CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This announcement, for which the directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange for the purpose of giving information with regard to Convenience Retail Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONVENIENCE RETAIL ASIA LIMITED

利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8052)

RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

Three Months Ended 31 December		**2006**	2005
• Revenue	+8.0%	HK$566,201,000	HK$524,188,000
• Profit attributable to shareholders of the Company	-7.0%	HK$19,475,000	HK$20,938,000
• Earnings per share	-6.5%	HK2.9 cents	HK3.1 cents
Twelve Months Ended 31 December		**2006**	2005
• Revenue	+11.8%	HK$2,231,217,000	HK$1,995,206,000
• Profit attributable to shareholders of the Company	+2.0%	HK$75,054,000	HK$73,578,000
• Earnings per share	+1.8%	HK11.1 cents	HK10.9 cents
• Interim dividend per share	-	HK1.5 cents	HK1.5 cents
• Final dividend per share	+11.1%	HK5 cents	HK4.5 cents

Number of Circle K Stores as of 31 December 2006

Hong Kong	250
Guangzhou	52
Dongguan	8
Shenzhen	2
Subtotal	312
Macau	16
Zhuhai	6
Subtotal (Franchised Stores)	22
Grand total	334

HIGHLIGHTS

- Small increase in earnings due to start-up losses in Dongguan and Shenzhen.
- Opened the 250th Circle K store in Hong Kong.
- Achieved record high Group annual sales turnover of HK$2.2 billion.
- Finalized acquisition of approximately 2.5% equity interest of Buytheway Inc. in South Korea in November with options to acquire approximately 30.5% equity interest within the next 24 months.
- Forward integration through the acquisition of premium bakery Saint Honore, a supplier of Circle K with a recognized brand name and 88 bakery outlets in the Pearl River Delta.
- With the relaxation of regulations governing franchising, Circle K Guangzhou set to implement the franchising model as soon as the requisite business licenses are ready.

CHAIRMAN'S STATEMENT

Financial Overview

I am pleased to report that Convenience Retail Asia Limited, together with its subsidiaries (the "Group"), achieved continued sales growth of 11.8% and a net profit increase of 2.0% compared to 2005. The Group's net profit increase in the Hong Kong market was offset by additional start-up losses in two new Southern China markets (Dongguan and Shenzhen), hence the small overall increase in earnings. Basic earnings per share increased by 1.8%, from 10.9 HK cents to 11.1 HK cents. The financial position of the Group remains strong with a cash on hand of HK$634.8 million without any bank borrowings.

Review of the Hong Kong Retail Market

In 2006 the overall retail market in Hong Kong continued its solid growth amidst a robust property market, improving employment income and better job prospects. Optimistic consumer sentiment and a "wealth effect" as a result of the bullish stock market performance towards the end of the year fueled domestic consumption, setting the tone for increased consumer confidence and higher propensity to spend, not only in luxury goods categories but also in daily consumables.

For 2006 as a whole, total retail sales increased by 7.3%[1] in value and 5.8%[1] in volume over 2005. Even though electronic goods, photographic equipment and cars were at the top of the consumer spending list, alcoholic drinks and tobacco increased by 13.1%[1], bread, pastry, confectionery and biscuits increased by 6.5%[1], and other foodstuffs increased by 8.9%[1] in volume during the same period. These increases in consumption contributed to the healthy growth of the Group's sales turnover in Hong Kong.

Consumer price inflation edged up slightly in November due to higher food prices on the Chinese Mainland and the appreciation of the RMB. The underlying price inflation was largely stable with the Consumer Price Index reflecting a 2.0%[2] increase over a year ago for the first 11 months of 2006. A substantial downward adjustment in oil prices towards the end of the year together with the sustained increase in productivity in Hong Kong kept overall price pressures in check.

On the back of robust economic performance, Hong Kong achieved a 4.4%[3] (provisional figure) unemployment rate in September-November 2006, the lowest in the past six years. Total employment rose to a record high at a pace that outstripped the labour supply. Decreases in the unemployment rate were mainly observed in the wholesale and retail trades as well as the manufacturing and restaurant sectors.

Visitor arrivals rose by 9.3%[4] in 2006. Despite the fact that the momentum of visitors from the Chinese Mainland has slowed somewhat, these visitors still account for more than 50% of total arrivals and registered a growth of 7.4%[4] for the year of 2006. It is anticipated that arrivals from the Chinese Mainland will remain stable as appreciation of the RMB continues to boost purchasing power. However, this may not have any direct impact on the Group's business performance in the market since the tourism sector has never been a major source of business for the convenience store outlets.

Possible threats that may directly affect the market environment in the coming months are a drastic downturn in the stock market performance, an outbreak of a pandemic disease, any unexpected natural disaster or political upheaval in the region. Otherwise, macroeconomic conditions should remain favourable to the local retail business.

Company Initiatives for Hong Kong Operations

On 13 December 2006, the number of Circle K stores in Hong Kong reached 250 when we opened a new store in Wong Tai Sin. This was a significant milestone for the Group since we have now become the biggest 100% company-owned-and-managed retail chain in Hong Kong and the second-biggest chain in terms of number of outlets. Sales turnover for the Hong Kong operations exceeded HK$2 billion for the first time with a record high of HK$2.1 billion annual store sales.

With the addition of 20 new stores over the year and a non-stop refitting programme of the Circle K stores, the brand profile of the Circle K chain in the market has been substantially enhanced and rejuvenated. According to a brand preference study conducted by A.C. Nielsen among convenience store customers, Circle K enjoyed improvement of almost 30% in its brand preference score.

Review of the Retail Market on the Chinese Mainland

The overall economy of the Chinese Mainland continued to record healthy double-digit growth with strong retail sales increases. Consumer price inflation was held at a modest 1.3%[5].

Retail sales in Guangdong surged dramatically, registering 15.7%[5] growth for the first 11 months of 2006, driven by escalating sales of automobiles and fuel oil. This impressive growth was underpinned by the implementation of the minimum wage policy on 1 September 2006, and a resulting 19%[6] increase in overall salary level by the end of the year. Major growth categories included the catering trade, fast food outlets and food retailers, tobacco and alcohol.

The convenience store market in Guangzhou maintained the status quo in 2006 as key operators focused on improving top-line sales and maximizing margin opportunity. With the relaxation of the rules and regulations governing franchising in 2007, the Group is currently applying for requisite licences in preparation for such a strategic development.

According to an independent research study the convenience store market in Guangzhou is growing steadily as it becomes part of consumers' daily shopping habits, especially among the younger generation of customers. Circle K is perceived as being among the top three brands (together with 7-Eleven and C-Store) in terms of brand awareness and market share (based on frequency of visits)[7].

Review of the Guangzhou Operations

Against the backdrop of a booming retail market, the Circle K chain in Guangzhou reported healthy double-digit comparable store sales growth of 12.4% for the year.

Food and drink products under the Hot & In house brand continued to generate robust growth, accounting for more than 40% of the total sales mix. The introduction of a new range of Chinese meal boxes and a series of packaged bakery snacks contributed to this stellar sales performance.

Increases in minimum wage, welfare cost and other social security expenses continued to exert pressure on operating costs in Guangzhou with a negative effect on profit opportunity.

The Group moderated its pace of new store openings with a relatively modest 12 openings during the year. This stemmed from our decision to be more discriminating in the selection of suitable store sites and to secure potential customer traffic that fits the Group's target customer profile.

Outside of Guangzhou, four new stores were opened in Dongguan, taking the total number of stores to eight. In Shenzhen, two new stores (opened in 2006) are now in operation.

Business Opportunities Outside the Pearl River Delta

In South Korea, a Sale and Purchase agreement for the acquisition of approximately 2.5% equity interest of Buytheway Inc. was finalised and signed on 10 November 2006. Option agreements for acquiring a further approximately 30.5% equity interest of Buytheway Inc. within the next 24 months were also finalised and signed, together with a management consultancy agreement.

According to an independent study conducted by A.C. Nielsen Korea, the convenience store market in Seoul is quite mature in terms of store density with a total of more than 9,000 outlets. However, the degree of sophistication in customer service standards, product offerings and store environment leave much room for improvement. The Group considers the possibility of better fulfilling consumer expectations of convenience store service in South Korea to be a potential business opportunity.

The new business partnership in South Korea opens up a new geographical area for the Group's strategic expansion and is in line with our corporate vision and commitment to be the preferred and fastest-growing convenience store chain in Asia.

Outlook for 2007

With optimistic economic outlooks in the markets where the Group operates, 2007 promises stable organic growth and multi-city expansion opportunities.

In Hong Kong, where the total number of convenience stores reached the 1,000 mark at the end of 2006, keener store-to-store competition is expected. This number of stores implies that there is one for every 7,000 people, compared with one for every 12,000 five years ago.

The Group's top priority is to ensure that the Circle K brand maintains a high degree of distinctiveness, differentiated by an enhanced product mix and better customer service compared to the competition. This is more critical than ever in order to build customer preference and brand loyalty.

The enforcement of no-smoking-zone regulations on 1 January 2007 poses a potential threat to cigarette sales. In order to neutralise the potential sales loss, the Group intends to identify and build up the sales of wholesome food/drink categories to appeal to health-conscious customers who are more responsive to health-related selling propositions.

Further rollout of the five-day workweek in 2007 may have some impact on customer traffic during Saturday morning breakfast hours. But appreciation of the RMB might result in less cross-border consumption during weekends, which could then translate into more customer traffic for retail outlets in Hong Kong.

An exciting new development in the first quarter of 2007 is the Group's acquisition of the Saint Honore bakery, a long-established and high quality cake and bakery chain in Hong Kong, Macau and Guangzhou. This forward integration not only enables the Group to acquire an additional core competence in bakery and food preparation but also add a recognised brand name and 88 bakery retailing outlets to the Group's operations in the Pearl River Delta.

In Guangzhou, the convenience store market continues to grow steadily. The Group intends to build on the most salient feature of our store model, the Hot & In food service, and make it the key driver of store profit and customer traffic. Continuous improvements will be made in the product mix and pricing of the convenience store product range as well.

In Dongguan and Shenzhen, the pace of store network expansion will be moderated while the store model is being modified and customised to better fulfill local market demand.

In 2006, Group employees and their families across the Pearl River Delta participated in internal celebrations for the Li & Fung Group Centenary in the form of a staff family day at Hong Kong Disneyland and the Happy Valley, Shenzhen. Objectives of the celebrations were to commemorate the past achievements of the Li & Fung Group and to rally the team spirit of our Group members in a joint effort to build for the next 100 years.

In conclusion, I would like to take this opportunity to express the appreciation of the Board to the Group's management and staff. Thanks to their effort and dedication, the Group has been able to achieve satisfactory business growth and development in 2006. The Group look forward to their even more outstanding performance in increasing market share and building brand preference in 2007.

Notes:

1. Provisional Statistics of Retail Sales for December 2006, published by Census and Statistics Department on 1 February 2007

2. Consumer Price Indices for November 2006, published by Census and Statistics Department on 21 December 2006

3. Unemployment and Underemployment Statistics for September-November 2006, published by Census and Statistics Department on 19 December 2006

4. Visitor Arrival Statistics, published by Hong Kong Tourism Board, 22 January 2007

5. Retail Sales Statistics from January to November 2006, published by Guangdong Bureau of Statistics, 25 December 2006

6. Guangdong's Employment in the First Three Quarters of 2006 and Year-Round Forecast, Guangdong Bureau of Statistics, 10 January 2007

7. Convenience Store Shopping and Beverage Consumption Survey, United Research China, 28 August 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Board is pleased to report the financial results of the Group for the year ended 31 December 2006. The Group's sales for the year and the fourth quarter increased to HK$2,231.2 million and HK$566.2 million respectively, representing a growth of 11.8% and 8.0% when compared to the corresponding periods in 2005.

Sales growth was attributed to the increase of new stores in both Hong Kong and Southern China as well as the increase in comparable store sales (sales for stores that were in existence in 2005 and 2006). The number of stores in Hong Kong increased from 230 to 250 in 2006, while the number of stores in Guangzhou increased from 40 to 52. The number of stores in Dongguan increased from five to eight, and two stores were also opened in Shenzhen in 2006, signifying our entry into that market. For the franchised markets of Macau and Zhuhai, the Group ended 2006 with five new stores for a total of 16 in Macau, and two new stores for a total of six in Zhuhai. The Group will continue its strategy of accelerating store expansion. Sales in comparable stores showed an increase of 3.1% for the full year in Hong Kong and 12.4% for the full year in Guangzhou. The strong comparable sales growth in Southern China was driven by our category management initiatives, especially the food services category which is the cornerstone of our business model there.

Gross margin and other income (excluding interest income) increased from 33.0% to 33.2% of sales for the year and remained unchanged as 34.7% of sales for the fourth quarter when compared to 2005. In compliance with Hong Kong Accounting Standards 32 and 39, the Group's options of acquiring approximately 30.5% equity interest in Buytheway Inc. were recognised as financial assets at fair value and a gain on options value amounting to HK$1.7 million was recognised as other income.

The increase in store expenses from 24.5% to 24.7% of sales for the year and 25.6% to 25.7% for the fourth quarter when compared to 2005 was mainly due to increases in rental and the expansion of our store network in China.

Distribution expenses as a percentages of sales increased slightly from 1.7% to 1.8% for the year and 1.7% to 1.8% for the fourth quarter when compared to 2005. The increase was mainly caused by the wider coverage of the store network in China.

Administration expenses as a percentage of sales increased from 3.5% to 3.7% for the year and 3.8% to 4.2% for the fourth quarter when compared to 2005. This was mainly due to the accrual of additional staff bonuses in Hong Kong and the additional staff costs incurred in China to support the two new markets in Dongguan and Shenzhen.

Net margin decreased from 3.7% to 3.4% of sales for the year and 4.0% to 3.4% for the fourth quarter when compared to 2005 based on the increase in start-up losses in the Dongguan and Shenzhen markets. Net profit attributable to shareholders increased by 2.0% to HK$75.1 million for the year but decreased by 7.0% to HK$19.5 million for the fourth quarter when compared to 2005. Basic earnings per share increased by 1.8% from 10.9 HK cents to 11.1 HK cents for the year.

The Group continued to maintain a strong financial position with net cash of HK$634.8 million without any bank borrowings. The Hong Kong business generated a free cash flow of approximately HK$64 million in 2006. The Group's capital expenditure in the coming year will be financed by internal resources and external financing.

The Group had a limited amount of foreign exchange exposure in RMB related to the business operations in the Chinese Mainland. The Group is subject to interest rate risks on the interest income earned from short-term bank cash deposits. The Group will continue its policy of placing surplus cash in short-term bank deposits to meet the funding requirements of any future merger and acquisition projects.

Operation Review – Hong Kong

Despite the buoyant economy and strong consumer confidence during the year, the convenience store market in Hong Kong still faced considerable challenges such as the increased penetration of free newspaper titles, price wars among major cigarette brands and the implementation of the five-day workweek by the Government and some private business sectors. All these had varying degrees of negative impact either on the Group's sales turnover or by reducing customer traffic and altering shopping habits.

To neutralise these negative factors, the Group adopted an aggressive marketing programme throughout 2006 that proved to work well in maintaining sales volume and achieving a 3.1% comparable store sales growth for the year.

Employees

As of 31 December 2006, the Group had a total of 3,342 employees, with 2,185 based in Hong Kong and 1,157 in Guangzhou, Dongguan and Shenzhen. Part-time staff accounted for 40% of the total headcount.

The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options are also granted to eligible staff based on individual and Group performance.

A series of leadership training programmes were launched during the year to improve the communication and coaching skills of the Group's store managers.

Circle K Hong Kong has been a signatory of the workplace safety and hygiene charter since 2003 and is committed to maintaining a hygienic workplace in strict compliance with all the safety practices outlined in the charter. In-house safety training programmes were conducted regularly in addition to the safety training courses provided by the Labour Department.

Marketing and Promotion

During the last quarter of 2006, a major thematic promotion was launched with the internet emoticon "Smiley Central" as a free premium giveaway for purchases over HK$20. In order to prevent consumer fatigue due to frequent repetition of the same mechanism, a short hiatus was planned in between the major thematic promotions of the year.

Another successful promotion, "Romancing Moomin", featuring premium quality plush toys of popular licenced character Moomin and his friends, was launched in December. The occasion for the promotion was the grand opening of the 250th Circle K store in Wong Tai Sin.

To commemorate the opening, a donation of HK$250,000 was made to Heifer International-Hong Kong in the name of the Circle K customers. Heifer International-Hong Kong is dedicated to easing rural poverty in the Chinese Mainland by providing gifts of farm animals to impoverished peasant families to help them become self-reliant.

As the roll-out programme of the 3G store model continued in 2006, point-of-purchase materials such as shelf-talkers, hanging mobiles and window posters were redesigned to complement the new colour scheme, enhance the store image and improve the effectiveness of communications.

Category Management

According to the retail market data provided by A.C. Nielsen for major categories, the Group outperformed the overall market in the sales growth of key categories including cigarettes, packaged drinks, confectionery, dairy products and grocery products.

Some of these positive results could be attributed to a key initiative in category management in 2006, which was to improve the efficiency and productivity of shelf space usage through a detailed analysis of sales volume generated per stock keeping unit and product assortment.

Another category showing strong growth potential is confectionery and snacks. An ongoing new product programme designed to inject fun and novelty into the category delivered satisfactory sales results. This is a category for destination shopping; having popular product items will provide customers with the motivation to visit Circle K repeatedly.

Growing circulation of free newspaper titles turned out to have less impact on actual newspaper sales than originally anticipated. However, price reduction of weekly magazines in the last quarter did have an impact on the sales value of the category. The Group expects that it will be a short-term market phenomenon that will adjust itself in the long run.

Since convenience services such as bill payment and cash withdrawal continue to grow in demand, the Group introduced the Towngas and the Hong Kong Electric bill payment services as well as EPS cash withdrawal services in 2006. These additional convenience services have been well received by customers, so it is anticipated that more bill payment services will be introduced in 2007.

Service Excellence

Service excellence has always been an important part of the Group's company culture, and a number of training programmes were implemented in 2006. Additional subjects for skill set examinations such as baking skills and preparation of coffee/tea and soft-serve ice-cream reflected yet another step forward.

To ensure sufficient manpower in stores with high traffic and sales volume, a scorecard was posted in the backrooms of all Circle K stores reflecting the ratio between sales dollar and staff cost so that a correct balance could be maintained. These numbers were also good indicators of store productivity.

About 40 Service Stars nominated as role models for frontline staff continued to spearhead quality customer service training programmes with their regular store visits as service ambassadors.

An "A-Grade" Managers' Club was formed comprising store managers who were evaluated as "A-Grade" performers, distinguished by the gold medals on their uniforms. This elite group is also entrusted with the mission of acting as mentors for new store managers.

Supply Chain Management and Logistics

In the last quarter of 2006, Phase One of a newly revamped Category Management System was successfully launched as a key initiative of the Group's supply chain management. It was designed to improve the efficiency of price management with a simple, reliable and standardised platform, allowing direct processing of price data for store transactions with minimum manual work. The new system preserves data integrity, reduces administrative time and speeds up the price management processes.

Initiatives to ensure occupational health and safety were duly implemented in the Group's Distribution Centre with the formation of the 5S committee in 2004. The 5S – promoting Organisation, Neatness, Cleanliness, Standardisation and Discipline – is a systematic model for good housekeeping in order to maintain a safer and more comfortable workplace.

Safety training sessions were organised twice a year to provide regular refresher courses on good housekeeping and occupational safety for Distribution Centre staff. Effectiveness of these training programmes was tracked regularly with tangible numbers such as the reduction of accidents in the workplace.

Initiatives in Support of Environmental Protection

Among the many company initiatives launched in 2006, environmental protection measures were the most noteworthy. As a responsible corporate citizen, Circle K Hong Kong participated in the "No Plastic Bag Day" programme organised by the Green Student Council by not proactively giving out plastic bags to customers on the first Tuesday of every month, starting August 2006.

To render full support for this good cause, the Group went one step further by training frontline staffs to urge customers to use fewer plastic bags even during daily transactions. A voluntary agreement to reduce plastic bag consumption by 15% over a 12-month period was signed by Circle K Hong Kong to promote environmental consciousness within the organisation.

The minimisation of paper consumption through the increased usage of electronic communications between the Circle K office and stores was another significant step forward in environmental protection.

In addition, specific task forces were appointed to distribute energy saving tips in the workplace and all Circle K stores. Installation of light sensors on store signage and on-off alerts for store lights and equipments enabled the Group to optimise daylight and reduce electricity consumption across the board.

Operation Review – Guangzhou

Even though the competitive environment for the convenience store market in Guangzhou was rather uneventful in 2006, it is expected that in 2007 there will be a higher level of activity with new entry of multinational brands such as Family Mart and the opening of more outlets under the franchising model.

Continuous escalation of retail property rental is also anticipated. This will be triggered not only by the scramble for store sites by newcomers in the fast-growing retail market, but also by the government policy to levy taxation on real estate transaction profits which will eventually be passed on to the retail property tenants. This will result in more pressure on the Group's operation costs and more difficulty in committing new store sites.

Another potential threat for the Group's Guangzhou operations is policy risk. It is very difficult to anticipate new government policies that could have a negative impact on convenience store operations in the market, such as those affecting tobacco licences, minimum salary legislation, additional welfare costs or store density control.

Staff recruitment became more challenging during 2006 as the retail market in Guangzhou continued to boom and the increased demand for labour began to outpace supply. As the Group expands its store network, the quest for manpower to fill the frontline service team and support functions will require more effort than before. Considerable planning and resources have been dedicated to establish the Group's Guangzhou operation as a preferred employer in the market and to reduce full-time staff turnover which has remained reasonably low so far.

Information technology in support of the Group's business development was specifically tailored to meet the requirements of our convenience store operations. Features include state-of-the-art configuration and user-friendly software programmes.

Major efforts were made in the areas of energy conservation, resulting in significant savings in electricity expenses. The Group's convenience store outlets, food factory and distribution centre dutifully followed standard operating procedures in their daily operations to ensure strict adherence to environmental protection regulations and safety standards.

The Group devoted meticulous training, care and attention to maintain the highest standard of cleanliness, hygiene and food safety in its preparation of food and drink products under the "Hot & In" in-store bakery brand. The Group's total compliance with official requirements in these specific areas has been endorsed during numerous visits by relevant inspectors.

The Group was pleased to be elected one of "PRC Consumers' Most Favourable Hong Kong Brands" through an independent opinion poll conducted on the Chinese Mainland and on the internet, organised by China Enterprise Reputation and Credibility Association (Overseas) Limited.

Future Prospects

At the beginning of 2007 all economic indicators reflect growing consumer confidence and higher propensity to spend in both Hong Kong and the Chinese Mainland.

The Group's top priority for the year is to leverage buoyant market sentiment and maximise sales opportunities to achieve aggressive comparable store sales.

Due to the increasing pressure on operating costs in both markets, especially on rental and labour costs, the initiative to improve profit margin will require more effort from the management team than ever before.

In order to improve brand image perception and create a more significant competitive edge, the Group plans to allocate substantial resources for brand-building and to communicate a strong differentiation between Circle K and the competition. The ultimate objectives are to induce brand switching and to inspire loyalty among repeat customers.

On the prospects of the real estate market, it is expected that more potential store sites will become available in secondary retail areas in Hong Kong due to minor adjustments in tourist arrival figures and spending, leading to more realistic expectations on the part of landlords. Hence, the Group will plan to accelerate the momentum of store openings. However, lease renewal negotiations for high-traffic stores will continue to be challenging.

The Group’s successful acquisition of the Saint Honore operation was officially concluded on 22 February 2007. This enables the Group to further strengthen our food service offerings with the additional expertise in bakery and new product development. Total integration of the Saint Honore management team to the Group’s corporate structure is being implemented. The Group anticipated that this strategic move will become an important competitive edge.

In Guangzhou, market competition will become more severe as new chain store operators enter the market, creating more demand for prime retail sites. To counteract this increased competition, the Group will focus on fine-tuning the store model and making continuous improvement in the product offering, food services and customer services.

An important new development in the Guangzhou operation will be the Group’s implementation of the franchising model, which will help speed up the store network expansion.

In summary, the key management objective in 2007 is quality growth in store number, store contribution and comparable store sales.

The Group will also continue to explore acquisition opportunities in all markets where we operate that are strategically complementary and compatible with the Group’s convenience retail business models.

RESULTS

The board of directors (the "Board") is pleased to announce the audited results of Convenience Retail Asia Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006, together with the comparative audited figures for the corresponding year ended 31 December 2005 as follows:

	Note	**2006** HK$'000	2005 HK$'000
Revenue	*2*	2,231,217	1,995,206
Cost of sales	*3*	(1,678,018)	(1,509,403)
Gross profit		553,199	485,803
Other income	*2*	207,014	187,901
Store expenses	*3*	(551,693)	(488,364)
Distribution costs	*3*	(39,399)	(34,625)
Administrative expenses	*3*	(83,606)	(69,053)
Profit before income tax		85,515	81,662
Income tax expenses	*4*	(16,078)	(14,048)
Profit for the year		69,437	67,614
Profit attributable to:			
Shareholders of the Company		75,054	73,578
Minority interests		(5,617)	(5,964)
		69,437	67,614
Dividends	*5*	46,338	40,483
Earnings per share for profit attributable to the shareholders of the Company			
- Basic earnings per share	*6*	HK11.1 cents	HK10.9 cents
- Diluted earnings per share	*6*	HK11.1 cents	HK10.9 cents

CONSOLIDATED BALANCE SHEET
As at 31 December 2006

	Note	**2006** HK$'000	2005 HK$'000
Non-current assets			
Fixed assets		99,093	89,827
Lease premium for land		15,284	15,567
Available-for-sale financial assets		22,570	-
Rental deposits		28,639	25,523
Bank deposits		120,000	120,000
Deferred tax assets		404	1,361
		285,990	252,278
Current assets			
Inventories		82,308	79,065
Amount due from immediate holding company		48	-
Rental deposits		14,786	11,680
Trade receivables	*7*	24,108	26,647
Other receivables, deposits and prepayments		49,112	32,469
Other financial assets		7,142	-
Cash and cash equivalents		514,785	477,310
		692,289	627,171
Current liabilities			
Amount due to immediate holding company		-	177
Trade payables	*8*	357,199	321,936
Other payables and accruals		90,586	66,224
Taxation payable		1,135	1,665
		448,920	390,002
Net current assets		243,369	237,169
Total assets less current liabilities		529,359	489,447
Financed by:			
Share capital		67,714	67,367
Reserves		425,116	386,738
Proposed final dividend		36,200	30,392
Shareholders' funds		529,030	484,497
Minority interests		(8,173)	(2,912)
		520,857	481,585
Non-current liabilities			
Long service payment liabilities		8,091	7,862
Deferred tax liabilities		411	-
		529,359	489,447

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Merger reserve	Capital reserve	Employee share-based compensation reserve	Exchange reserve	Retained earnings		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	67,202	117,560	177,087	13,433	956	-	66,267	(6,613)	435,892
Issue of shares	165	1,804	-	-	-	-	-	-	1,969
Employee share option benefit	-	93	-	-	1,510	-	29	-	1,632
Exchange differences	-	-	-	-	-	123	-	67	190
Profit/(loss) for the year	-	-	-	-	-	-	73,578	(5,964)	67,614
Dividends	-	-	-	-	-	-	(35,310)	-	(35,310)
Capital contribution from a minority shareholder	-	-	-	-	-	-	-	9,598	9,598
At 31 December 2005	67,367	119,457	177,087	13,433	2,466	123	104,564	(2,912)	481,585
At 1 January 2006	67,367	119,457	177,087	13,433	2,466	123	104,564	(2,912)	481,585
Issue of shares	347	5,688	-	-	-	-	-	-	6,035
Employee share option benefit	-	411	-	-	2,180	-	69	-	2,660
Exchange differences	-	-	-	-	-	1,322	-	356	1,678
Profit/(loss) for the year	-	-	-	-	-	-	75,054	(5,617)	69,437
Dividends	-	-	-	-	-	-	(40,538)	-	(40,538)
At 31 December 2006	67,714	125,556	177,087	13,433	4,646	1,445	139,149	(8,173)	520,857

Notes:

1. Basis of preparation and accounting policies

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and under historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where estimates and judgments are significant to the consolidated accounts.

In 2006, the Group adopted the revised standards of HKFRS below, which are relevant to its operations.

HKAS 19 (Amendment)	Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

The adoption of the above standards did not result in substantial changes to the Group's accounts. The changes in the Group's accounting policies are summarised as below:

- HKAS 19 (Amendment) introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the extent of disclosures presented in the accounts.

- HKAS 21 (Amendment) changes the net investment definition and permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation. Exchange differences arising from these inter-company loans are taken to exchange reserve in the consolidated accounts. The adoption of this amendment does not have any significant impacts to the accounts.

1. **Basis of preparation and accounting policies** (continued)

The following new/revised standards and interpretations of HKFRS are effective in 2006 but not relevant for the Group's operations:

HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 1 (Amendment) and HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group has not early adopted the following new/revised standards and interpretations of HKFRS that have been issued but are not yet effective. The adoption of such new/revised standards and interpretations will have no material impact on the Group's accounts and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

2. Revenue, other income and segment information

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the year are as follows:

	2006 HK$'000	2005 HK$'000
Revenue		
Merchandise sales revenue	2,231,217	1,995,206
Other income		
Supplier rebate and promotion fees	148,409	143,848
Service items and miscellaneous income	37,309	29,326
Interest income	18,816	14,727
Fair value gain of financial assets at fair value through profit or loss	1,665	-
Exchange gain	815	-
	207,014	187,901

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

Primary reporting format - geographical segments

The Group operates in two geographical areas: Hong Kong and the Chinese Mainland.

	Hong Kong 2006 HK$'000	Chinese Mainland 2006 HK$'000	Group 2006 HK$'000
Revenue	2,136,919	94,298	2,231,217
Other income	176,050	9,668	185,718
	2,312,969	103,966	2,416,935
Segment results	89,725	(25,506)	64,219
Interest income			18,816
Fair value gain of financial assets at fair value through profit or loss			1,665
Exchange gain			815
Profit before income tax			85,515
Income tax expenses			(16,078)
Profit for the year			69,437
Segment assets	355,422	81,690	437,112
Unallocated assets			541,167
Total assets			978,279
Segment liabilities	432,816	23,060	455,876
Unallocated liabilities			1,546
Total liabilities			457,422
Capital expenditure	35,973	13,857	49,830
Depreciation	29,694	9,557	39,251
Amortisation	-	427	427

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

Primary reporting format - geographical segments (continued)

	Hong Kong 2005 HK$'000	Chinese Mainland 2005 HK$'000	Group 2005 HK$'000
Revenue	1,937,819	57,387	1,995,206
Other income	167,509	5,665	173,174
	2,105,328	63,052	2,168,380
Segment results	84,794	(17,859)	66,935
Interest income			14,727
Profit before income tax			81,662
Income tax expenses			(14,048)
Profit for the year			67,614
Segment assets	264,482	72,906	337,388
Unallocated assets			542,061
Total assets			879,449
Segment liabilities	378,723	17,476	396,199
Unallocated liabilities			1,665
Total liabilities			397,864
Capital expenditure	33,593	19,187	52,780
Depreciation	36,689	6,079	42,768
Amortisation	19	430	449

Segment assets consist primarily of lease premium for land, fixed assets, inventories, receivables and operating cash but exclude deferred taxation.

Segment liabilities comprise operating liabilities but exclude taxation payable and deferred taxation.

Capital expenditure comprises additions to fixed assets.

There are no sales between the geographical segments.

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

Primary reporting format - geographical segments (continued)

No business activity analysis is presented for the years ended 31 December 2006 and 2005 as substantially all the Group's revenue and contribution to results were derived from the operation of a chain of convenience stores in Hong Kong and the Chinese Mainland.

3. Expenses by nature

	2006 HK$'000	2005 HK$'000
Amortisation of franchise licence	-	19
Amortisation of lease premium for land	427	430
Auditor's remuneration		
Charge for the current year	779	691
Over provision in prior year	-	(16)
Changes in inventories	1,658,726	1,490,745
Depreciation of owned fixed assets	39,251	42,768
Employee benefit expense	289,825	249,068
Loss on disposal of fixed assets	1,693	1,853
Operating leases rental for land and buildings	178,157	151,659
Other expenses	183,858	164,228
Total costs of sales, store expenses, distribution costs and administrative expenses	2,352,716	2,101,445

4. Income tax expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the year ended 31 December 2006 (2005: Nil).

The amount of income tax expenses charged/(credited) to the consolidated profit and loss account represents:

	2006 HK$'000	2005 HK$'000
Current income tax - Hong Kong profits tax	14,710	14,823
Deferred income tax	1,368	(775)
	16,078	14,048

4. **Income tax expenses** (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2006 HK$'000	2005 HK$'000
Profit before income tax	85,515	81,662
Calculated at a taxation rate of 17.5% (2005: 17.5%)	14,966	14,291
Effect of different taxation rates in other jurisdiction	(3,586)	(2,858)
Income not subject to taxation	(4,013)	(3,059)
Expenses not deductible for tax purposes	1,419	433
Tax losses not recognised	8,187	6,090
Effect of previously unrecognised tax losses	(111)	(958)
Effect of previously unrecognised temporary differences	(138)	109
Over provision in prior year	(646)	-
	16,078	14,048

5. **Dividends**

	2006 HK$'000	2005 HK$'000
Interim dividend, paid, of 1.5 HK cents (2005: 1.5 HK cents) per share	10,138	10,091
Final dividend, proposed, of 5 HK cents (2005: 4.5 HK cents) per share	36,200	30,392
	46,338	40,483

At a meeting held on 7 March 2007, the Directors proposed a final dividend of 5 HK cents per share. This proposed dividend is not reflected as a dividend payable in these accounts.

6. Earnings per share

The calculation of the Group's basic and diluted earnings per share is based on the consolidated profit attributable to shareholders of the Company of HK$75,054,000 (2005: HK$73,578,000).

The basic earnings per share is based on the weighted average number of 675,870,911 (2005: 672,741,375) shares in issue during the year.

The diluted earnings per share is based on 677,496,577 (2005: 675,108,756) shares which is the weighted average number of 675,870,911 (2005: 672,741,375) shares in issue during the year plus the weighted average of 1,625,666 (2005: 2,367,381) shares deemed to be issued at no consideration if all outstanding options had been exercised.

7. Trade receivables

Majority of the Group's revenue are retail cash sales. The Group's credit terms on trade receivable 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 31 December 2006, the ageing analysis of trade receivables was as follows:

	2006	2005
	HK$'000	HK$'000
0-30 days	20,943	23,168
31-60 days	1,351	2,491
61-90 days	1,124	923
Over 90 days	690	65
	24,108	26,647

8. Trade payables

At 31 December 2006, the ageing analysis of the trade payables was as follows:

	2006	2005
	HK$'000	HK$'000
0-30 days	173,012	152,425
31-60 days	99,804	93,438
61-90 days	51,370	42,256
Over 90 days	33,013	33,817
	357,199	321,936

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

AUDIT COMMITTEE

The Audit Committee was established in January 2001 to review the Group's financial reporting, internal controls, and corporate governance and risk management matters and to make relevant recommendations to the Board. The Audit Committee comprises three independent non-executive Directors, namely Dr. Ch'ien Kuo Fung, Raymond (being the Chairman of the Committee), Mr. Au Man Chung, Malcolm and Mr. Lo Kai Yiu, Anthony, and two non-executive Directors, namely Mr. Godfrey Ernest Scotchbrook and Mr. Jeremy Paul Egerton Hobbins. All committee members possess appropriate professional qualifications, accounting and related financial management expertise as required under the GEM Listing Rules.

The Audit Committee met four times in 2006 (with an average attendance rate of 95%) to review with senior management and the Company's internal (Corporate Governance Division) and external auditor the Group's significant internal controls and financial matters as set out in the Audit Committee's terms of reference. The Committee's review covers the audit plans, audit findings of internal and external auditor, external auditor's independence, the Group's accounting principles and practices, GEM Listing Rules and statutory compliance, internal controls, risk management and financial reporting matters (including the annual, interim and quarterly accounts before recommending to the Board for approval).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions as set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2006.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 4:00 p.m. on Wednesday 2 May 2007 at the Auditorium, 12/F., LiFung Centre, 2 On Ping Street, Siu Lek Yuen, Shatin, New Territories, Hong Kong. Notice of the Annual General Meeting will be sent to the shareholders of the Company shortly.

FINAL DIVIDEND

The Board of Directors recommended to pay to the shareholders a final dividend of 5 HK cents (2005: 4.5 HK cents) per share for the year ended 31 December 2006 absorbing a total of HK$36,200,000 (2005: HK$30,392,000) on 724,007,974 shares (2005: 675,542,000 shares) issued as at 7 March 2007. An interim dividend of 1.5 HK cents (2005: 1.5 HK cents) per share was paid by the Company on 25 August 2006.

CLOSURE OF REGISTER OF MEMEBRES

The Register of Members will be closed from 25 April 2007 to 2 May 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Abacus Share Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 24 April 2007. Dividend warrants will be despatched on 3 May 2007, subject to shareholders' approval of payment of the final dividend at the Annual General Meeting on 2 May 2007.

On behalf of the Board
Convenience Retail Asia Limited
Fung Kwok King, Victor
Chairman

Hong Kong, 7 March 2007

As at the date of this announcement, the executive Directors of the Company are Yeung Lap Bun, Richard and Li Kwok Ho, Bruno, the non-executive Directors are Dr. Fung Kwok King, Victor, Dr. Fung Kwok Lun, William, Jeremy Paul Egerton Hobbins, Wong Yuk Nor, Louisa and Godfrey Ernest Scotchbrook, the independent non-executive Directors are Dr. Ch'ien Kuo Fung, Raymond, Au Man Chung, Malcolm and Lo Kai Yiu, Anthony.

This announcement will be available from the Company's website **www.cr-asia.com** *and will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of its posting.*