. Published by the National Bureau of Statistics of China on 17 July 2014.

4. Published by the National Bureau of Statistics of China on 20 January 2014.

Review of the Saint Honore Cake Shop Operations

Year to date, Saint Honore Cake Shop's total turnover has registered a 0.7% growth. More conservative consumer spending patterns, coupled with the slowdown in tourists arriving in Hong Kong from the Chinese Mainland, have also affected sales during typically high-volume festive periods.

However, comparable store sales – which are a reliable measure of network and business strength – achieved low- to high-single-digit growth across the operating markets. Store optimisation has played a key role in the Company's strategy this year, primarily to minimise the impact of rising rents.

Corporate Governance and Sustainability

As a member of the Fung Group, the Group adheres to the principles of the United Nations Global Compact on human rights, labour standards, anti-corruption efforts, environmental protection and sustainability. The Group takes great care to incorporate these principles into its corporate strategies and daily business activities.

The Group, its management and employees are regular contributors to the communities where they operate, volunteering time and resources to worthy causes. This year, Circle K and Saint Honore received recognition as a "10 Years Plus Caring Company" and "5 Years Plus Caring Company", respectively, from the Hong Kong Council of Social Service. These are strong affirmations of the contributions the Group has made to the community over the years.

Outlook

The market environments in Hong Kong and Southern China are challenging because of rising costs and declining tourism spending by visitors from the Chinese Mainland. Both corporate and individual consumer spending are expected to remain conservative, putting some pressure on the Group's profits. However, we remain confident that the core strengths of our businesses and brands have us well positioned for continued growth once costs stabilise.

In Hong Kong, we expect the continued softening of demand from Chinese tourists to have some impact on retail sales and sentiment in the second half of 2014. In fact, another factor may be the possible policy changes regarding the entry permits of Chinese tourists to Hong Kong in the near future. Operating expenses such as rental and labour costs are not anticipated to change substantially in the short term.

On the Chinese Mainland, we expect slow but steady growth. The rise of e-commerce continues to provide the Group with a long term opportunity for growth by exploring how it can leverage omni-channel shopping and reinventing its brand value by taking the customer's shopping experience to the next level.

In closing, I would like to thank our management and staff again for their hard work and dedication over the years.

Victor FUNG Kwok King

Chairman

Hong Kong, 14 August 2014

Management Discussion and Analysis

Financial Review

During the first six months of 2014, the Group's turnover increased 3.1% to HK\$2,238.6 million. Turnover for the convenience store business increased 3.6% to HK\$1,801.4 million, with comparable convenience store sales in Hong Kong and Southern China growing by 3.3% and 8.5% respectively compared to the first half of 2013. Turnover for Saint Honore increased 0.7% to HK\$472.2 million, with 2.2% growth in comparable store sales in Hong Kong.

Gross margin and other income as a percentage of turnover was stable. However, the Group experienced pressure from rising rental and labour costs, resulting in an increase in operating expenses as a percentage of turnover of 33.9% compared to 33.3% during the first six months of 2013.

Core operating profit decreased 2.1% to HK\$64.2 million compared to the same period last year. This is largely attributed to rising cost pressures, which outweighed growth in comparable store sales across all markets. Also, festive products sales were lower than the first half of last year due to reduced corporate sales orders.

The Group's net profit dropped by 19%, which was mainly due to the impact of non-operating items including reduced interest income from lower bank deposits (because of the payment of the special dividend last year, which distributed 50% of the Group's cash reserves), and recognition of an exchange loss that resulted from the translation of renminbi time deposits into Hong Kong dollars, which occurred due to the depreciation of the renminbi in the first half of 2014. The Group also incurred start-up losses for the new e-commerce platform FingerShopping.com in 2014. Basic earnings per share decreased by 19.6% to 6.53 HK cents.

As at 30 June 2014, the Group had a net cash balance of HK\$442.8 million with no bank borrowings. Most of the Group's cash and bank deposits were in Hong Kong dollars as well as renminbi, 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 in either Hong Kong dollars or renminbi. The Group had limited foreign exchange exposure in renminbi as a result of its business operations on the Chinese Mainland, except for certain renminbi bank deposits held in Hong Kong, which are subject to foreign exchange risk. The Group is subject to interest rate risks on the interest income earned from bank deposits. The Group will continue its policy of placing surplus cash in Hong Kong dollars or renminbi bank deposits, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.

The Board of Directors has resolved to declare an interim dividend of 3.1 HK cents per share.

Operations Review – Hong Kong

As at 30 June 2014, the total number of Circle K stores was 336 compared to 335 as at the end of 2013, and the total number of Saint Honore stores was 91 compared to 89. In the first half of 2014, the Group opened 11 new Circle K stores in Hong Kong and closed 10 for a net increase of one, and it opened six new Saint Honore stores in Hong Kong and closed four for a net increase of two.

Low market sentiment continues to impact operations in Hong Kong, as are rising labour costs and continued high rents. Festive products sales dropped slightly as shoppers and companies spent less due to a softer economy. These factors outweighed higher comparable store sales for Circle K and Saint Honore in Hong Kong during the period under review.

Employees

As at 30 June 2014, the Group had a total of 7,568 employees, 4,836 of whom were based in Hong Kong and 2,732 were based in Guangzhou, Shenzhen and Macau. Part-time employees accounted for 41% of the Group's total headcount. Total staff cost for the six months ended 30 June 2014 was HK\$390.1 million compared with HK\$381.9 million for the same period last year.

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

Marketing and Promotion

The Group strives to delight shoppers with innovative marketing and promotional initiatives, ensuring that there is "Always Something New" whenever existing and potential customers come to a store. One example was the "Craftholic x Candy Inspired Collection" premium promotion at Circle K, offering exclusively designed decorative pluses and multi-functional pouches, which received a positive reception from young female customers.

The Group also aims to capture seasonal momentum for festive seasons and big events. Launched at Circle K in June to correspond with the 2014 FIFA World Cup, the innovative "I Am A Soccer Fan Promotion" mobilised customer interaction and created an exciting store ambience for football fans.

New product promotions are an important way to keep customers engaged and interested. During the period under review, Circle K strengthened its brand image in the food services category with a large-scale promotion centred on four types of noodles: traditional cup and bowl noodles; Japanese and Korean imported cup and bowl noodles; soba noodles; and Hot & In mixed noodles. All of these items proved immensely popular.

The Group is also keenly focused on digital marketing, engaging customers via innovative online and social media promotions and updates.

Category Management

The Group continued to employ insightful, well-executed category management initiatives to drive foot traffic and purchases during the first six months of 2014. These included introducing popular Japanese snack food items; launching and expanding the “Ho-Yo” frozen yogurt range, which offers a variety of flavours with improved smoothness and richness; and adding a new Mixed Noodles Programme for the Hot & In hot food counter, featuring a wide variety of top-up product selections and combo drink offers that provide good taste as well as value.

The Group also leveraged the hugely popular World Cup event to drive sales in its beer category.

Customer Service Excellence

Circle K's core customer service value is “happy employees beget happy customers”. To inculcate this within each and every employee, the Group held a series of initiatives based on its ongoing HEARTS (Happy, Energised, Achievement, Respect, Training, Success) employee engagement campaign.

During the period, the Group continued its Service Star Programme to further enhance its award-winning customer service, carrying out store visits and service training workshops for more than 120 frontline employees. Three main elements, referring to more smiles, more praise and more positive energy, were emphasised during Service Day and annual service training.

The effectiveness of these customer service campaigns was demonstrated when Circle K Hong Kong was named a “Smiling Enterprise” by the Mystery Shopper Service Association. Circle K Hong Kong was also once again named the Service Leader for the convenience store category for the first half of 2014, in accordance with the results of the Hong Kong Retail Management Association’s Mystery Shoppers Programme.

Supply Chain Management and Logistics

The Group took steps to simplify and automate its supply chain management and logistics operations during the first six months of 2014. One important initiative included making improvements to the existing working systems, equipping them to handle more inventory planning, product allocation and physical distribution functions. This has helped teams respond faster to replenishment orders and distribute goods more efficiently. It also allows the Group to simplify its working process and provide better service.

Examples include a new product allocation system, which has helped staff input more specific criteria and conditions in their requests; the introduction of more power equipment in distribution centre operations, to increase speed and reduce manual labour in the order selection process; and a new order planning system that will be launched in the third quarter of 2014.

Operations Review – Guangzhou

Circle K Guangzhou continues to emphasise repeat purchases by growing its Hot & In VIP membership, which exceeded 180,000 in June 2014. It has also held various VIP promotions, such as the popular weekly buy-one-get-one-free Milk Tea Day, to further engage loyal customers. Saint Honore Guangzhou has boosted its VIP membership to 65,000. Special offers at Saint Honore include free Chinese New Year pudding sample packs and free Dragon Boat Festival dumpling samples.

Online sales platforms are increasingly important in the market and for the Group. In May, Saint Honore introduced a feature via which customers can go to the brand's website, order and pay, and then pick up their goods at any store in Guangzhou, making cake shopping easier than ever. A mobile application will be deployed in the third quarter of 2014 to further enhance the customer shopping experience.

The cold weather in March and heavy rainfall in May had a negative impact on retail sales, which the Group was able to mitigate somewhat with additional collaboration throughout the supply chain.

Operations Review – Saint Honore Cake Shop

In response to aggressive rent demands, the Group has been optimising its Saint Honore store network and taking a prudent approach to store openings. Some high-revenue stores were closed in the first half of the year because of untenable rent situations, and their replacement locations are not yet achieving the same revenue. This has had a negative effect on the Group's total turnover and profit.

Two other factors that have impacted results for the period under review are the slowdown of the Chinese Mainland economy and lower spending by visitors from the Chinese Mainland to Hong Kong. These had particularly strong effects during the traditionally busy Chinese New Year and Dragon Boat Festivals.

Saint Honore Hong Kong is proud to have won two awards during the first half of the year. These include U Magazine's "My Favourite Cake Shop" award, and recognition of the company's signature oval-shaped egg tart as one of Group Buyer's "Hong Kong Top 100 Cuisines 2013-2014". Saint Honore Hong Kong was also named a "Smiling Enterprise" by the Mystery Shopper Service Association.

FingerShopping.com

Although it is still in its investment phase, FingerShopping.com, which was launched in June 2013, is already enjoying success among an increasing base of customers who value choice and convenience. Operating under an innovative model that offers convenient e-tailing services supported by Circle K's extensive store network, this "O2O" (online to offline) business has already achieved impressive operational figures, including a paid order rate of over 90% and a pickup rate of over 80%. FingerShopping.com also offers a tangible brand-building function as an online advertising and communication platform.

FingerShopping.com gives customers the ability to shop amongst more than 5,000 stock-keeping units from quality, genuine brands such as Thermos, Philips, Burt's Bees, HealthMate, Laneige and more. After placing their orders online, customers can pick up and pay for purchases at any Circle K store. The health and beauty category, including popular Korean and international brands, is the most successful anchor category, with well over half of the platform's turnover.

As at May 2014, FingerShopping.com had recruited over 22,000 fans via frequent engagement games and social sharing feeds on Facebook and Instagram. Mobile applications for iOS and Android were also launched in May to meet the needs of shoppers on the go.

Corporate Social Responsibility

The Group continued to focus on its role within the communities where it operates. Under the guidance of the Group's Corporate Social Responsibility Steering Committee, employees raised funds and volunteered their time for a wide range of worthy causes in the first half of 2014.

Key corporate social responsibility initiatives undertaken during the first half of the year included the Group's participation in Earth Hour, to promote energy conservation; the Standard Chartered Hong Kong Marathon, which over 200 colleagues from across the Group joined to help drive awareness of the importance of physical health and exercise; the "Happy Fun Day" organised by Saint Honore Hong Kong and the Tung Wah Group of Hospitals for people from low-income families; and Circle K Hong Kong's partnership with the New Life Psychiatric Rehabilitation Association to give people in recovery from mental illness the chance to gain skills toward retail employment via two New Life convenience stores at Kowloon Hospital.

Fostering a friendly, rewarding workplace is one of the Group's core commitments. The Group was proud to announce that Saint Honore Hong Kong and Circle K Hong Kong were named "Distinguished Family-Friendly Employers" and "Family-Friendly Employers", respectively, in the Corporations Category of the Family-Friendly Employers Award Scheme 2013/2014. These awards were given for demonstrating family-friendly spirit, and implementing employment policies and practices that promote family values. Both companies also received the "Special Mention" award recognising their outstanding achievements in these areas.

Saint Honore has engaged Foodlink Foundation Limited and Feeding Hong Kong to collect unsold bread from 50 stores and deliver it to those in need. It is also continuing with its monthly "Fewer Plastic Bags" day, which was launched in October 2013.

Future Prospects

The operating environment in the second half of 2014 is expected to be tougher than the first six months of the year. Given this difficult market environment, the Group anticipates an adverse impact on full-year net profit. Comparable store sales growth could see a slowdown due to negative consumer sentiment, and high rents and labour costs will also pose challenges to the bottom line. In addition, festive sales for mooncakes during the Mid-Autumn Festival season, typically a busy period of high sales for the Group, are expected to soften due to more conservative consumer spending patterns.

To offset these challenges and set its companies up for medium- to long-term growth, the Group will continue to focus on strengthening its business model through its multi-channel shopping platform, and seek to further optimise the Circle K store network and streamline its operational process.

Richard YEUNG Lap Bun

Chief Executive Officer

Hong Kong, 14 August 2014

Corporate Governance

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

Corporate governance practices adopted by the Company during the six months ended 30 June 2014 are in line with those practices set out in the Company's 2013 Annual Report, and are also consistent with the principles 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").

The Board

As at 30 June 2014, the Board comprised the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and four Non-executive Directors.

The changes in Board members during the six months ended 30 June 2014 were as follows:

- Dr. Raymond Ch'ien Kuo Fung (Independent Non-executive Director) resigned from the Board with effect from 1 April 2014.
- Dr. Sarah Mary Liao Sau Tung was appointed as Independent Non-executive Director with effect from 1 April 2014.

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

The Board held three meetings to date in 2014 (with a 100% attendance rate of directors) to discuss the overall strategies, operational and financial performance of the Group.

The Board has established the following committees with defined terms of reference, which are of no less exacting terms than those set out in 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 Officer is invited to attend all Board and committee meetings to advise on corporate governance matters covering risk management, internal controls and compliance issues relating to business operations, mergers and acquisitions, accounting and financial reporting.

Audit Committee

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

Anthony LO Kai Yiu * (*appointed as Committee Chairman with effect from 1 April 2014*)

Raymond CH'EN Kuo Fung * (*ceased as Committee Chairman and member with effect from 1 April 2014*)

Malcolm AU Man Chung *

Godfrey Ernest SCOTCHBROOK +

Benedict CHANG Yew Teck +

ZHANG Hongyi * (*appointed as member with effect from 1 April 2014*)

* *Independent Non-executive Director*

+ *Non-executive Director*

The committee members 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 2014 (with an average attendance rate of about 93.3%) to consider and review with senior management, the Company's 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, internal controls, policies and practices on corporate governance, risk management, treasury and financial reporting matters;
- Adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function; and
- Audit plans, findings and reports of external auditor and CGD.

The Audit Committee has reviewed with the management this unaudited interim report for the six months ended 30 June 2014 before recommending it to the Board for approval.

Remuneration Committee

The Remuneration Committee was established in January 2005. Its current members include:

Malcolm AU Man Chung * – *Committee Chairman*

Raymond CH'IEN Kuo Fung * (*ceased as member with effect from 1 April 2014*)

William FUNG Kwok Lun +

Jeremy Paul Egerton HOBBINS +

ZHANG Hongyi *

Sarah Mary LIAO Sau Tung * (*appointed as member with effect from 1 April 2014*)

* *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 for all Directors' and senior management remuneration, including allocation of share options to employees under the Company's Share Option Scheme.

The Remuneration Committee met once to date in 2014 (with a 80% attendance rate) to consider the remuneration of Executive Directors (including share options), the revision of Directors' fees and the grant of share options to employees.

Nomination Committee

The Nomination Committee was established in March 2012. Its current members include:

Victor FUNG Kwok King + – *Committee Chairman*

Anthony LO Kai Yiu *

ZHANG Hongyi *

+ *Non-executive Director*

* *Independent Non-executive Director*

The Nomination Committee is responsible for reviewing the structure, size and composition (including diversity) of the Board, assessing the independence of Independent Non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors, and reviewing and monitoring the training and continuous professional development of Directors and senior management.

The Nomination Committee met twice to date in 2014 (with a 100% attendance rate) to review the aforesaid matters.

Code of Conduct and Business Ethics

The Group places great emphasis on employees' ethical standards and integrity in all aspects of its operations. Guidelines of the Group's business ethical practices as endorsed by the Board are set out in the Code of Conduct and Business Ethics. All Directors, officers and employees are expected to comply with the code at all times. The code is posted on the Company's intranet for ease of reference and as a constant reminder to all employees.

Directors' and Relevant Employees' Securities Transactions

The Group has adopted procedures governing Directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on no less exacting terms than the Model Code.

Specific confirmation of compliance has been obtained from each Director and each relevant employee for the six months ended 30 June 2014. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2014.

The Company adopted the Policy on Inside Information on 1 January 2013, and handles and disseminates inside information in accordance with the requirements of the Securities and Futures Ordinance and the Listing Rules.

Internal Control and Risk Management

The Board is responsible for ensuring that the Group maintains a sound and effective system of internal controls, and for reviewing the adequacy and effectiveness of such system through the Audit Committee. Such system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and that it aims to 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 executive management the design, implementation and ongoing monitoring of the system of internal controls covering financial, operational and compliance controls and risk management functions. Qualified personnel throughout the Group maintain and monitor this system of controls on an ongoing basis. Details of the Company's internal control and risk management processes are set out in the Corporate Governance Report on pages 31 to 33 of the Company's 2013 Annual Report.

The Corporate Compliance Group (comprising CGD and Corporate Secretarial Division), under the supervision of the Group Chief Compliance Officer, in conjunction with our external advisors reviews the adherence to relevant laws and regulations, compliance with the Listing Rules, public disclosure requirements and our standards of compliance practices.

CGD staff independently review the internal controls and evaluate their adequacy, effectiveness and compliance. The scope of the internal audit review covers material financial, operational and compliance controls, as well as risk management policies and procedures. A summary of the key recommendations is presented at the Audit Committee meetings. The implementation of all agreed recommendations is being followed up on a quarterly basis and the progress of implementation is reported to the Audit Committee at each committee meeting.

Based on the respective assessments made by senior management and CGD, the Audit Committee considered that for the six months ended 30 June 2014:

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

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code for the six months ended 30 June 2014.

Investor Relations and Communication

The Company continues to pursue 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 the Shares, Underlying Shares and Debentures

As at 30 June 2014, the Directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and/or the Code for Securities Transactions by Directors and Relevant Employees adopted by the Company:

Long positions in shares and underlying shares of the Company

Name of Directors	Number of shares				Total interests	Approximate percentage of interests
	Personal interests	Family interests	Corporate/Trust interests	Equity derivatives (share options)		
Victor Fung Kwok King	-	-	311,792,000 (Note 1)	-	311,792,000	41.60%
William Fung Kwok Lun	-	-	311,792,000 (Note 1)	-	311,792,000	41.60%
Richard Yeung Lap Bun	20,396,000	-	-	4,000,000 (Note 2)	24,396,000	3.25%
Pak Chi Kin	800,000	-	-	4,000,000 (Note 2)	4,800,000	0.64%
Jeremy Paul Egerton Hobbins	180,000	-	-	-	180,000	0.02%

Notes:

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

Save as disclosed above, as at 30 June 2014, none of the Directors, chief executives and their associates had any other interests or short positions in the 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 the Shares and Underlying Shares

As at 30 June 2014, other than the interests of the Directors or chief executives of the Company as disclosed above, the following persons had interests in the 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 (L)	Trustee (Note 1)	41.60%
King Lun Holdings Limited	311,792,000 (L)	Corporate interests (Note 1)	41.60%
Arisaig Asia Consumer Fund Limited ("Arisaig Asia")	92,580,000 (L)	Other	12.35%
Arisaig Partners (Mauritius) Limited ("Arisaig Partners")	92,580,000 (L)	Other (Note 2)	12.35%
Lindsay William Ernest Cooper ("Mr. Cooper")	92,580,000 (L)	Corporate interests (Note 3)	12.35%
Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group")	73,662,000 (L)	Other (Note 4)	9.82%
JPMorgan Chase & Co.	37,752,000 (L) 26,458,000 (P)	Corporate interests (Note 5)	5.03%
Dempsey Hill Asia Master Fund ("Dempsey Hill Asia")	37,008,000 (L) (Note 6)	Other	4.93%
Dempsey Hill Capital Pte Ltd ("Dempsey Hill Capital")	37,008,000 (L) (Note 6)	Other (Note 7)	4.93%
Lim Thiam Soon ("Mr. Lim")	37,008,000 (L) (Note 6)	Corporate interests (Note 7)	4.93%

(L) – Long Position

(P) – Lending Pool

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 the Shares, Underlying Shares and Debentures".
2. These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager.
3. These shares were held by Arisaig Asia of which Arisaig Partners is the fund manager. Arisaig Partners is indirectly owned as to 33.33% by Mr. Cooper through a chain of companies, namely, through Skye Partners Limited (directly owned as to 33.33% by Mr. Cooper), and in turn Skye Partners Limited wholly owns Arisaig Partners (Holdings) Ltd., which in turn wholly owns Arisaig Partners.
4. The Aberdeen Group held the shares on behalf of accounts (under discretionary or segregated mandates) managed by the Aberdeen Group.
5. These shares were held by JPMorgan Chase & Co. as investment manager.
6. The number of shares held was reported in the Disclosure of Interests notices filed on 12 September 2012 and no further notification has been filed by the shareholders.
7. These shares were held by Dempsey Hill Asia of which Dempsey Hill Capital is the fund manager. Dempsey Hill Capital is owned as to 70% by Mr. Lim.

Save as disclosed above, as at 30 June 2014, the Company had not been notified of any other interests or short positions in the 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

1. 2001 Share Option Scheme

On 6 January 2001, the 2001 Share Option Scheme was approved by the shareholders of the Company by way of written resolution with certain amendments subsequently adopted on 24 April 2002. On 10 May 2010, shareholders of the Company approved at the annual general meeting the termination of the 2001 Share Option Scheme, pursuant to which, no further options will be granted under the 2001 Share Option Scheme but in all other respects the provisions of the 2001 Share Option Scheme shall remain in full force and effect. All options granted prior to the termination of the 2001 Share Option Scheme and not then exercised shall remain valid.

2. 2010 Share Option Scheme

On 10 May 2010, the 2010 Share Option Scheme was approved and adopted by the shareholders at the annual general meeting of the Company in view of the termination of the 2001 Share Option Scheme.

Details of the movements of share options under the abovementioned Share Option Schemes during the six months ended 30 June 2014 are as follows:

(A) Continuous contract employees

Number of share options									
As at 1 January 2014	Granted (Note 1)	Exercised (Note 2a)	Lapsed (Note 3)	Expired (Note 4)	As at 30 June 2014	Exercise price HK\$	Grant date	Exercisable from	Exercisable until
410,000	-	(390,000)	-	(20,000)	-	3.39	3 May 2007	3 May 2011	2 May 2014
260,000	-	(200,000)	-	-	60,000	3.46	19 November 2007	19 November 2011	18 November 2014
80,000	-	-	-	-	80,000	2.04	21 December 2009	21 December 2010	20 December 2014
14,119,000	-	(5,120,000)	(80,000)	-	8,919,000	3.22	10 March 2011	1 April 2014	31 March 2017
332,000	-	(180,000)	(86,000)	-	66,000	3.71	8 March 2012	1 April 2014	31 March 2017
508,000	-	-	(4,000)	-	504,000	5.40	28 March 2013	1 April 2014	31 March 2017
-	14,624,000	-	-	-	14,624,000	5.53	28 February 2014	1 April 2017	31 March 2020
15,709,000	14,624,000	(5,890,000)	(170,000)	(20,000)	24,253,000				

(B) Directors

	Number of share options						Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	As at 1 January 2014	Granted (Note 1)	Exercised (Note 2b)	Lapsed	Expired	As at 30 June 2014				
Richard Yeung Lap Bun	400,000	-	(400,000)	-	-	-	3.39	3 May 2007	3 May 2011	2 May 2014
	2,000,000	-	-	-	-	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
	-	2,000,000	-	-	-	2,000,000	5.53	28 February 2014	1 April 2017	31 March 2020
Pak Chi Kin	2,000,000	-	-	-	-	2,000,000	3.22	10 March 2011	1 April 2014	31 March 2017
	-	2,000,000	-	-	-	2,000,000	5.53	28 February 2014	1 April 2017	31 March 2020
	4,400,000	4,000,000	(400,000)	-	-	8,000,000				

Notes:

- During the period, share options to subscribe for a total of 18,624,000 shares were granted on 28 February 2014. The closing price of the shares immediately before the date on which the options were granted was HK\$5.51.
- (a) Share options to subscribe for 5,890,000 shares were exercised by continuous contract employees during the period. The weighted average closing market price per share immediately before the dates on which the options were exercised was approximately HK\$5.24.
(b) Share options to subscribe for 400,000 shares were exercised by Richard Yeung Lap Bun during the period. The weighted average closing market price per share immediately before the date on which the options were exercised was HK\$5.18.
- Share options to subscribe for 170,000 shares lapsed during the period following the cessation of employment of certain grantees.
- Share options to subscribe for 20,000 shares expired during the period following the expiry of the options.
- 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 2013.

6. The value of the options granted during the period is HK\$15,212,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK\$5.53 at the grant date, exercise price shown above, standard deviation of expected share price returns of 23.4%, expected life of options of five years, expected dividend paid out rate of 3.3% and annual risk-free interest rate of 1.6%. 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 2014, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates has 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 2013 Annual Report are set out below:

Name of Directors	Changes
Benedict Chang Yew Teck	retired as non-executive director of Li & Fung Limited on 15 May 2014
Anthony Lo Kai Yiu	retired as independent non-executive director of Mecox Lane Limited on 5 June 2014
Victor Fung Kwok King	retired as independent non-executive director of BOC Hong Kong (Holdings) Limited on 11 June 2014
William Fung Kwok Lun	appointed as the Chairman and non-executive director of Global Brands Group Holding Limited, a company whose shares were listed on the Stock Exchange on 9 July 2014

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 2014 of 3.1 HK cents (2013: 3.8 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 on 1 September 2014 and no transfer of shares will be effected on that day. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 29 August 2014. Dividend warrants will be despatched on 8 September 2014.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2014

	<i>Note</i>	(Unaudited) Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000 (Restated)
Revenue	4	2,238,620	2,171,598
Cost of sales	5	(1,459,903)	(1,426,795)
Gross profit		778,717	744,803
Other income	4	44,473	42,969
Store expenses	5	(603,007)	(574,460)
Distribution costs	5	(55,627)	(53,112)
Administrative expenses	5	(100,389)	(94,629)
Core operating profit		64,167	65,571
Non-core operating (loss)/gain		(2,666)	3,097
Operating profit		61,501	68,668
Interest income	6	2,284	4,415
Profit before income tax		63,785	73,083
Income tax expenses	7	(15,088)	(12,937)
Profit attributable to shareholders of the Company	8	48,697	60,146
Earnings per share (HK cents)			
Basic	9	6.53	8.12
Diluted	9	6.47	8.03
Dividends	10	23,231	325,277

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

	(Unaudited) Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Profit attributable to shareholders of the Company	48,697	60,146
Other comprehensive (loss)/income:		
Item that may be reclassified to profit or loss		
Exchange differences	(2,044)	1,126
Total comprehensive income attributable to shareholders of the Company	46,653	61,272

Condensed Consolidated Balance Sheet

As at 30 June 2014

	Note	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
Non-current assets			
Fixed assets	11	342,224	357,546
Investment property		14,175	–
Lease premium for land		61,033	55,388
Intangible assets		357,465	357,465
Available-for-sale financial asset		1,895	1,895
Rental and other long-term deposits		71,100	69,183
Deferred tax assets		9,836	9,203
		857,728	850,680
Current assets			
Inventories		196,438	173,959
Rental deposits		51,059	51,920
Trade receivables	12	51,814	50,335
Other receivables, deposits and prepayments		80,301	76,897
Taxation recoverable		223	226
Bank deposits	13	120,471	51,284
Cash and cash equivalents	13	322,344	431,348
		822,650	835,969
Current liabilities			
Trade payables	14	577,132	546,920
Other payables and accruals		166,904	191,127
Taxation payable		24,680	11,055
Cake coupons		155,093	153,493
		923,809	902,595
Net current liabilities		(101,159)	(66,626)
Total assets less current liabilities		756,569	784,054
Financed by:			
Share capital	15	74,937	74,308
Reserves		632,577	587,407
Proposed dividend		23,231	96,603
Shareholders' funds		730,745	758,318
Non-current liabilities			
Long service payment liabilities		16,297	16,462
Deferred tax liabilities		9,527	9,274
		756,569	784,054

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	(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 2014	74,308	333,679	177,087	17,781	11,456	9,103	134,904	758,318
Profit attributable to shareholders of the Company	-	-	-	-	-	-	48,697	48,697
Exchange differences	-	-	-	-	-	(2,044)	-	(2,044)
Total comprehensive income for the period	-	-	-	-	-	(2,044)	48,697	46,653
Issue of new shares	629	19,895	-	-	-	-	-	20,524
Employee share option benefit	-	4,169	-	-	(1,660)	-	110	2,619
Dividend paid	-	-	-	-	-	-	(97,369)	(97,369)
	629	24,064	-	-	(1,660)	-	(97,259)	(74,226)
At 30 June 2014	74,937	357,743	177,087	17,781	9,796	7,059	86,342	730,745
At 1 January 2013	73,938	317,977	177,087	17,222	11,317	10,710	406,930	1,015,181
Profit attributable to shareholders of the Company	-	-	-	-	-	-	60,146	60,146
Exchange differences	-	-	-	-	-	1,126	-	1,126
Total comprehensive income for the period	-	-	-	-	-	1,126	60,146	61,272
Issue of new shares	276	9,006	-	-	-	-	-	9,282
Employee share option benefit	-	2,699	-	-	(895)	-	74	1,878
Dividend paid	-	-	-	-	-	-	(96,468)	(96,468)
	276	11,705	-	-	(895)	-	(96,394)	(85,308)
At 30 June 2013	74,214	329,682	177,087	17,222	10,422	11,836	370,682	991,145

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2014

	(Unaudited) Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Cash flows from operating activities		
Cash generated from operations	80,765	82,877
Overseas income tax paid	(1,870)	(1,032)
Net cash generated from operating activities	78,895	81,845
Cash flows from investing activities		
Purchase of fixed assets	(33,416)	(30,102)
Purchase of lease premium for land	(7,290)	–
Proceeds from disposal of fixed assets	794	280
(Increase)/decrease in bank deposits	(70,483)	134,467
Interest received	1,516	5,546
Net cash (used in)/generated from investing activities	(108,879)	110,191
Cash flows from financing activities		
Proceeds from issuance of shares	20,524	9,282
Dividend paid	(97,369)	(96,468)
Net cash used in financing activities	(76,845)	(87,186)
(Decrease)/increase in cash and cash equivalents	(106,829)	104,850
Cash and cash equivalents at 1 January	431,348	539,035
Effect of foreign exchange rate changes	(2,175)	2,501
Cash and cash equivalents at 30 June	322,344	646,386

Notes to the Condensed Consolidated Interim Financial Information

1. General information

Convenience Retail Asia Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the operation of chains of convenience stores and bakeries under the brand name of Circle K and Saint Honore respectively in Hong Kong, Macau and the Chinese Mainland.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is at 5th Floor, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong.

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

2. Basis of preparation and accounting policies

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

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 14 August 2014.

This condensed consolidated interim financial information should be read in conjunction with the 2013 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 2013 consolidated financial statements.

The Group has adopted new and amended standards and interpretations of Hong Kong Financial Reporting Standards which are mandatory for the accounting periods beginning on or after 1 January 2014 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated interim financial information and does not result in substantial changes to the Group's accounting policies.

The Group's management assesses the performance of the operating businesses based on a measure of operating profit, referred to as core operating profit. This measurement basis includes profit of the convenience store and bakery businesses before interest income and income tax expenses, but excludes any material gains or losses which are of capital nature or non-recurring nature.

To conform with such management's assessment, the classification of certain items on the condensed consolidated profit or loss account for the six months ended 30 June 2014 has been changed. Management considers the change in classification can provide more relevant financial information to the users to assess the business performance through the core operating results of the Group. Core operating result is the result generated from the Group's operating businesses excluding corporate exchange gain or loss and gain or loss on disposal of property which are of capital nature or non-operating related. The reclassification is applied retrospectively, and hence, the effect of the reclassification in the certain comparative figures in the condensed consolidated profit and loss account for the six months ended 30 June 2013 were comprised of decrease in other gains, net by HK\$2,731,000 and increase in cost of sales, store expenses, distribution cost and administrative expenses by HK\$366,000, which are reclassified to non-core operating gain of HK\$3,097,000 in total.

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 2013 consolidated financial statements, and should be read in conjunction with the 2013 consolidated financial statements.

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

(b) Fair value estimation

The Group adopted the HKFRS 7 Amendments for financial instruments that are measured in the condensed consolidated balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The Group's financial asset that is measured at fair value as at 30 June 2014 and 31 December 2013 are as follows:

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
Available-for-sale financial asset (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 includes a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held between Group Finance Director and the valuation team at least twice every year, in line with the Group's reporting periods.

4. Revenue, other income and segment information

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

	(Unaudited) Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Revenue		
Merchandise sales revenue	1,801,363	1,739,025
Bakery sales revenue	437,257	432,573
	2,238,620	2,171,598
Other income		
Service items and miscellaneous income	44,473	42,969

Segment information

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

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

The segment information provided to the management for the reportable segments for the six months ended 30 June 2014 and 2013 are as follows:

	(Unaudited) Six months ended 30 June 2014				
	Convenience Store		Bakery		
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	Group HK\$'000
Total segment revenue	1,696,464	104,899	441,840	54,115	2,297,318
Inter-segment revenue	–	–	(58,686)	(12)	(58,698)
Revenue from external customers	1,696,464	104,899	383,154	54,103	2,238,620
Total segment other income	41,786	802	2,875	256	45,719
Inter-segment other income	–	(73)	(1,118)	(55)	(1,246)
Other income	41,786	729	1,757	201	44,473
	1,738,250	105,628	384,911	54,304	2,283,093
Core operating profit/(loss)	68,707	(11,382)	15,201	(8,359)	64,167
Non-core operating loss					(2,666)
Operating profit					61,501
Interest income					2,284
Profit before income tax					63,785
Income tax expenses					(15,088)
Profit after income tax					48,697
Depreciation and amortisation	(13,682)	(3,803)	(13,104)	(3,285)	(33,874)

(Unaudited)
Six months ended 30 June 2013

	Convenience Store		Bakery		
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	Group HK\$'000
Total segment revenue	1,641,724	97,301	444,837	43,930	2,227,792
Inter-segment revenue	–	–	(56,184)	(10)	(56,194)
Revenue from external customers	1,641,724	97,301	388,653	43,920	2,171,598
Total segment other income	41,168	803	1,835	359	44,165
Inter-segment other income	–	(58)	(1,138)	–	(1,196)
Other income	41,168	745	697	359	42,969
	1,682,892	98,046	389,350	44,279	2,214,567
Core operating profit/(loss)	67,502	(12,191)	19,259	(8,999)	65,571
Non-core operating gain					3,097
Operating profit					68,668
Interest income					4,415
Profit before income tax					73,083
Income tax expenses					(12,937)
Profit after income tax					60,146
Depreciation and amortisation	(12,920)	(4,047)	(13,062)	(2,475)	(32,504)

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 segment assets and liabilities as at 30 June 2014 and 31 December 2013 are as follows:

	(Unaudited) As at 30 June 2014				
	Convenience Store		Bakery		
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	Group HK\$'000
Total segment assets	546,788	73,300	732,316	72,727	1,425,131
Total segment assets include:					
Additions to segment non-current assets	12,329	2,265	14,044	12,922	41,560
Total segment liabilities	584,610	45,670	272,980	12,166	915,426

	(Audited) As at 31 December 2013				
	Convenience Store		Bakery		
	HK & Others HK\$'000	Chinese Mainland HK\$'000	HK & Others HK\$'000	Chinese Mainland HK\$'000	Group HK\$'000
Total segment assets	488,885	76,874	709,433	67,063	1,342,255
Total segment assets include:					
Additions to segment non-current assets	26,784	6,723	18,031	40,362	91,900
Total segment liabilities	577,555	43,214	273,156	14,077	908,002

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

Reportable segment assets are reconciled to total assets as follows:

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
Segment assets for reportable segments	1,425,131	1,342,255
Unallocated:		
Deferred tax assets	9,836	9,203
Taxation recoverable	223	226
Corporate bank deposits	245,188	334,965
Total assets per condensed consolidated balance sheet	1,680,378	1,686,649

Reportable segment liabilities are reconciled to total liabilities as follows:

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
Segment liabilities for reportable segments	915,426	908,002
Unallocated:		
Deferred tax liabilities	9,527	9,274
Taxation payable	24,680	11,055
Total liabilities per condensed consolidated balance sheet	949,633	928,331

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK\$2,024,806,000 (2013: HK\$1,978,576,000), and the total of revenue from external customers from other countries is HK\$213,814,000 (2013: HK\$193,022,000) for the six months ended 30 June 2014.

The total of non-current assets other than financial instruments and deferred tax assets located in Hong Kong is HK\$721,227,000 (as at 31 December 2013: HK\$717,049,000), and the total of these non-current assets located in other countries is HK\$124,770,000 (as at 31 December 2013: HK\$122,533,000) as at 30 June 2014.

5. Expenses by nature

	(Unaudited) Six months ended 30 June	2014 HK\$'000	2013 HK\$'000 (Restated)
Amortisation of lease premium for land	871	556	
Depreciation of owned fixed assets	32,911	31,948	
Depreciation of investment property	92	–	
Other expenses	2,185,052	2,116,492	
 Total cost of sales, store expenses, distribution costs and administrative expenses	 2,218,926	 2,148,996	

6. Interest income

	(Unaudited) Six months ended 30 June	2014 HK\$'000	2013 HK\$'000
Interest income on bank deposits	2,284	4,415	

7. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2014 and 2013. Taxation on overseas profits has been calculated on the estimated assessable profits for the six months ended 30 June 2014 and 2013 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	
	2014 HK\$'000	2013 HK\$'000
Current income tax		
Hong Kong profits tax	13,549	12,643
Overseas profits tax	2,004	1,798
Deferred tax credit	(465)	(1,504)
	15,088	12,937

8. Profit attributable to shareholders of the Company

For the six months ended 30 June 2014, the unaudited profit attributable to shareholders of the Company amounted to HK\$48,697,000 (2013: HK\$60,146,000).

9. 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 periods.

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

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.

	(Unaudited) Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Profit attributable to shareholders of the Company	48,697	60,146
		Number of shares
Weighted average number of ordinary shares in issue	745,630,704	740,794,681
Adjustment for:		
Share options	6,629,799	8,200,671
Weighted average number of ordinary shares for diluted earnings per share	752,260,503	748,995,352

10. Dividends

	(Unaudited) Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Interim dividend, proposed of 3.1 HK cents (2013: 3.8 HK cents) per share	23,231	28,220
Special dividend, proposed of nil (2013: 40 HK cents) per share	–	297,057
	23,231	325,277

These proposed dividends have not been reflected as a dividend payable in the condensed consolidated balance sheet.

11. Fixed assets

	(Unaudited) 30 June 2014 HK\$'000	(Unaudited) 30 June 2013 HK\$'000
Opening net book amount	357,546	362,250
Additions	34,270	30,102
Transfer to investment property	(14,267)	–
Disposals	(1,429)	(1,262)
Depreciation	(32,911)	(31,948)
Exchange differences	(985)	447
Closing net book amount	342,224	359,589

The Group applies the cost model of accounting for investment property as permitted by HKAS 40. The transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes under HKAS 40.

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

Investment property is depreciated on a straight-line basis over the unexpired term of the leases of 40 years.

Major costs incurred in restoring property to its normal working conditions is charged to the condensed consolidated profit and loss account. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

12. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from suppliers 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 2014, the aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
0-30 days	39,124	37,235
31-60 days	4,598	4,620
61-90 days	3,661	2,484
Over 90 days	4,431	5,996
	51,814	50,335

13. Cash and bank balances

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
Cash and cash equivalents	322,344	431,348
Bank deposits	120,471	51,284
	442,815	482,632

14. Trade payables

At 30 June 2014, the aging analysis of the trade payables is as follows:

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
0-30 days	360,635	295,685
31-60 days	133,042	152,912
61-90 days	47,620	57,210
Over 90 days	35,835	41,113
	577,132	546,920

15. Share capital

	(Unaudited) 30 June 2014	(Audited) 31 December 2013
	Shares of HK\$0.10 each No. of shares	Shares of HK\$0.10 each No. of shares
	HK\$'000	HK\$'000
Authorised:		
At end of the period	2,000,000,000	200,000
Issued and fully paid:		
At beginning of the period	743,081,974	74,308
Issue of shares on exercise of share options (note)	6,290,000	629
At end of the period	749,371,974	74,937

Note:

During the period, 6,290,000 (year ended 31 December 2013: 3,700,000) shares were allotted and issued pursuant to the exercise of share options.

16. Capital commitments

The Group had commitments to make payments in respect of the acquisition of fixed assets.

	(Unaudited) 30 June 2014 HK\$'000	(Audited) 31 December 2013 HK\$'000
Contracted but not provided for	5,704	6,031
Authorised but not contracted for	5,170	790
	10,874	6,821

17. Related party transactions

Fung Retailing Limited ("FRL") is a substantial shareholder of the Company, which owns 41.6% 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), 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	
	Note	2014 HK\$'000	2013 HK\$'000
Income			
Service income and reimbursement of office and administrative expenses	(i)		
Subsidiaries/fellow subsidiaries of a substantial shareholder		1,808	2,105
Associates of a substantial shareholder		561	700
Service income	(ii)		
Associate of a substantial shareholder		49	8
Expenses			
Reimbursement of office and administrative expenses	(iii)		
Subsidiaries of a substantial shareholder		1,203	999
Associates of a substantial shareholder		356	388
Rental payable	(iv)		
Fellow subsidiaries of a substantial shareholder		4,481	4,159
Associates of a substantial shareholder		215	215
Net purchases	(v)		
Associates of a substantial shareholder		4,759	5,029
Consultancy and advisory service fee paid to a director of subsidiaries of the Company		420	–

(b) Key management personnel compensation

	(Unaudited) Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Fees	1,500	1,060
Discretionary bonuses	6,185	7,224
Salaries and other allowances	6,638	6,183
Employee share option benefit	1,003	745
Pension costs – defined contribution scheme	47	45
	15,373	15,257

(c) Period-end balances with related parties

	(Unaudited) 30 June HK\$'000	(Audited) 31 December 2013 HK\$'000
Amounts due from:		
Subsidiaries of a substantial shareholder	96	52
Associates of a substantial shareholder	21	64
Amounts due to:		
Subsidiaries of a substantial shareholder	(545)	(520)
Associates of a substantial shareholder	(2,811)	(3,709)

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

- (d)** The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK\$22,888,000 (2013: HK\$32,888,000). As of 30 June 2014, the banking facilities of the subsidiaries amounting to HK\$2,278,000 (as of 31 December 2013: HK\$2,373,000) were utilised.

Notes:

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