



For Immediate Release

**Convenience Retail Asia reports moderate sales growth in 1H 2014
amid challenging operating environment**

Group expects difficult 2H with rising costs and decreasing consumer spending

Hong Kong, 14 August 2014 – Convenience Retail Asia Limited, (“CRA” or “the Group”; SEHK: 00831), operator of Circle K convenience stores and Saint Honore Cake Shops in Hong Kong and on the Chinese Mainland, announced that the Group’s turnover increased 3.1% year-on-year to HK\$2,238.6 million during the first six months of 2014, with low-single-digit growth in comparable store sales for the convenience store and bakery businesses in Hong Kong amid a challenging operating environment.

Turnover for the convenience store business increased 3.6% to HK\$1,801.4 million, with comparable store sales in Hong Kong and Southern China increasing by 3.3% and 8.5% respectively compared to the same period in 2013. Turnover for Saint Honore Cake Shops rose 0.7% to HK\$472.2 million, with 2.2% growth in comparable stores sales in Hong Kong.

Core operating profit decreased 2.1% to HK\$64.2 million because of rising cost pressures and reduced corporate sales for festive products. The Group’s net profit dropped by 19% to HK\$48.7 million due to non-operating items. These were mainly reduced income from interest following payment of a special dividend in 2013 that accounted for 50% of the Group’s cash reserves, and an exchange loss resulting from the translation of renminbi time deposits into Hong Kong dollars following the depreciation of the renminbi in the first half of 2014. Net profit was also impacted by start-up losses for the e-commerce platform FingerShopping.com during the period under review.

Gross margin and other income as a percentage of turnover was stable. Rising rental and labour costs resulted in a 0.6% increase in operating expenses as a percentage of turnover compared to the 33.3% recorded in the first half of 2013.

Basic earnings per share decreased by 19.6%, from 8.12 HK cents to 6.53 HK cents. As at 30 June 2014, the Group had a strong financial position with net cash of HK\$442.8 million and no bank borrowings. The Board of Directors has resolved to declare an interim dividend of 3.1 HK cents per share.

Mr. Richard Yeung, Chief Executive Officer of CRA, said, “The retail industry in Hong Kong and the Chinese Mainland is grappling with a very tough operating environment. The increase in operating expenses has outpaced the increase in gross margin. Cost management, operational streamlining, and a continued focus on developing online sales and marketing platforms are going to remain the keys to weathering these external challenges and seeding growth for 2015 and beyond.”

Business Review

Retail growth in Hong Kong continued to slow during the period under review, hampered by lower consumer sentiment, the economic slowdown on the Chinese Mainland and lower spending by Chinese tourists. Operating costs were impacted by wage inflation, high rents and rising raw material prices.

The Group worked to offset some of these external conditions with stringent cost management, particularly in the areas of supply chain management and logistics. Initiatives included enhancements to inventory planning, product allocation and physical distribution.

CRA continued to launch innovative product and seasonal marketing and promotional campaigns to drive sales. The Group found success with its “Craftholic x Candy Inspired Collection” premium promotion at Circle K, which was well received by young female customers, and the “I Am A Soccer Fan” promotion held during the FIFA World Cup 2014, which positively impacted beer and snack sales. CRA also introduced category items such as Japanese snack foods, frozen yogurt, and new mixed noodle products for Circle K’s popular Hot & In hot food counter to strengthen its brand image in the food services category.

Saint Honore’s brand and product recognition continued to strengthen during the period, with the company winning U Magazine’s “My Favourite Cake Shop” award and its signature oval-shaped egg tart being named one of Group Buyer’s “Hong Kong Top 100 Cuisines 2013-2014”. Saint Honore Hong Kong was also named a “Smiling Enterprise” by the Mystery Shopper Service Association.

In response to the rising trend of e-commerce, the Group continues to invest in its FingerShopping.com platform, which was launched in June 2013 and offers online retail services supported by order fulfilment and payment services from Circle K’s brick-and-mortar store network. Although still in its investment phase, FingerShopping.com is already enjoying success among an increasing base of customers

who value choice and convenience.

During the period, the operations in Guangzhou emphasised repeat purchases through its VIP programmes. The Group is also leveraging online platforms for order and pick-up services at Saint Honore stores on the Chinese Mainland.

Outlook

The Group expects a challenging second half in 2014, with high rental and labour costs continuing to place pressure on operating profit.

“Our Hong Kong operations will continue to face difficulties in the second half of the year, mostly because of emerging conservative spending patterns,” said Mr Yeung. “Corporate sales during the festive periods such as Mid-Autumn Festival are traditionally strong for us, but we anticipate a slowdown this year. On the other hand, our business on the Chinese Mainland is expected to yield faster growth, and we plan to support it with strong customer loyalty programmes and marketing campaigns.”

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About CRA

Convenience Retail Asia Limited (CRA, SEHK stock code: 00831), a member of Fung Retailing, is principally engaged in the operation of the Circle K convenience store and Saint Honore Cake Shop bakery chains in Southern China, including Hong Kong and Macau.

As at 30 June 2014, there were a total of 117 Circle K stores outside Hong Kong. In addition to the 336 stores in Hong Kong, the Group operates a total of 453 Circle K stores in Southern China. Together with the Saint Honore chain, which currently has a total of 142 stores in Hong Kong, Macau, Guangzhou and Shenzhen, the Group operates a total store network of 595 outlets as at the end of the first six months of 2014.

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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: 00831)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

Operation Highlights

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

Number of Stores as of 30 June 2014

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

Unaudited Consolidated Profit & Loss Account

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