



For immediate release

**Convenience Retail Asia reports revenue growth
in difficult retail environment**

Profit declines due to higher costs, investment in new projects

Hong Kong, 18 March 2015 – 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, reported revenue of HK\$4,736 million for the year ended 31 December 2014, a 4.8% increase over 2013. The Group attained higher sales despite unfavourable retail conditions, including flat consumer sentiment, declining spending on festive products and higher operating costs.

Core operating profit dropped by 9% to HK\$153 million compared to last year. This was largely because of rising cost pressures, which outweighed growth in comparable store sales across all markets. The Group made investments in its e-Commerce business FingerShopping.com as well as a pilot programme with Sinopec Marketing Co., Ltd. (“Sinopec Marketing”) to manage 10 petrol stations and Easy Joy convenience stores in Guangzhou.

The Group’s net profit declined by 19.5% to HK\$121 million due to the same issues impacting core operating profit, as well as reduced interest income from lower bank deposits after a special dividend payout in 2013 and an exchange loss from the depreciation of the renminbi during the year.

The Circle K and Saint Honore businesses delivered satisfactory performances in 2014 on the back of solid comparable store sales. Turnover for the convenience store business was HK\$3,752 million, an increase of 4.9% year-on-year. Comparable store sales in Hong Kong and Southern China increased by 5.4% and 5.8% respectively against 2013. Turnover for the Saint Honore Cake Shop business increased by 3.2% to HK\$1,049 million. This was primarily due to low-single-digit comparable store sales growth in Hong Kong in 2014.

Gross margin and other income as a percentage of turnover was stable. Operating expenses as a percentage of turnover increased from 33.2% to 33.8% because of higher rents and operating costs, as well as start-up expenses for FingerShopping.com and the pilot programme with Sinopec Marketing.

Basic earnings per share decreased by 20.2%, from 20.27 HK cents to 16.18 HK cents. As at 31 December 2014, the Group had a strong financial position with a net cash balance of HK\$537 million and no bank borrowings. The Board of Directors has resolved to declare a final dividend of 13 HK cents per share.

Mr Richard Yeung, Chief Executive Officer of CRA, said, “Despite a challenging time for the retail industry we are still seeing rising comparable store sales and an increasing number of VIP members in our loyalty programme in Southern China. Circle K and Saint Honore are in advantageous positions to capitalise on any rebound in the domestic economy.”

Mr Yeung added, “While our outlook for 2015 is conservative, we are confident in our ability to drive results through aggressive customer acquisition and organic growth. We have many new initiatives to strengthen our brands and our businesses, especially the investment in FingerShopping.com and collaboration with Sinopec Marketing to operate petrol stations and Easy Joy convenience stores in China. We believe that a favourable customer experience is the key to building brand loyalty, repeat purchases and positive word-of-mouth referral, and we are very pleased with our efforts in this area. Also, our core operations and financials remain healthy.”

Business Review

The Hong Kong retail sector saw a slowdown in 2014, ending a long period of high growth. Primary causes were flat consumer sentiment among locals and a decline in spending by Chinese Mainland tourists. High rents and the on-going labour shortage continued to impact the Group’s operating costs in Hong Kong. On the Chinese Mainland, the year-on-year growth of total retail sales posted a slight drop from 13.1% in 2013 to 12% in 2014.

CRA responded by focusing on strict cost controls, innovative marketing and promotions, and the continued rollout of employee satisfaction and retention initiatives. Circle K and Saint Honore continued to emphasise customer service as a key driver for business growth and brand loyalty, with Circle K winning “Service Retailer of the Year” in the Convenience Stores category of the Hong Kong Retail Management Association’s Mystery Shoppers Programme for the fifth consecutive time.

Category management also continued to play a major role in the Group’s business strategy. During the year the Group unveiled a number of season- and event-related promotions focusing on specific product ranges to attract customers and drive sales. One successful promotion was the new “Just Hot” platform introduced at Circle K, which highlighted popular packaged hot beverages from Japan to capitalise on the cooler months.

The Group’s O2O (online to offline) retailing platform FingerShopping.com remains in the investment phase, but has demonstrated strong growth potential for the medium to long term. By leveraging the e-platform, the Group encourages in-person payment and pickup of online purchases at Circle K stores to drive revenue, store traffic and brand loyalty.

In October 2014, the Group launched a pilot programme with Sinopec Marketing designed to expand its retail portfolio. Under the programme, CRA has taken over the operation of 10 Sinopec petrol stations and Easy Joy convenience stores in Guangzhou, which will be followed by a review period to assess enlarging and formalising the agreement for further collaboration between the two companies in China.

Outlook

CRA anticipates that the slowdown in the Hong Kong retail sector will continue due to flat local sentiment and moderate spending by Chinese Mainland tourists. The Group also expects high operating costs to continue, particularly in the areas of rent and labour, as well as more challenges on the horizon in Hong Kong due to proposed standard working hours, a minimum wage review and new plastic bag levy.

On the Chinese Mainland, the government is expected to encourage spending by the middle class. The Group believes this could benefit the convenience retail industry.

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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 31 December 2014, there were a total of 127 Circle K stores outside Hong Kong. In addition to the 329 stores in Hong Kong, the Group operates a total of 456 Circle K stores in Southern China. Together with the Saint Honore chain, which currently has a total of 148 stores in Hong Kong, Macau, Guangzhou and Shenzhen, the Group operates a total store network of 604 outlets as at the end 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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

	Change	2014 HK\$'000	2013 HK\$'000
• Revenue	+4.8%	4,736,444	4,521,289
• Core operating profit	-9.0%	152,787	167,923
• Profit attributable to shareholders of the Company	-19.5%	121,032	150,353
• Basic earnings per share (HK cents)	-20.2%	16.18	20.27
• Dividend per share (HK cents)			
Final	Nil	13.00	13.00
Full year			
• Basic	-4.2%	16.10	16.80
• Special – paid	N/A	Nil	40.00

Operation Highlights

- Market sentiment remains weak, while rental and labour costs stay high
- Core operating profit declined by 9% while net profit dropped by 19.5% due to non-operating items (exchange loss and reduced interest income), investments in e-Commerce platform FingerShopping.com and pilot programme with Sinopec Marketing
- 2015 is expected to be another challenging year, due to a tough operating environment and the impact of certain projects currently in investment phase
- Group maintains a strong financial position with net cash of HK\$537 million without any bank borrowings

Number of Stores as of 31 December 2014

Circle K Stores	
Hong Kong	329
Guangzhou	79
Subtotal	408
Franchised Circle K Stores	
Guangzhou	10
Macau	26
Zhuhai	12
Subtotal	48
Total number of Circle K Stores	<u>456</u>
Saint Honore Cake Shops	
Hong Kong	93
Macau	9
Guangzhou	43
Shenzhen	3
Total number of Saint Honore Cake Shops	<u>148</u>
Total number of Stores under Convenience Retail Asia	<u>604</u>

Consolidated Profit and Loss Account

	Year ended 31 December	
	2014	2013
	HK\$'000	HK\$'000 (Restated)
Revenue	4,736,444	4,521,289
Cost of sales	(3,083,026)	(2,941,541)
Gross profit	<u>1,653,418</u>	<u>1,579,748</u>
Other income	97,033	86,417
Store expenses	(1,267,552)	(1,188,036)
Distribution costs	(118,419)	(110,663)
Administrative expenses	(211,693)	(199,543)
Core operating profit	<u>152,787</u>	<u>167,923</u>
Non-core operating (loss)/gain	(1,334)	9,366
Operating profit	<u>151,453</u>	<u>177,289</u>
Interest income	5,652	7,483
Profit before income tax	<u>157,105</u>	<u>184,772</u>
Income tax expenses	(36,073)	(34,419)
Profit attributable to shareholders of the Company	<u><u>121,032</u></u>	<u><u>150,353</u></u>
Earnings per share (HK cents)		
Basic	<u><u>16.18</u></u>	<u><u>20.27</u></u>
Diluted	<u><u>16.06</u></u>	<u><u>20.04</u></u>
Dividends	<u><u>121,021</u></u>	<u><u>422,047</u></u>