



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 2017



A Fung Retailing Company

馮氏





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Corporate Information

| | |
|---|---|
| Executive Directors | Richard YEUNG Lap Bun (<i>Chief Executive Officer</i>) PAK Chi Kin (<i>Chief Operating Officer</i>) |
| Non-executive Directors | Victor FUNG Kwok King # (<i>Chairman</i>) William FUNG Kwok Lun + Godfrey Ernest SCOTCHBROOK * Benedict CHANG Yew Teck * |
| Independent Non-executive Directors | 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 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 | 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 22, 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 | |
|--|--------|-----------------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 |
| Revenue | +3.8% | 2,426,822 | 2,339,035 |
| Core operating profit | +9.9% | 70,096 | 63,766 |
| Profit attributable to shareholders of the Company | +10.2% | 57,120 | 51,820 |
| Basic earnings per share (HK cents) | +9.5% | 7.52 | 6.87 |
| Interim dividend per share (HK cents) | +14.3% | 4.00 | 3.50 |

Operation Highlights

- Despite weak retail market sentiment, the convenience store and bakery operations achieved solid comparable store sales growth in Hong Kong
- Core operating profit and net profit increased by 9.9% and 10.2% respectively, mainly due to effective marketing for Circle K and continuous improvement in the Saint Honore operations
- Circle K's O2O CRM programme "OK Stamp It" has been highly successful, with membership exceeding 750,000 by end of June 2017
- The Group will continue its marketing and store network expansion programmes while exercising caution toward operating costs and being mindful of macroeconomic uncertainty
- The Group maintains a healthy financial position with net cash of HK\$335 million and no bank borrowings

Number of Stores as of 30 June 2017

Circle K Stores

| | |
|-----------|-----|
| Hong Kong | 331 |
|-----------|-----|

Franchised Circle K Stores

| | |
|-----------|----|
| Guangzhou | 64 |
| Macau | 31 |
| Zhuhai | 15 |

| | |
|-----------------|------------|
| Subtotal | 110 |
|-----------------|------------|

| | |
|--|------------|
| Total number of Circle K Stores | 441 |
|--|------------|

Saint Honore Cake Shops

| | |
|-----------|----|
| Hong Kong | 89 |
| Macau | 9 |
| Guangzhou | 41 |
| Shenzhen | 2 |

| | |
|--|------------|
| Total number of Saint Honore Cake Shops | 141 |
|--|------------|

| | |
|---|------------|
| Total number of Stores under Convenience Retail Asia | 582 |
|---|------------|

Chairman's Statement

In the first half of 2017, Convenience Retail Asia Limited built upon many of the strategies that have steadily propelled the Group into more profitable waters. Circle K's transformation of its business from a bricks-and-mortar model to an O2O (online-to-offline and offline-to-online) model kept the Group's brands, products and services top-of-mind with consumers, as did timely, innovative marketing and promotions. Higher efficiency and effective control of expenditures offset rising operating costs. Meanwhile, excellent customer service and deepening customer loyalty continued to lay a solid foundation for future growth.

Rising above Challenges

The Hong Kong retail environment remained difficult during the period under review. However, there are signs of slight improvement. In the first half of 2017, sales across the retail industry were down 0.6% by value and 0.8% by volume year on year¹, representing an improvement from the 10.5% fall in value and 10.1% fall in volume recorded during the same period in 2016². There was stable demand from local customers for daily consumable products, which resulted in a year-on-year increase in sales in the supermarket category (including convenience stores) of 0.4% by sales value¹. Consumer sentiment is still relatively weak and the macroeconomic environment will continue to bear watching, but the Group sees these developments as encouraging signs that, for Hong Kong retail, the worst may have already passed.

Despite the soft market, the Group performed very strongly. The convenience store and bakery businesses achieved satisfactory comparable store sales growth in Hong Kong, largely due to strong marketing campaigns at Circle K and further operational improvements at Saint Honore, which helped drive a 3.8% increase in turnover compared to the first six months of 2016. The higher revenue combined with vigilant cost management led to 9.9% and 10.2% year-on-year increases in core operating profit and net profit, respectively.

The "OK Stamp It" customer relationship management programme has been an unqualified success. The O2O programme drives traffic to Circle K stores through an app that offers in-store incentives, and it serves as an excellent example of how to appeal to today's smartphone-savvy customers. It is our primary means of significantly increasing comparable store sales. Launched in the third quarter of 2016, "OK Stamp It" already boasts more than 750,000 members and is well on track to reach its target of one million members by year-end.

Notes:

1. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 2 August 2017.*
2. *Published by the Census and Statistics Department, the Government of the Hong Kong Special Administrative Region on 2 August 2016.*

Outlook

It has been a difficult few years for the Hong Kong retail sector. Operators have been forced to adjust to a “new normal” of lower spending and radically changing purchasing patterns, and the Group has done its best to respond to these challenges through a combination of prudent management, proactive marketing and a reinvention of its businesses.

Labour and material costs are increasing, but rentals are finally showing signs of adjustment – not just in prime commercial locations, but also in residential areas where the Group typically has a strong presence. In the coming months we expect to continue opening new stores in both prime and secondary locations, and to negotiate lower lease renewals for existing stores. In turn, this expanded store network will help generate additional revenue and build brand presence for Circle K and Saint Honore. To drive sales at new and existing stores, the Group will continue heavily promoting its O2O customer relationship management programme, especially “OK Stamp It”, one of the most important strategic initiatives ensuring its future growth.

The Group has made significant efforts in recent years to streamline its operations and make them more cost-efficient; nurture a corporate culture that is more dedicated than ever to excellent customer service; and introduce highly effective marketing promotions that deepen customer engagement and reach out to the new generation of consumers. We believe the groundwork is in place for us to begin reaping the fruits of our labour, and we look to our future with optimism.

I would like to close by thanking the Group’s management and employees for their hard work and commitment to success. I believe that as Hong Kong turns the page to another prosperous chapter following the HKSAR’s 20th anniversary celebrations, so too will the Group and its businesses.

Victor FUNG Kwok King

Chairman

Hong Kong, 17 August 2017

Message from the CEO

The retail sector has undergone a seismic shift over the past few years. E-commerce, the internet and social media have irrevocably changed our industry, to the point where traditional bricks-and-mortar retailers find it difficult to survive without a compelling online component. To capitalise on the opportunities presented by this exciting, fast-paced business environment, the Group has reinvented itself with a bold transformation and innovative marketing platforms designed to cross-pollinate its digital and in-store operations. Quality new products also contributed to a year of relative success despite a challenging market.

Operations Review – Circle K

As at 30 June 2017, the total number of Circle K stores was maintained at 331 as at the end of 2016. In the first half of 2017, the Group opened six new Circle K stores and closed six in Hong Kong.

The Group launched the “OK Stamp It” O2O digital marketing platform in the third quarter of 2016 as part of its strategy to attract smartphone-savvy consumers and convert online traffic into store traffic. Users download the “OK Stamp It” app to access e-stamp offers and incentives from Circle K, then visit a convenient location to redeem them in-store, thus driving store traffic. The app is fun and easy to use, and it offers features like social sharing, gift vouchers, the ability to earn e-stamps for gift redemption and more. One recent promotion introduced Pokemon eStamps that could be used to redeem a collection of plush toys.

As a loyalty programme and marketing tool, “OK Stamp It” has been wildly successful, surpassing all its KPIs in a matter of weeks and developing a membership base of more than 750,000 by the end of June 2017. It has become a key component for launching new products in the local retail industry. “OK Stamp It” was awarded an Octopus Partner Award 2016, the “Octopus Innovation Award”, and 2017 Golden Globe Tiger Awards for “Best Technology Initiative/Implementation” and “Customer Loyalty Programme” in the “Excellence in Retail & Store Management” category. It also won two bronze medals, “Best App – Consumer Brand” and “Most Responsive Mobile Campaign”, at Marketing Magazine’s Mob-Ex Awards 2017. In addition, it received five awards at Marketing Magazine’s inaugural eCommAs Awards 2017: “Best of Show – Brand”; Gold medals for “Best Customer Retention Programme”, “Best Omni-Channel Process” and “Best E-Commerce Campaign”; and a bronze medal for “Best User Experience”.

Exciting new offerings have enhanced the attraction of Circle K stores in Hong Kong. Circle K introduced exclusive ice cream products direct from Japan, supporting these launches with thematic promotions. Responding to increasing consumer demand for fresh products, the Group launched a popular new beverage category from Japan that relies on a unique process to maintain freshness and authentic taste. Circle K also continued its efforts to make customers' lives easier with a high standard of customer service. In March the Group held an appreciation day involving all management members and service ambassadors, who met more than 150,000 delighted customers individually across 150 stores.

Near the end of 2016, Circle K opened its first flagship store, located in Causeway Bay. On the ground floor of this pioneering concept store are novelty products such as ice cream, snacks and beverages from Japan and South Korea, while on the first floor is a Simply Great Coffee Café with quality coffee and premium bakery products. The café's self-service format, with seating, free high-speed Wi-Fi and mobile phone charging devices, caters to a growing trend among a new generation of consumers who are seeking convenient places to relax and stay connected. The flagship store was selected by Planet Retail as one of the top store concepts in the world in the first quarter of 2017.

Operations Review – Saint Honore Cake Shop

As at 30 June 2017, the total number of Saint Honore stores in Hong Kong and Macau was maintained at 98 as at the end of 2016, with the Group opening four new stores and closing four during the first six months of the year. In the first half of 2017, Saint Honore's total store network in Guangzhou and Shenzhen amounted to 43 locations.

In Hong Kong and Macau, Saint Honore performed well amidst a sluggish retail environment, recording healthy single-digit comparable store sales. In particular, the birthday cake and bread offerings enjoyed strong sales growth on the back of successful new product launches. Innovative new offerings of note included the Horlicks cake series, based on the famous malted milk brand, and the Japanese Strawberry Cake series. The Hong Kong operations were named "My Favourite Cake Shop" in the "U Favourite Food Awards 2017" organised by U Magazine.

During the period under review, the Group implemented a series of initiatives to enhance productivity and efficiency, which helped achieve an improvement in gross profit margin. Saint Honore also continued to build its e-commerce capabilities through its digital CRM (customer relationship management) programme, which now boasts about 240,000 members.

The factory conversion from chilled to frozen dough was completed in the last quarter of 2016. Since then, the Group has been working to maintain high dough quality while also improving sales and productivity. The Group is also investing in factory upgrades and new equipment to semi-automate its bread production line, ensuring consistency, efficiency and safety.

To enhance its CRM programme in Guangzhou and drive its O2O business, the Group launched a new digitalised “smART Card” in May 2017 that deepens engagement with VIP members by enabling them to link the new card to the Saint Honore WeChat account and access exclusive offers.

Operations Review – FingerShopping.com

As at the end of June 2017, the Group’s O2O digital retailing platform FingerShopping.com featured more than 1,500 brands and approximately 25,000 stock-keeping units. Beauty and Personal Care continues to be the anchor category, while the Baby and Family as well as Healthcare categories have also been showing strong growth.

During the first half of 2017, the business posted gross merchandise volume growth of 20% and membership growth of 300% to 552,000 members as compared with the same period last year, driven in part by collaboration on Circle K’s “OK Stamp It” digital CRM programme. With a pick-up rate of 95% and a payment rate of 73% at Circle K Hong Kong and Macau, FingerShopping.com continues to serve as an example of a successful O2O business. The site was named one of the “Top 10 eCommerce Websites” by GS1 Hong Kong and Retail Asia Expo, and a “Quality E-Shop” by the Hong Kong Retail Management Association for 2017.

Future Prospects

The Hong Kong retail market will likely remain soft for the duration of the year. However, the Group is pleased with its performance thus far in 2017, which has been made possible by quality, innovation and excellent customer relationship service – all hallmarks of the Circle K and Saint Honore brands.

The Group's O2O strategy of aligning with the needs of more and more smartphone-savvy consumers will be a key growth driver moving forward. Robust marketing and cross-promotional synergies will help grow the membership base of "OK Stamp It". Confident yet measured store network expansion will bring the Group's brands, products and services to more corners of the market. Meanwhile, the Group will continue to focus on delivering trendy, appealing new products and timely seasonal promotions to its valued customers.

Overall, the Group expects to continue enjoying success over the course of the rest of the year while building a solid base for even stronger results in the future.

Richard YEUNG Lap Bun

Chief Executive Officer

Hong Kong, 17 August 2017

Discussion and Analysis

Financial Review

During the first six months of 2017, the Group's turnover increased 3.8% to HK\$2,427 million. Turnover for the convenience store business increased 4.9% to HK\$1,962 million, with comparable store sales growing a healthy 4.6% over the same period last year. Turnover for the bakery business slightly decreased 0.9% to HK\$491 million, with satisfactory 5.9% growth in comparable store sales and offset with a reduction of festive products sales in Hong Kong.

Gross margin and other income as a percentage of turnover increased by 0.4% to 36.3% despite keen competition in the retail market and high manufacturing costs. The improvement in the efficiency and productivity of Saint Honore factory production is one of the key contributors to the margin growth. Operating expenses marginally increased from 33.2% of turnover to 33.4% against the same period in 2016, which was primarily due to high rental and labour costs as well as higher than usual marketing and promotion costs spent on the recruitment of "OK Stamp It" members. Overall, the Group's core operating profit increased 9.9% to HK\$70 million.

Net profit increased 10.2% to HK\$57 million for the six months ended 30 June 2017. Basic earnings per share increased 9.5% to 7.52 HK cents.

As at 30 June 2017, the Group had a net cash balance of HK\$335 million, which was mainly generated from daily business operations. The Group had no bank borrowings. Most of the Group's cash and bank deposits were in its operating currencies and deposited with major banks in Hong Kong and on the Chinese Mainland. The majority of the Group's assets, liabilities, revenues and payments were held either in Hong Kong dollars or renminbi. The Group had limited foreign exchange exposure in renminbi as a result of its business operations on the Chinese Mainland. The Group is subject to interest rate risks on the interest income earned from bank deposits. The Group will continue its policy of placing surplus cash in bank deposits denominated in its operating currencies, with appropriate maturity periods to meet the funding requirements of any acquisition projects in the future.

The Board of Directors has resolved to declare an interim dividend of 4 HK cents per share.

Employees

As at 30 June 2017, the Group had a total of about 6,800 employees, with about 5,100, or 75%, based in Hong Kong and about 1,700, or 25%, based in Guangzhou, Shenzhen and Macau. Part-time staff accounted for 43% of total headcount. Total staff cost for the six months ended 30 June 2017 was HK\$405 million compared to HK\$398 million for the same period last year.

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

The HEARTS (Happy, Energised, Achievements, Respect, Training, Success) employee engagement programme remains a vital part of the Group's customer service and loyalty efforts. To strengthen the HEARTS employee engagement programme, the Activity Organising Board has continued to conduct activities across key areas: creating a happy working environment; caring for employees' families; and ensuring work-life balance. Examples during the period under review included participation by Group colleagues, their families and friends in the Standard Chartered Hong Kong Marathon 2017, and holding a "Wellness Month" in March to promote environmental protection and green lifestyles.

Sustainability and Corporate Social Responsibility

As part of the Fung Group, Convenience Retail Asia Limited abides by the principles specified in the United Nations Global Compact on human rights, labour, anti-corruption efforts, environmental protection and sustainability.

The Group is committed to a voluntary framework of proactive sustainability, community and employment strategies. Key areas include reducing the Group's carbon footprint; promoting environmental awareness among the community; collaborating with suppliers for a safer, healthier and greener supply chain; expanding the Group's programme of social and community projects; and ensuring a safe, healthy, balanced and empowering workplace. The Group also published its first Environmental, Social and Governance (ESG) report, covering the calendar year of 2016, in April 2017.

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 2017 are in line with those practices set out in the Company's 2016 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

As at 30 June 2017, the Board comprised the Non-executive Chairman, two Executive Directors, four Independent Non-executive Directors and three Non-executive Directors. Mr Jeremy Paul Egerton Hobbins had retired by rotation as Non-executive Director with effect from the conclusion of the Annual General Meeting of the Company held on 15 May 2017.

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 2017 (with an average attendance rate of directors of about 94%) to discuss the overall strategies, operational and financial performance of the Group.

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

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

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

Audit Committee

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

Anthony LO Kai Yiu * – *Committee Chairman*

Malcolm AU Man Chung *

Godfrey Ernest SCOTCHBROOK †

Benedict CHANG Yew Teck †

ZHANG Hongyi *

* *Independent Non-executive Director*

† *Non-executive Director*

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

The Audit Committee met three times to date in 2017 (with an average attendance rate of about 87%) 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 2017 before recommending it to the Board for approval.

Remuneration Committee

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

Malcolm AU Man Chung * – *Committee Chairman*

William FUNG Kwok Lun +

Jeremy Paul Egerton HOBBSINS + (*ceased as member with effect from 15 May 2017*)

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 2017 (with a 100% attendance rate) to consider revision of the remuneration packages of Directors and senior management, and the grant of share options to Executive Directors and employees.

Nomination Committee

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

Victor FUNG Kwok King + – *Committee Chairman*

Anthony LO Kai Yiu *

ZHANG Hongyi *

+ *Non-executive Director*

* *Independent Non-executive Director*

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

The Nomination Committee met once to date in 2017 (with a 100% attendance rate) to review the aforesaid matters.

Directors' and Relevant Employees' Securities Transactions

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

Specific confirmation of compliance has been obtained from each Director and each relevant employee for the six months ended 30 June 2017. No incident of non-compliance by Directors and relevant employees was noted by the Company for the six months ended 30 June 2017.

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 37 to 41 of the Company's 2016 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 2017:

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

Compliance with the Corporate Governance Code

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code for the six months ended 30 June 2017.

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 2017, the Directors and chief executives of the Company and their associates had the following interests in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and/or the Code for Securities Transactions by Directors and Relevant Employees adopted by the Company:

Long positions in shares and underlying shares of the Company

| Name of Directors | Number of shares | | | Equity derivatives (share options) | Total interests | Approximate percentage of interests |
|-----------------------|--------------------|------------------|----------------------------|------------------------------------|-----------------|-------------------------------------|
| | Personal interests | Family interests | Corporate/ Trust interests | | | |
| Victor Fung Kwok King | - | - | 311,792,000 (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 | - | - | 3,222,000 (Note 2) | 4,356,000 | 0.57% |

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 2017, 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 2017, 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% |
| Arisaig Asia Consumer Fund Limited ("Arisaig ACF") | 66,280,000 | Beneficial owner | 8.69% |
| Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius") | 66,280,000 | Investment manager (Note 2) | 8.69% |
| Arisaig Partners (Asia) Pte Ltd ("Arisaig Asia") | 66,280,000 | Investment manager (Note 2) | 8.69% |
| Arisaig Partners (Holdings) Ltd. | 66,280,000 | Interest of controlled corporation (Note 2) | 8.69% |
| Skye Partners Limited | 66,280,000 | Interest of controlled corporation (Note 2) | 8.69% |
| International Financial Services Limited | 66,280,000 | Interest of controlled corporation (Note 2) | 8.69% |
| IFS Trustees | 66,280,000 | Interest of controlled corporation (Note 2) | 8.69% |

| Name of shareholders | Number of shares | Nature of interests/ Holding capacity | Approximate percentage of interests |
|--|------------------|--|-------------------------------------|
| Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group") | 90,924,000 | Investment manager (Note 3) | 11.93% |
| Aberdeen Global | 63,912,000 | Investment manager (Note 3) | 8.38% |
| The Capital Group Companies, Inc. | 51,330,000 | Interest of controlled corporation | 6.73% |
| Dempsey Hill Asia Fund | 47,006,000 | Beneficial owner (Note 4) | 6.17% |
| Dempsey Hill Capital Pte Ltd ("Dempsey Hill Capital") | 47,006,000 | Investment manager (Note 4) | 6.17% |
| Lim Thiam Soon ("Mr Lim") | 47,006,000 | Interest of controlled corporation (Note 4) | 6.17% |

Notes:

1. These shares were held by FRL. King Lun indirectly owns 100% interests in FRL through its wholly-owned subsidiary, FH 1937. All of HSBC Trustee (C.I.) Limited, King Lun, FH 1937 and FRL are deemed to have interests in these shares pursuant to the SFO. Please refer to Note 1 in the above section headed "Interests and Short Positions of Directors in Shares, Underlying Shares and Debentures".
2. These shares were held by Arisaig ACF, and Arisaig Mauritius and Arisaig Asia are the fund manager and the sub-investment manager of Arisaig ACF respectively. Arisaig Mauritius and Arisaig Asia are wholly-owned by Arisaig Partners (Holdings) Ltd., which is in turn wholly-owned by Skye Partners Limited. IFS Trustees and International Financial Services Limited are the trustees of the trusts, each of which owns one-third of Skye Partners Limited. Therefore Arisaig Mauritius, Arisaig Asia, Arisaig Partners (Holdings) Ltd., Skye Partners Limited, IFS Trustees and International Financial Services Limited are deemed to have interests in the shares of the Company held by Arisaig ACF. Mr Lindsay William Ernest Cooper has transferred his shareholding to IFS Trustees.
3. The Aberdeen Group held the shares on behalf of accounts (under discretionary or segregated mandates) managed by the Aberdeen Group. 63,912,000 shares were held by Aberdeen Global of which the Aberdeen Group is the investment manager and investment advisers.
4. These shares were held by Dempsey Hill Asia Fund 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 2017, the Company had not been notified of any other interests or short positions in shares or underlying shares of the Company being held by any other shareholders as recorded in the register required to be kept under section 336 of the SFO.

Share Options

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

Details of the movements of share options under the 2010 Share Option Scheme during the six months ended 30 June 2017 are as follows:

| Grantees | Number of share options | | | | | As at 30/6/2017 | Exercise price HK\$ | Grant date | Exercisable period |
|--|-------------------------|---------------------|-----------------------|--------------------|---------------------|--------------------|---------------------------|---------------|--------------------|
| | As at 1/1/2017 | Granted (Note 1) | Exercised (Note 2) | Lapsed (Note 3) | Expired (Note 4) | | | | |
| Directors | | | | | | | | | |
| Richard Yeung Lap Bun | 2,000,000 | - | (2,000,000) | - | - | - | 3.22 | 10/3/2011 | 1/4/2014-31/3/2017 |
| | 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 | 1,000,000 | - | (1,000,000) | - | - | - | 3.22 | 10/3/2011 | 1/4/2014-31/3/2017 |
| | 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 |
| Continuous contract employees | 2,170,000 | - | (2,170,000) | - | - | - | 3.22 | 10/3/2011 | 1/4/2014-31/3/2017 |
| | 436,000 | - | - | - | (436,000) | - | 5.40 | 28/3/2013 | 1/4/2014-31/3/2017 |
| | 10,700,000 | - | - | (130,000) | - | 10,570,000 | 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 |
| | 236,000 | - | (34,000) | - | - | 202,000 | 2.86 | 16/3/2016 | 1/4/2017-31/3/2020 |
| | - | 8,182,000 | - | (200,000) | - | 7,982,000 | 4.19 | 29/3/2017 | 1/4/2020-31/3/2023 |
| Other participants | 1,860,000 | - | (1,860,000) | - | - | - | 3.22 | 10/3/2011 | 1/4/2014-31/3/2017 |
| | 66,000 | - | (66,000) | - | - | - | 3.71 | 8/3/2012 | 1/4/2014-31/3/2017 |
| | 1,778,000 | - | - | (44,000) | - | 1,734,000 | 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 |
| | 24,664,000 | 11,504,000 | (7,130,000) | (374,000) | (436,000) | 28,228,000 | | | |

Notes:

1. *During the period, share options to subscribe for a total of 11,504,000 shares were granted on 29 March 2017. The closing price of the shares immediately before the date on which the options were granted was HK\$4.12.*
2. *Share options to subscribe for 2,000,000 shares, 1,000,000 shares, 2,204,000 shares and 1,926,000 shares were exercised by Mr Richard Yeung Lap Bun, Mr Pak Chi Kin, continuous contract employees and other participants respectively during the period. The respective weighted average closing market price per share immediately before the dates on which the said options were exercised was approximately HK\$3.89, HK\$3.86, HK\$3.93 and HK\$4.04.*
3. *Share options to subscribe for 374,000 shares lapsed during the period following the cessation of employment of certain grantees.*
4. *Share options to subscribe for 436,000 shares expired during the period following the expiry of the exercisable period.*
5. *No share options under the 2010 Share Option Scheme were cancelled during the period.*
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 2016.*
7. *The value of the options granted during the period is HK\$7,358,000 based on the Black-Scholes Valuation model. The significant inputs into the model were share price of HK\$4.19 at the grant date, exercise price shown above, standard deviation of expected share price returns of 27.8%, expected life of options of five years, expected dividend paid out rate of 4.3% and annual risk-free interest rate of 1.2%. 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 2017, none of the Directors, chief executives or substantial shareholders of the Company or their respective associates had been granted any other share options.

Change in Directors' Information

Pursuant to Rule 13.51B(1) of the Listing Rules, change of Directors' information since the publication of the Company's 2016 Annual Report is set out below:

| Name of Director | Change |
|-----------------------------|---|
| William Fung Kwok Lun | <ul style="list-style-type: none">Retired as independent non-executive director of Singapore Airlines Limited on 28 July 2017 |
| Jeremy Paul Egerton Hobbins | <ul style="list-style-type: none">Retired as Non-executive Director of the Company on 15 May 2017 |

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 2017 of 4 HK cents (2016: 3.5 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 4 September 2017 to 5 September 2017, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 1 September 2017. Dividend warrants will be despatched on 14 September 2017.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2017

| | | (Unaudited) | |
|--|------|--------------------|------------------|
| | | Six months ended | |
| | | 30 June | |
| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
| Revenue | 4 | 2,426,822 | 2,339,035 |
| Cost of sales | 5 | (1,599,326) | (1,551,588) |
| Gross profit | | 827,496 | 787,447 |
| Other income | 4 | 53,193 | 52,109 |
| Store expenses | 5 | (639,144) | (614,633) |
| Distribution costs | 5 | (71,514) | (69,033) |
| Administrative expenses | 5 | (99,935) | (92,124) |
| Core operating profit | | 70,096 | 63,766 |
| Non-core operating gain | 5 | – | 42 |
| Operating profit | | 70,096 | 63,808 |
| Interest income | 6 | 1,045 | 1,124 |
| Profit before income tax | | 71,141 | 64,932 |
| Income tax expenses | 7 | (14,021) | (13,112) |
| Profit attributable to shareholders of the Company | | 57,120 | 51,820 |
| Earnings per share (HK cents) | | | |
| Basic | 8 | 7.52 | 6.87 |
| Diluted | 8 | 7.52 | 6.87 |

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

| | (Unaudited) | |
|--|-------------------------|----------|
| | Six months ended | |
| | 30 June | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Profit attributable to shareholders of the Company | 57,120 | 51,820 |
| Other comprehensive income/(loss): | | |
| Item that may be reclassified subsequently to profit or loss | | |
| Exchange differences | 1,327 | (2,121) |
| Total comprehensive income attributable to shareholders of the Company | 58,447 | 49,699 |

Condensed Consolidated Balance Sheet

As at 30 June 2017

| | Note | (Unaudited) 30 June 2017 HK\$'000 | (Audited) 31 December 2016 HK\$'000 |
|---|------|--|--|
| Assets | | | |
| Non-current assets | | | |
| Fixed assets | 10 | 341,683 | 337,475 |
| Investment properties | 11 | 26,828 | 27,174 |
| Lease premium for land | | 35,008 | 35,130 |
| Intangible assets | | 357,465 | 357,465 |
| Available-for-sale financial asset | | 1,895 | 1,895 |
| Rental and other long-term deposits | | 89,977 | 87,120 |
| Deferred tax assets | | 13,942 | 15,916 |
| | | 866,798 | 862,175 |
| Current assets | | | |
| Inventories | | 174,166 | 217,029 |
| Rental deposits | | 58,173 | 59,114 |
| Trade receivables | 12 | 57,071 | 60,883 |
| Other receivables, deposits and prepayments | | 89,997 | 97,377 |
| Taxation recoverable | | 2,095 | – |
| Restricted bank deposit | 13 | 929 | 892 |
| Cash and cash equivalents | 13 | 333,976 | 541,942 |
| | | 716,407 | 977,237 |
| Total assets | | 1,583,205 | 1,839,412 |
| Equity | | | |
| Share capital | 15 | 76,243 | 75,530 |
| Reserves | | 511,677 | 734,192 |
| Total equity | | 587,920 | 809,722 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Long service payment liabilities | | 10,704 | 11,182 |
| Deferred tax liabilities | | 8,835 | 10,033 |
| | | 19,539 | 21,215 |
| Current liabilities | | | |
| Trade payables | 14 | 588,150 | 618,295 |
| Other payables and accruals | | 189,423 | 205,260 |
| Taxation payable | | 24,554 | 10,803 |
| Cake coupons | | 173,619 | 174,117 |
| | | 975,746 | 1,008,475 |
| Total equity and liabilities | | 1,583,205 | 1,839,412 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

| | (Unaudited) | | | | | | | Total equity HK\$'000 |
|--|---|---------------------------|----------------------------|------------------------------|---|------------------------------|-------------------------------|--------------------------|
| | Attributable to shareholders of the Company | | | | | | | |
| | Share capital HK\$'000 | Share premium HK\$'000 | Merger reserve HK\$'000 | Capital reserves HK\$'000 | Employee share-based compensation reserve HK\$'000 | Exchange reserve HK\$'000 | Retained earnings HK\$'000 | |
| At 1 January 2017 | 75,530 | 379,697 | 177,087 | 19,316 | 17,173 | (3,109) | 144,028 | 809,722 |
| Profit attributable to shareholders of the Company | - | - | - | - | - | - | 57,120 | 57,120 |
| Exchange differences | - | - | - | - | - | 1,327 | - | 1,327 |
| Total comprehensive income for the period | - | - | - | - | - | 1,327 | 57,120 | 58,447 |
| Issue of new shares | 713 | 22,266 | - | - | - | - | - | 22,979 |
| Employee share option benefit | - | 4,224 | - | - | (2,910) | - | 417 | 1,731 |
| Dividends paid | - | (205,847) | - | - | - | - | (99,112) | (304,959) |
| | 713 | (179,357) | - | - | (2,910) | - | (98,695) | (280,249) |
| At 30 June 2017 | 76,243 | 200,340 | 177,087 | 19,316 | 14,263 | (1,782) | 102,453 | 587,920 |
| At 1 January 2016 | 75,464 | 377,246 | 177,087 | 18,474 | 13,201 | 2,217 | 174,845 | 838,534 |
| Profit attributable to shareholders of the Company | - | - | - | - | - | - | 51,820 | 51,820 |
| Exchange differences | - | - | - | - | - | (2,121) | - | (2,121) |
| Total comprehensive income for the period | - | - | - | - | - | (2,121) | 51,820 | 49,699 |
| Employee share option benefit | - | - | - | - | 2,206 | - | 80 | 2,286 |
| Dividend paid | - | - | - | - | - | - | (143,382) | (143,382) |
| | - | - | - | - | 2,206 | - | (143,302) | (141,096) |
| At 30 June 2016 | 75,464 | 377,246 | 177,087 | 18,474 | 15,407 | 96 | 83,363 | 747,137 |

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017

| | (Unaudited) | |
|--|------------------|-----------|
| | Six months ended | |
| | 30 June | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Cash flows from operating activities | | |
| Cash generated from operations | 104,574 | 84,943 |
| Overseas income tax paid | (1,528) | (1,560) |
| Net cash generated from operating activities | 103,046 | 83,383 |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (39,379) | (27,368) |
| Proceeds from disposal of fixed assets | 515 | 150 |
| Interest received | 409 | 1,014 |
| Net cash used in investing activities | (38,455) | (26,204) |
| Cash flows from financing activities | | |
| Proceeds from issuance of shares | 22,979 | – |
| Dividends paid | (295,943) | (143,382) |
| Net cash used in financing activities | (272,964) | (143,382) |
| Decrease in cash and cash equivalents | (208,373) | (86,203) |
| Cash and cash equivalents at 1 January | 541,942 | 567,114 |
| Effect of foreign exchange rate changes | 407 | (856) |
| Cash and cash equivalents at 30 June | 333,976 | 480,055 |

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 in Hong Kong under the brand name of Circle K and bakeries under the brand name of Saint Honore in Hong Kong, Macau and on the Chinese Mainland. The Group also started an e-commerce business in 2013 and operates an online retailing platform of FingerShopping.com.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 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 17 August 2017.

2. Basis of preparation and accounting policies

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

This condensed consolidated interim financial information should be read in conjunction with the 2016 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 2016 consolidated financial statements.

The Group has adopted new and amended standards and interpretations of HKFRS which are mandatory for the accounting periods beginning on or after 1 January 2017 and relevant to its operations. The adoption of such new and amended standards and interpretations does not have material impact on the condensed consolidated interim financial information and does not result in substantial changes to the Group's accounting policies.

3. Financial risk management and financial instruments

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the 2016 consolidated financial statements, and should be read in conjunction with the 2016 consolidated financial statements.

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

(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 2017 and 31 December 2016 are as follows:

| | (Unaudited) 30 June 2017 HK\$'000 | (Audited) 31 December 2016 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 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, bakeries and e-commerce businesses. Revenues recognised during the period are as follows:

| | (Unaudited) | |
|--|-------------------------|-----------------|
| | Six months ended | |
| | 30 June | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Revenue | | |
| Merchandise sales revenue | 1,962,150 | 1,870,236 |
| Bakery sales revenue | 456,538 | 458,603 |
| e-commerce revenue | 8,134 | 10,196 |
| | 2,426,822 | 2,339,035 |
| Other income | | |
| Service items and miscellaneous income | 53,193 | 52,109 |

Segment information

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

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

The segment information provided to the management for the reportable segments for the six months ended 30 June 2017 and 2016 are as follows:

| | (Unaudited) | | | | |
|---------------------------------|--|--------------------------------------|---------------------------------|------------------------------|-------------------|
| | Six months ended 30 June 2017 | | | | |
| | Convenience Store HK & Others HK\$'000 | Bakery HK & Others HK\$'000 | Chinese Mainland HK\$'000 | e-commerce HK HK\$'000 | Group HK\$'000 |
| Total segment revenue | 1,962,150 | 458,941 | 57,204 | 8,134 | 2,486,429 |
| Inter-segment revenue | - | (59,607) | - | - | (59,607) |
| Revenue from external customers | 1,962,150 | 399,334 | 57,204 | 8,134 | 2,426,822 |
| Total segment other income | 49,807 | 3,410 | 1,805 | 69 | 55,091 |
| Inter-segment other income | (791) | (1,107) | - | - | (1,898) |
| Other income | 49,016 | 2,303 | 1,805 | 69 | 53,193 |
| | 2,011,166 | 401,637 | 59,009 | 8,203 | 2,480,015 |
| Core operating profit/(loss) | 67,125 | 14,372 | (3,094) | (8,307) | 70,096 |
| Depreciation and amortisation | (14,370) | (17,679) | (3,652) | (398) | (36,099) |

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

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 segment assets and liabilities as at 30 June 2017 and 31 December 2016 are as follows:

| (Unaudited) | | | | | |
|--|--|--------------------------------------|---------------------------------|------------------------------|-------------------|
| As at 30 June 2017 | | | | | |
| | Convenience Store HK & Others HK\$'000 | Bakery HK & Others HK\$'000 | Chinese Mainland HK\$'000 | e-commerce HK HK\$'000 | Group HK\$'000 |
| Total segment assets | 583,324 | 757,880 | 63,235 | 4,051 | 1,408,490 |
| Total segment assets include: | | | | | |
| Additions to segment non-current assets | 18,138 | 22,037 | 2,346 | 115 | 42,636 |
| Total segment liabilities | 647,231 | 291,792 | 15,374 | 7,499 | 961,896 |

| (Audited) | | | | | |
|--|--|--------------------------------------|---------------------------------|------------------------------|-------------------|
| As at 31 December 2016 | | | | | |
| | Convenience Store HK & Others HK\$'000 | Bakery HK & Others HK\$'000 | Chinese Mainland HK\$'000 | e-commerce HK HK\$'000 | Group HK\$'000 |
| Total segment assets | 701,993 | 782,427 | 54,219 | 11,247 | 1,549,886 |
| Total segment assets include: | | | | | |
| Additions to segment non-current assets | 30,238 | 45,198 | 6,207 | 76 | 81,719 |
| Total segment liabilities | 695,912 | 289,135 | 17,152 | 6,655 | 1,008,854 |

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 2017 HK\$'000 | (Audited) 31 December 2016 HK\$'000 |
|--|--|--|
| Segment assets for reportable segments | 1,408,490 | 1,549,886 |
| Unallocated: | | |
| Deferred tax assets | 13,942 | 15,916 |
| Taxation recoverable | 2,095 | – |
| Corporate bank deposits | 158,678 | 273,610 |
| Total assets per condensed consolidated balance sheet | 1,583,205 | 1,839,412 |

Reportable segment liabilities are reconciled to total liabilities as follows:

| | (Unaudited) 30 June 2017 HK\$'000 | (Audited) 31 December 2016 HK\$'000 |
|---|--|--|
| Segment liabilities for reportable segments | 961,896 | 1,008,854 |
| Unallocated: | | |
| Deferred tax liabilities | 8,835 | 10,033 |
| Taxation payable | 24,554 | 10,803 |
| Total liabilities per condensed consolidated balance sheet | 995,285 | 1,029,690 |

The Group is domiciled in Hong Kong. The result of its revenue from external customers in Hong Kong is HK\$2,306,807,000 (2016: HK\$2,217,557,000), and the total of its revenue from other countries is HK\$120,015,000 (2016: HK\$121,478,000) for the six months ended 30 June 2017.

The total of non-current assets other than available-for-sale financial asset and deferred tax assets located in Hong Kong is HK\$765,193,000 (as at 31 December 2016: HK\$757,951,000), and the total of these non-current assets located in other countries is HK\$85,768,000 (as at 31 December 2016: HK\$86,413,000) as at 30 June 2017.

5. Expenses by nature

| | (Unaudited) | |
|---|-------------------------|-----------|
| | Six months ended | |
| | 30 June | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Amortisation of lease premium for land | 607 | 621 |
| Cost of inventories sold | 1,490,076 | 1,436,827 |
| Depreciation of owned fixed assets | 35,010 | 32,380 |
| Depreciation of investment properties | 482 | 489 |
| Employee benefit expense | 404,628 | 397,581 |
| Operating leases rental for land and buildings | 255,845 | 245,353 |
| Other expenses | 223,271 | 214,085 |
| Total cost of sales, store expenses, distribution costs, administrative expenses and non-core operating gain | 2,409,919 | 2,327,336 |

6. Interest income

| | (Unaudited) | |
|----------------------------------|-------------------------|----------|
| | Six months ended | |
| | 30 June | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Interest income on bank deposits | 1,045 | 1,124 |

7. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for 2017 and 2016. 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 | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Current income tax | | |
| Hong Kong profits tax | 10,274 | 13,196 |
| Overseas profits tax | 2,892 | 3,228 |
| Deferred income tax charge/(credit) | 855 | (3,312) |
| | 14,021 | 13,112 |

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.

| | (Unaudited) | |
|---|-------------------------|-------------|
| | Six months ended | |
| | 30 June | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Profit attributable to shareholders of the Company | 57,120 | 51,820 |
| | Number of | Number of |
| | shares | shares |
| Weighted average number of ordinary shares in issue | 759,520,522 | 754,640,974 |
| Adjustment for: | | |
| Share options | 64,243 | 3,035 |
| Weighted average number of ordinary shares for diluted earnings per share | 759,584,765 | 754,644,009 |

9. Dividend

| | (Unaudited) Six months ended 30 June | |
|--|--|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Interim dividend, proposed of 4 HK cents (2016: 3.5 HK cents) per share | 30,497 | 26,412 |

At a meeting held on 17 August 2017, 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 2017 HK\$'000 | (Unaudited) 30 June 2016 HK\$'000 |
|-------------------------|--|--|
| Opening net book amount | 337,476 | 334,875 |
| Additions | 40,897 | 28,650 |
| Disposals | (2,110) | (944) |
| Depreciation | (35,010) | (32,380) |
| Exchange differences | 430 | (468) |
| Closing net book amount | 341,683 | 329,733 |

11. Investment properties

| | (Unaudited) 30 June 2017 HK\$'000 | (Unaudited) 30 June 2016 HK\$'000 |
|-------------------------|--|--|
| Opening net book amount | 27,174 | 28,585 |
| Depreciation | (482) | (489) |
| Exchange differences | 136 | (160) |
| Closing net book amount | 26,828 | 27,936 |

12. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivables on income from suppliers/customers mainly range from 30 days to 60 days. Trade receivables are non-interest bearing. The carrying amounts of trade receivables approximate their fair values. At 30 June 2017, the aging analysis by invoice date of trade receivables is as follows:

| | (Unaudited) 30 June 2017 HK\$'000 | (Audited) 31 December 2016 HK\$'000 |
|--------------|--|--|
| 0-30 days | 43,129 | 48,035 |
| 31-60 days | 6,641 | 5,464 |
| 61-90 days | 2,278 | 3,113 |
| Over 90 days | 5,023 | 4,271 |
| | 57,071 | 60,883 |

13. Cash and cash equivalents

| | (Unaudited) 30 June 2017 HK\$'000 | (Audited) 31 December 2016 HK\$'000 |
|------------------------------|--|--|
| Cash and cash equivalents | 333,976 | 541,942 |
| Restricted bank deposit | 929 | 892 |
| Total cash and bank balances | 334,905 | 542,834 |

14. Trade payables

At 30 June 2017, the aging analysis by invoice date of the trade payables is as follows:

| | (Unaudited) 30 June 2017 HK\$'000 | (Audited) 31 December 2016 HK\$'000 |
|--------------|--|--|
| 0-30 days | 347,472 | 396,688 |
| 31-60 days | 150,801 | 135,554 |
| 61-90 days | 58,524 | 54,987 |
| Over 90 days | 31,353 | 31,066 |
| | 588,150 | 618,295 |

15. Share capital

| | (Unaudited) 30 June 2017 | | (Audited) 31 December 2016 | |
|--|-----------------------------|----------------|-------------------------------|----------|
| | Shares of HK\$0.10 each | | Shares of HK\$0.10 each | |
| | No. of shares | HK\$'000 | No. of shares | HK\$'000 |
| Authorised: | | | | |
| At end of the period | 2,000,000,000 | 200,000 | 2,000,000,000 | 200,000 |
| Issued and fully paid: | | | | |
| At beginning of the period | 755,300,974 | 75,530 | 754,640,974 | 75,464 |
| Issue of shares on exercise of share options <i>(note)</i> | 7,130,000 | 713 | 660,000 | 66 |
| At end of the period | 762,430,974 | 76,243 | 755,300,974 | 75,530 |

Note:

During the period, 7,130,000 (year ended 31 December 2016: 660,000) 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. Capital expenditure contracted but not yet provided as at 30 June 2017 is HK\$5,128,000 (as at 31 December 2016: HK\$3,075,000).

17. 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 businesses during the period:

(a) Related party transactions

| | | (Unaudited) Six months ended 30 June | |
|--|--------------|---|------------------|
| | <i>Note</i> | 2017 HK\$'000 | 2016 HK\$'000 |
| Income | | | |
| Service income and reimbursement of office and administrative expenses Subsidiaries/fellow subsidiary of a substantial shareholder | <i>(i)</i> | 1,289 | 869 |
| Associate of a substantial shareholder | | 23 | 3 |
| Rental and service income Subsidiary/fellow subsidiary of a substantial shareholder | <i>(ii)</i> | 622 | 632 |
| Associate of a substantial shareholder | | – | 2 |
| Sales of food products Subsidiaries of a substantial shareholder | <i>(iii)</i> | 855 | 5,572 |
| Associates of a substantial shareholder | | 31 | – |
| Expenses | | | |
| Reimbursement of office and administrative expenses Subsidiaries/fellow subsidiary of a substantial shareholder | <i>(iv)</i> | 1,202 | 1,195 |
| Associates of a substantial shareholder | | 856 | 1,314 |
| Rental payable Subsidiary/fellow subsidiaries of a substantial shareholder | <i>(v)</i> | 1,731 | 1,915 |
| Associate of a substantial shareholder | | 4,826 | 4,792 |
| Net purchases Subsidiaries of a substantial shareholder | <i>(vi)</i> | 274 | 4,727 |
| Associate of a substantial shareholder | | – | 5,144 |

(b) Key management personnel compensation

| | (Unaudited) | |
|---|-------------------------|----------|
| | Six months ended | |
| | 30 June | |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Fees | 1,570 | 1,570 |
| Bonuses | 5,711 | 7,021 |
| Salaries and other allowances | 6,143 | 5,806 |
| Employee share option benefit | 682 | 857 |
| Pension costs – defined contribution scheme | 45 | 45 |
| | 14,151 | 15,299 |

(c) Period-end balances with related parties

| | (Unaudited) | (Audited) |
|--|--------------------|-------------|
| | 30 June | 31 December |
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| Amounts due from: | | |
| Subsidiaries of a substantial shareholder | 713 | 2,674 |
| Associate of a substantial shareholder | 9 | 6 |
| Amounts due to: | | |
| Subsidiaries/fellow subsidiary of a substantial shareholder | (1,263) | (674) |
| Associate of a substantial shareholder | (273) | (622) |

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

- (d)** The Company provides corporate guarantee to certain banks for the banking facilities of subsidiaries of HK\$32,888,000 (as of 31 December 2016: HK\$32,888,000). As of 30 June 2017, the banking facilities of the subsidiaries amounting to HK\$2,152,000 (as of 31 December 2016: HK\$2,152,000) were utilised.

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/associate 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/associate.
- (iii) Sales of food products to subsidiaries/associates of a substantial shareholder were carried out in ordinary course of business and terms mutually agreed between the Group and the subsidiaries/associates.
- (iv) Reimbursements payable to subsidiaries/fellow subsidiary/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.
- (vi) Purchases from subsidiaries/associate of a substantial shareholder were carried out in ordinary course of business and on terms mutually agreed between the Group and the subsidiaries/associate.