

Convenience Retail Asia reports profit growth for 3rd quarter

Company prepares for entry into Dongguan and Shenzhen markets in Q4

Hong Kong, 26 October 2005 – Convenience Retail Asia Limited (“CRA” or “the Group”; SEHK: 8052), operator of the Circle K convenience stores in Hong Kong and on the Chinese Mainland, announced third quarter ended 30 September 2005 net profit of HK\$22.9 million, representing a 13% increase over the net profit of HK\$20.3 million for the corresponding period last year. Earnings per share increased by 0.4 HK cents to 3.4 HK cents per share during the quarter.

For the quarter, the Group’s turnover increased by 7% to HK\$501.4 million compared to the same period in 2004 while for the nine months ended 30 September 2005, the Group recorded a turnover of HK\$1,471 million. Net profit for the nine months was HK\$52.6 million, representing an increase of 12% when compared to the results for the same period last year.

Mr. Richard Yeung, Chief Executive Officer of CRA, said, “During the third quarter of 2005, the Hong Kong economy continued to flourish and overall retail sales performance was well sustained. The Group was able to capitalise on the business opportunities offered by bullish market sentiment.”

Business Review

During the quarter ended 30 September 2005, CRA achieved an increase in turnover resulting from new store sales. Comparable store sales in Hong Kong (for stores in existence throughout the first, second and third quarters of 2004 and 2005) decreased by 3.5% during the quarter.

Even with the buoyant consumer sentiment, actual consumer behaviour was still largely dictated by value perception and premium promotions. This could be seen in the significant sales decrease that occurred as soon as the Group’s successful McMug promotion concluded in the last week of July. Unfortunately, another major premium promotion originally scheduled to start in early September was postponed by almost four weeks. The absence of major promotional activities during the quarter contributed to the lacklustre sales performance.

During the quarter, two new free daily newspapers entered the market, bringing the total distribution of all free newspapers to over a million copies and negatively impacting the Group's newspaper sales. The quarter also witnessed the start of a price war among major cigarette brands, which also contributed to negative sales in this category.

Comparable store sales in Guangzhou increased by 12.3% during the quarter. Against a backdrop of continuous economic growth and increasing disposable income, the Guangzhou operations continued to report healthy comparable store sales growth, spurred by cross-category promotions and the return of the student loyalty programme in September. Despite heavy rain during the quarter, which had a negative effect on customer traffic, average daily sales grew at about 12.3% in value for comparable stores.

The decrease in total comparable store sales and increase in store and distribution expenses were more than compensated for by the increase in gross margin and other income. As a result, the Group achieved an increase in net profit of 13% during the quarter.

In Hong Kong, escalating retail rental has become a major challenge for all retailers, and it has resulted in a slowdown of new store openings for the Group. Yet the Guangzhou operations were remarkably successful in accelerating new store openings, with an average of about two stores being opened per month. At this rate, the Group is well on track to meet its target number of 50 stores in Guangzhou by the end of 2005.

As of the end of the quarter, the Group operated 223 stores in Hong Kong and 35 stores in Guangzhou compared to 197 stores in Hong Kong and 15 in Guangzhou at the end of the third quarter of 2004.

In both Macau and Zhuhai, the sublicensed operations reported healthy sales and satisfactory business performance, meeting or exceeding the projected sales targets and rapidly adding new stores to the network. At the end of the third quarter, there were a total of 13 stores in operation.

In Dongguan, Government approval for the acquisition of a 60% equity stake in DG Sun-High, operator of a franchised convenience store chain in Dongguan with about 90 stores, took longer than expected. However, parallel to the franchise model for a second-tier brand through the DG Sun-High joint venture, the Group also actively

pursued the inception of a 100% company-owned-and-managed Circle K convenience stores in Dongguan. Six store sites have been committed and will start operations within the next quarter.

Outlook

Looking ahead, Mr Yeung commented, "The trends of favourable economic indicators and strong consumer confidence are expected to continue well into the fourth quarter, providing a stable market environment for the Group's operations in Hong Kong, Guangzhou, Macau and Zhuhai. We are very much looking forward to our planned market entries into Dongguan and Shenzhen, which will be the highlights of the final quarter of 2005."

In Hong Kong, the overheated retail property market will put considerable pressure on operating costs. Unless there is a cooling off in the retail property market towards the end of the year, the Group will have to downwardly revise its targeted store number in the fourth quarter of 2005. Keen market competition in several major product categories will also pose serious challenges to the marketing and category management teams.

Mr Yeung said, "Further improvements in productivity and efficiency will demand more hard work, ingenuity and team effort than ever before from the management team. We believe that we are well prepared to cope with the ever-changing market environment by employing strategic breakthroughs and making continuous improvements to the Group's core competencies."

"The Group will also continue to aggressively pursue acquisition opportunities in order to achieve its goal of network expansion for the current three-year plan," Mr. Yeung concluded.

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About CRA

Convenience Retail Asia Limited (CRA, SEHK stock code: 8052), a member of Li & Fung Retailing, is engaged in the operation of one of the leading convenience store chains in Hong Kong under the brand name of Circle K. The Circle K store chain in Hong Kong comprises 223 company-owned-and-managed stores as of 30 September 2005.

In October 2002, CRA established Convenience Retail Southern China Limited in joint venture with Guangzhou Grain Group Limited and Shanghai Shenhong Corporation to develop the South China market. As at the end of September 2005, 35 Circle K stores were in operation in Guangzhou.

In Macau and Zhuhai, sublicensed Circle K stores were in operation and as at the end of the third quarter 2005, there were a total of 13 stores.

CRA website: www.cr-asia.com

About Li & Fung Retailing

Li & Fung (Retailing) Limited, the holding company of Convenience Retail Asia, was formed in 1985 as a company wholly owned by Li & Fung (1937) Limited. Under Li & Fung Retailing, there are Circle K and Toys "R" Us; fashion retailing business Branded Lifestyle which manages retail sales of Ferragamo, Country Road, Mango and Calvin Klein Jeans in key markets in Asia; and also a brand licensing unit that specialises in licensed products. Li & Fung Retailing's business extends from Hong Kong to Taiwan, Singapore and Malaysia, with plans for expansion into the Chinese Mainland and other South East Asian countries.

Li & Fung Group website: www.lifunggroup.com

For media inquiry, please contact:

Convenience Retail Asia Limited
Mrs. Louisa Kwan

Telephone: 2991 6000
Direct line: 2991 6229

Convenience Retail Asia Limited
Third Quarterly Results
For The Period Ended 30 September 2005

Three Months Ended 30 September		2005	2004 (Restated)
• Group Turnover	+7%	HK\$501,400,000	HK\$466,844,000
• Group Profit Attributable to Shareholders	+13%	HK\$22,853,000	HK\$20,251,000
• Earnings Per Share (Basic)	+13%	3.4 cents	3.0 cents
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Nine Months Ended 30 September		2005	2004 (Restated)
• Group Turnover	+14%	HK\$1,471,018,000	HK\$1,293,578,000
• Group Profit Attributable to Shareholders	+12%	HK\$52,640,000	HK\$46,883,000
• Earnings Per Share (Basic)	+11%	7.8 cents	7.0 cents
• Interim Dividend Per Share	+20%	1.5 cents	1.25 cents

HIGHLIGHTS

- 13% increase in net profit year-on-year.
- Decline in comparable store sales in Hong Kong due to timing variance of major premium promotion, higher base of comparable cigarette sales last year and the increasing penetration of free newspaper titles.
- Number of stores in Hong Kong increased by five to 223 during the quarter.
- Number of stores in Guangzhou increased by six to 35 during the quarter.
- Number of stores in the sublicensed territories of Macau and Zhuhai reached nine and four respectively at the end of the quarter.
- A 100% company-owned subsidiary was set up in Dongguan, with six stores due to start operation soon.
- Application to set up a 100% company-owned subsidiary in Shenzhen is being processed.
- Still awaiting final Government approval to acquire a 60% equity stake in DG Sun-High, operator of a franchised convenience store chain in Dongguan with about 90 stores.
- Retail rental increases have become a major concern in Hong Kong.
- Strong cash position with HK\$580.1 million and no bank borrowings.

Convenience Retail Asia Limited
Unaudited Consolidated Profit & Loss Account

	Nine months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Turnover	1,471,018	1,293,578
Cost of sales	(1,114,839)	(977,804)
Gross profit	<u>356,179</u>	<u>315,774</u>
Other revenues	131,132	101,098
Store expenses	(354,056)	(295,453)
Distribution costs	(25,483)	(21,251)
Administrative expenses	(49,208)	(47,046)
Profit before taxation	<u>58,564</u>	<u>53,122</u>
Taxation	(10,047)	(10,041)
Profit after taxation	<u><u>48,517</u></u>	<u><u>43,081</u></u>
Attributable to:		
Shareholders of the Company	52,640	46,883
Minority interests	(4,123)	(3,802)
	<u><u>48,517</u></u>	<u><u>43,081</u></u>
Earnings per share (basic)	<u><u>7.8 cents</u></u>	<u><u>7.0 cents</u></u>