



For Immediate Release

**Convenience Retail Asia reports robust business results for first half**

**Company continues with multi-city expansion plan in the Pearl River Delta in 2006**

*Hong Kong, 2 August 2006* – 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 that despite start-up costs incurred for two new markets in Southern China, the Group registered satisfactory growth in both turnover and profit for the first half on the back of optimistic consumer sentiment.

During the three months ended 30 June 2006, the Group’s turnover increased by 8.8% to HK\$560.9 million when compared to the same period last year. Net profit attributable to shareholders increased by 7.2% to HK\$22.4 million. Basic earnings per share were 3.3 HK cents.

For the six months ended 30 June 2006, the Group recorded a turnover of HK\$1,075.2 million and a net profit of HK\$32.4 million, an increase of 10.9% and 8.9% respectively when compared to the results for the six months ended 30 June 2005. Basic earnings per share were 4.8 HK cents. In view of the Group’s profitability and cash position, the Board of Directors has resolved to declare an interim dividend of 1.5 HK cents per share.

Mr. Richard Yeung, Chief Executive Officer of CRA, said, “In the second quarter of 2006, the sustained economic revival provided a favourable market environment for the Group’s operations in Hong Kong. Two very effective thematic promotions, part of the Group’s key marketing initiatives during the quarter, were instrumental in leveraging the uptrend in the retail market, generating substantial incremental sales and contributing to the Group’s satisfactory business growth for the quarter. The robust retail market and strong consumer confidence on the Chinese Mainland also provided a positive setting for our operations there.”

### **New Business Opportunities in Korea**

CRA also announced that today it has entered into a preliminary agreement with CCMP Capital Asia Ltd. to acquire a 2.5% equity interest in Buy The Way Inc., a leading operator of convenience store chain in Korea, for a cash consideration of not more than HK\$30 million. As part of the agreement, CRA will also provide consultancy services to Buy The Way Inc. in relation to its convenience stores operations for a nominal consulting fee and an option to acquire additional equity interest of up to 30.5% in Buy The Way Inc.

Mr Yeung commented, "Our strategic investment in Buy The Way Inc. would enable us to benefit from economy of scale, diversify our operations and give better support to our development on the Chinese Mainland."

Buy The Way Inc. is a leading operator of convenience store chain in Korea. It provides a wide range of confectionary, beverage, and fast-food products through a network of approximately 1,000 stores located in densely populated office, residential, entertainment and educational areas primarily in the Seoul metropolitan area in Korea.

The completion of the transaction is subject to the finalisation of the agreements which is expected to take place in the next few months.

### **2006 Half Year Business Review**

During the three months ended 30 June 2006, the Group's turnover increase was achieved both through the opening of new stores and an increase in turnover among comparable stores (stores in existence throughout the first and second quarter of 2005 and 2006), which registered 0.5% growth in Hong Kong and 14.1% in Guangzhou.

For the first six months of 2006, sales growth of Circle K stores in Hong Kong consistently outperformed the overall retail market due to the two successful premium promotions -- the Garfield promotion launched in February and the McDull promotion launched in May.

The wet weather in April and May affected store sales in Hong Kong, but the World Cup event which began on June 9 created another sales peak in June, especially in the sales of related categories such as packaged drinks, beer and snack food. Category promotions also contributed to increases in turnover and gross margin, with the focus on high-margin categories.

The rate of retail rental increases in the Hong Kong property market has slightly decelerated, but its impact is still felt during lease renewals, which put considerable pressure on operation costs. To neutralise this, the Group has focused on increasing productivity per store in order to minimise the impact on the bottom line.

In Guangzhou, despite inflation pressure on energy and raw food material costs, the Group's comparable store sales reported healthy increases in average daily transaction count as well as transaction value with the bullish market sentiment and the arrival of warmer weather. The introduction of Chinese meal boxes provided an extra stimulus to the sales growth of the Hot & In food services category.

The escalating retail rental prices in Guangzhou have affected the Group's new store opening programme. The negotiation process for new leases has also become more protracted as market demand goes up. However, competitors in the convenience store sector have become more rational and conservative in opening new store sites.

With a total of 43 stores as of 30 June 2006, the Circle K chain in Guangzhou is beginning to establish a market presence and increase brand awareness, providing a solid base for further expansion.

Seven Circle K stores are already open and running smoothly in Dongguan, while steadily building a loyal customer base. The acquisition of a 60% equity stake in DG Sun-High is now in the final stage of licence issuance and administrative implementation.

The first Circle K store in Shenzhen was opened according to plan during the second quarter. Sales performance has been satisfactory so far, though it is still too early to draw any conclusions on market insights with a one-store operation.

## **Outlook**

Looking ahead, Mr. Yeung commented, “Optimistic consumer sentiment seems to prevail in the markets where the Group operates. With aggressive marketing efforts and new product programmes that are planned for the rest of the year, the Group expects that the upward sales trend in the first half of 2006 will be sustained over the next six months.

“Major challenges in the future are not so much in generating incremental sales volume, but in effective cost control and productivity enhancement. Retail rental, staff cost and energy cost increases, along with growing competition and the prospect of price inflation, are market realities that call for vigilant and proactive management.”

In Guangzhou, the pace of new store openings will still be guided by prudence. While in Dongguan, the issuance of the business licence for the DG Sun-High joint venture is expected to take place in the third quarter of 2006. After the opening of the first Circle K store in Shenzhen in May, it is expected that more new stores will be opened in Shenzhen in the next six months.

“The Group is well on track to roll out its multi-city strategic entry plan in the Pearl River Delta in accordance with the three-year plan. The Group is also aggressively building business volume with existing stores by maximising sales and margin opportunities to achieve organic growth. On the other hand, new business opportunities outside the Pearl River Delta will also be studied and pursued cautiously when they arise,” Mr. Yeung concluded.

By the end of June 2006, there were 51 company-owned-and-managed Circle K stores in the Pearl River Delta, together with 20 licensed stores in Macau and Zhuhai — a total of 71 Circle K stores outside of Hong Kong. Adding these to the 238 Circle K stores in Hong Kong, the Group operates a total of 309 stores in the Pearl River Delta as of the end of the second quarter in 2006. After the official completion of the DG Sun-High acquisition in Dongguan, the total store number will be close to 500 by the end of 2006.

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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 238 company-owned-and-managed stores as of 30 June 2006.

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 June 2006, 43 Circle K stores were in operation in Guangzhou and seven stores in Dongguan and one store in Shenzhen.

In Macau and Zhuhai, sublicensed Circle K stores are in operation and as of 30 June 2006, there were a total of 20 stores. (CRA website: [www.cr-asia.com](http://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 Korea, Hong Kong to Taiwan, Singapore, Malaysia, Thailand and Indonesia with plans for expansion into the Chinese Mainland and other South East Asian countries. (Li & Fung Group website: [www.lifunggroup.com](http://www.lifunggroup.com))

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# Convenience Retail Asia Limited

## 利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8052)

### HALF YEAR RESULTS

#### FOR THE PERIOD ENDED 30 JUNE 2006

Three Months Ended 30 June		2006	2005
• Group Revenue	+8.8%	HK\$560,851,000	HK\$515,416,000
• Group Profit Attributable to Shareholders	+7.2%	HK\$22,368,000	HK\$20,873,000
• Earnings Per Share (Basic)	+6.5%	HK3.3 cents	HK3.1 cents
Six Months Ended 30 June		2006	2005
• Group Revenue	+10.9%	HK\$1,075,239,000	HK\$969,618,000
• Group Profit Attributable to Shareholders	+8.9%	HK\$32,441,000	HK\$29,787,000
• Earnings Per Share (Basic)	+9.1%	HK4.8 cents	HK4.4 cents
• Interim Dividend Per Share	-	HK1.5 cents	HK1.5 cents

### HIGHLIGHTS

- Satisfactory growth in turnover and profitability despite startup costs incurred in Dongguan and Shenzhen.
- Number of stores in Hong Kong increased by 3 to 238 during the quarter.
- Number of stores in Guangzhou and Dongguan increased by 2 to 43 and 1 to 7 respectively during the quarter.
- First store opened in Shenzhen in May 2006 under a 100% foreign-owned subsidiary of CRA.
- Number of stores in Zhuhai and Macau increased by 2 to 20 during the quarter.
- Business licence for the Dongguan Sun-High joint venture expected to be issued in the third quarter of 2006.
- Strong cash position with HK\$625.9 million and no bank borrowings as of 30 June 2006.

# Convenience Retail Asia Limited

## Unaudited Consolidated Profit & Loss Account

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Revenue	1,075,239	969,618
Cost of sales	(811,231)	(740,981)
Gross profit	<u>264,008</u>	<u>228,637</u>
Other income	94,623	81,273
Store expenses	(263,867)	(229,542)
Distribution costs	(18,590)	(15,977)
Administrative expenses	(39,490)	(31,680)
Profit before income tax	<u>36,684</u>	<u>32,711</u>
Income tax expenses	(7,275)	(5,682)
Profit for the period	<u><u>29,409</u></u>	<u><u>27,029</u></u>
Profit attributable to:		
Shareholders of the Company	32,441	29,787
Minority interests	(3,032)	(2,758)
	<u><u>29,409</u></u>	<u><u>27,029</u></u>
Dividend	<u><u>10,138</u></u>	<u><u>10,091</u></u>
Earnings per share for profit attributable to the shareholders of the Company		
- Basic earnings per share	<u><u>HK4.8 cents</u></u>	<u><u>HK4.4 cents</u></u>
- Diluted earnings per share	<u><u>HK4.8 cents</u></u>	<u><u>HK4.4 cents</u></u>