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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)

CONNECTED TRANSACTION DISPOSAL OF INTERESTS IN SUBSIDIARIES

CONTINUING CONNECTED TRANSACTIONS FOLLOWING COMPLETION

The Board is pleased to announce that on 25 August 2015, CRA (a wholly-owned subsidiary of the Company) entered into the SP Agreement with FH 1937, pursuant to which CRA agreed to sell and FH 1937 agreed to purchase the Sale Shares and the benefit of the Sale Indebtedness, for a total cash consideration of HK\$104.5 million (subject to adjustment). Following Completion (which took place immediately after the signing of the SP Agreement), CRA's Circle K convenience store business in Guangzhou, the PRC (including the underlying assets and liabilities) has been transferred to FH 1937.

FH 1937, via its wholly owned subsidiary Fung Retailing Limited, is a controlling shareholder of the Company which is interested in 311,792,000 Shares in the Company as at the date of this announcement, representing approximately 41.33% of the existing issued share capital of the Company. Accordingly, FH 1937 is a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Disposal are more than 0.1% but all are less than 5%, the Disposal is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement, under the Listing Rules.

The Company expects to recognise a one-off gain of approximately HK\$50 million as a result of the Disposal. The Target Group, principally engaged in the operation of the convenience store business in Guangzhou, has been operating at significant losses since its commencement of operations in 2002. The Directors consider that the operating environment of the convenience store business in the PRC will remain challenging and find it difficult to estimate when a satisfactory financial return from the operations could be achieved. The Disposal can provide an immediate exit to discard the financial burden of the Target Group and improve the overall profitability of the Group, which is in the interests of the Company and its shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS FOLLOWING COMPLETION

The Disposal was completed immediately after the signing of the SP Agreement. Following Completion, members of the Target Group have ceased to be subsidiaries of the Company and became connected persons of the Company by virtue of being subsidiaries of FH 1937.

To ensure smooth transition of the Circle K convenience store business operated by the CK PRC Group following Completion, the parties have agreed that all existing operational arrangements and related terms and conditions among the Target Group and the Group will mostly remain unchanged. Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding such continuing connected transactions. Among those transactions, as the Group will continue to sell food products to the Circle K convenience store business operated by the CK PRC Group following Completion, the Company has also entered into the Master Purchase Agreement with FH 1937, details of which are set out in the announcement below.

Since the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the maximum aggregate consideration received by the Group under the Master Purchase Agreement (i.e. the Purchase Cap) exceed 0.1% but all are less than 5%, the transactions contemplated under the Master Purchase Agreement is subject only to annual review, reporting and announcement requirements, but are exempt from independent shareholders' approval requirements.

A1. SP AGREEMENT

Date

25 August 2015

Parties

- (1) CRA, a wholly-owned subsidiary of the Company, as vendor; and
- (2) FH 1937, as purchaser.

Assets to be disposed of

- (1) the CK Sale Shares, representing 100% equity interest of CK PRC;
- (2) the CKP Sale Shares, representing 100% equity interest of CKP;
- (3) the NS Sale Share, representing 100% equity interest of New Success; and
- (4) the benefit of the Sale Indebtedness.

The Sale Indebtedness shall represent all indebtedness owing by the Target Group to CRA as at the Completion Date, which as at 30 June 2015, was approximately HK\$209.8 million.

Consideration

Pursuant to the SP Agreement, the aggregate consideration for the Sale Shares and the benefit of the Sale Indebtedness is HK\$104.5 million (subject to adjustment). The consideration was determined following arm's length negotiation between the parties after taking into account the value and the business prospect of the Target Group's businesses (i.e. Circle K convenience store business in Guangzhou, the PRC) and the terms of the transaction taken as a whole, and with reference to (a) the combined net deficit, after adjusting for the independent property valuation, of the Target Group of HK\$135.3 million as of 30 June 2015; and (b) the principal amount of the Sale Indebtedness.

The above consideration will be adjusted after Completion with reference to the combined working capital of the Target Group as at the Completion Date, pursuant to the accounts for the period from 1 January 2015 to the Completion Date (the "**Completion Accounts**") to be prepared in accordance the SP Agreement, on the following basis: (a) if the combined working capital of the Target Group is more than HK\$8.3 million, the consideration shall be increased by the same amount; and (b) if the combined working capital of the Target Group is less than HK\$8.3 million, the consideration shall be reduced by the same amount. As at 30 June 2015, the combined working capital of the Target Group was approximately HK\$1.3 million.

Payment terms

The consideration shall be payable in cash at Completion. The adjustment to the consideration as mentioned above (if any) shall be payable within five business days after the agreement or determination of the Completion Accounts.

Completion

The Disposal was completed immediately upon the execution of the SP Agreement. Following Completion, members of the Target Group have ceased to be subsidiaries of the Company and CRA's Circle K convenience store business in Guangzhou, the PRC (including the underlying assets and liabilities) has been transferred to FH 1937.

A2. INFORMATION ABOUT THE TARGET GROUP

CK PRC Group

CK PRC is a company incorporated in Hong Kong which, through its 99.3%-owned subsidiary CRSC, is principally engaged in the operation of more than 80 Circle K stores mainly located in Guangzhou, the PRC. CRSC commenced business operations in 2002. CRSC is the legal and beneficial owner of two street-front shops located at Guangzhou, the PRC, which has been used and will continue to be used to support the business operation of CRSC after Completion.

The unaudited consolidated net loss (before and after taxation) of CK PRC Group for the two years ended 31 December 2013 and 2014 was approximately HK\$20.5 million and approximately HK\$21.4 million, respectively. The unaudited consolidated net deficit of CK PRC Group as at 30 June 2015 was approximately HK\$180.5 million.

CKP

CKP is a company incorporated under the laws of Hong Kong. CKP is the legal and beneficial owner of two street-front shops located at Guangzhou and Dongguan, the PRC, which has been used and will continue to be used to support the business operation of CRSC after Completion.

The unaudited net profit (before and after taxation) of CKP for the two years ended 31 December 2013 and 2014 were approximately HK\$0.4 million and approximately HK\$0.4 million, respectively. The unaudited net assets of CKP as at 30 June 2015 was approximately HK\$1.9 million.

New Success and Convenience Consultancy

New Success is a company incorporated under the laws of the British Virgin Islands and is principally engaged in the investment holding of Convenience Consultancy as at the date of this announcement. Each of New Success and Convenience Consultancy is newly incorporated in 2015 and has not carried on any business since incorporation.

A3. REASONS FOR AND BENEFITS OF THE DISPOSAL

CK PRC Group, principally engaged in the operation of the convenience store business in Guangzhou through CRSC, has been operating at significant losses since its commencement of operations in 2002. The Directors consider that the operating environment of the convenience store business in the PRC would remain challenging in the near future, and it is difficult to estimate the time horizon and financial results for investing in this business before it can contribute a satisfactory financial return to the Company.

In view of the above, the Company decided to dispose of its entire interest in the Target Group. The Disposal can provide an immediate exit to discard the financial burden of the Target Group and improve the overall profitability of the Group, which is in the interests of the Company and its shareholders as a whole.

Upon Completion, the Group will no longer pursue the pilot programme with Sinopec Marketing Co., Ltd. (中國石化銷售有限公司) relating to the operation of ten petroleum stations and Easy Joy convenience stores in Guangzhou City, the PRC as mentioned in the announcement of the Company dated 8 October 2014, which has expired on 30 June 2015 and will, following Completion, be taken up by the FH 1937 Group.

The Directors are of the view that the terms of the SP Agreement (including the consideration) are negotiated on arm's length basis and are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, both being directors of FH 1937, are considered to have a material interest in the Disposal by virtue of their deemed interests in FH 1937, and therefore abstained from voting on the board resolution in respect of the Disposal. As Mr. Benedict Chang Yew Teck and Mr. Jeremy Paul Egerton Hobbins, both being directors of the Company, are also directors of FH 1937, they have also abstained from voting on the board resolution in respect of the Disposal.

A4. FINANCIAL IMPACT OF THE DISPOSAL ON THE COMPANY

Following Completion, members of the Target Group ceased to be subsidiaries of the Company, and their financial results will no longer be consolidated into the Group's financial statements. The Company ceased to hold any interest in the Target Group.

The Group expects to recognise a one-off gain of approximately HK\$50 million, which is calculated with reference to the consideration less the combined net deficit of the Target Group, the estimated amount of Sale Indebtedness as at the Completion Date and the transaction costs for the Disposal. The above-mentioned estimation may be different from the actual financial effect of the Disposal.

It is intended that the net proceeds from the Disposal will be used by the Group for general working capital purposes and to fund the Group's future project investments once suitable targets are identified.

A5. LISTING RULES IMPLICATIONS

FH 1937, via its wholly owned subsidiary Fung Retailing Limited, is a controlling shareholder of the Company which is interested in 311,792,000 Shares in the Company as at the date of this announcement, representing approximately 41.33% of the existing issued share capital of the Company. Accordingly, FH 1937 is a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Since the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the Disposal are more than 0.1% but all are less than 5%, the Disposal is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement, under the Listing Rules.

B1. CONTINUING CONNECTED TRANSACTIONS FOLLOWING COMPLETION

The Disposal was completed immediately after signing of the SP Agreement, following which members of the Target Group ceased to be subsidiaries of the Company and became connected persons of the Company by virtue of being subsidiaries of FH 1937.

To ensure smooth transition of the Circle K convenience store business operated by CK PRC Group following Completion, the parties have agreed that all existing operational arrangements and related terms and conditions among the Target Group and the Group will mostly remain unchanged.

Set out below are arrangements and transactions among the CK PRC Group and the Group that will continue after Completion and which have become continuing connected transactions of the Group. Pursuant to Rule 14A.60 of the Listing Rules, the Company is required to comply with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules regarding such continuing connected transactions.

Fully exempt transactions

- (1) Sharing of managerial and administrative services, including but not limited to, finance and accounting, secretarial and corporate compliance, management of information systems, human resources management, and other administrative support services which are non-operational in nature in respect of marketing, store design, logistics and store leasing matters between the CK PRC Group and the Group, where the expenses were shared on a cost recovery basis
- (2) Consignment of festive products and related marketing services by the CK PRC Group to the Group
- (3) Lease of store premise and office by the Group to the CK PRC Group
- (4) Sub-licensing of the right to operate under the "Circle K" licence in the authorised territory in the PRC by the Group to the CK PRC Group

The transactions set out in paragraph (1) above are fully exempt from disclosure obligations under Chapter 14A of the Listing Rules pursuant to Rule 14A.98 of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules, calculated with reference to the expected maximum aggregate amount payable for each of the transactions contemplated under paragraphs (2), (3) and (4) above for the period commencing from 25 August 2015 (the Completion Date) up to 31 December 2015 are less than 5% and each of the expected maximum aggregate amount payable is less than HK\$3 million, the transactions set out in paragraphs (2), (3) and (4) above are fully exempt from reporting and disclosure requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76 of the Listing Rules.

Non-exempt transactions covered by Master Agreement I or Master Agreement II

- (5) Sale of food and non-food products from the CK PRC Group to the Group
- (6) Sub-lease of retail store by CK PRC Group to the Group

Following Completion, the transactions set out in paragraph (5) above shall be subject to annual cap amounts provided under the Master Agreement I dated 22 November 2012 entered into between FH 1937 and the Company, details of which are disclosed in the announcement of the Company dated 22 November 2012.

Following Completion, the transactions set out in paragraph (6) above shall be subject to annual cap amounts provided under the Master Agreement II dated 22 November 2012 entered into between FH 1937 and the Company, details of which are disclosed in the announcement of the Company dated 22 November 2012.

Non-exempt transaction subject to reporting and disclosure requirements under Chapter 14A of the Listing Rules

(7) Purchase of food products by the CK PRC Group from the Group

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules, calculated with reference to the maximum aggregate annual amount payable for the transaction contemplated under paragraph (7) above are more than 0.1% but are less than 5%, these transactions are therefore subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

In light of the above, the Company has entered into the Master Purchase Agreement with FH 1937, principal terms of which are set out below.

B2. MASTER PURCHASE AGREEMENT

- Date : 25 August 2015
- Parties : (1) FH 1937
(2) the Company
- Subject matter : Pursuant to the Master Purchase Agreement, the Group agreed to sell, and the FH 1937 Group agreed to purchase food products on a non-exclusive basis during the term of the Master Purchase Agreement.
- Term : The period commencing on 25 August 2015 and expiring on 31 December 2015
- Pricing basis : FH 1937 Group will purchase food products from the Group on the Group's standard terms of business or on terms no less favourable than terms available to independent third parties.

The purchase price under the Master Purchase Agreement shall be calculated by the unit cost of the relevant product plus a reasonable mark-up. Based on current market conditions and the Company's pricing guidelines, the Directors expects the mark-up rate to range from 0% to 20%, depending on the relevant product category.

Currently, it is the Group's practice to review its standard terms of business and pricing guidelines periodically with reference to price charged by competitors and prevailing market conditions to maintain its overall competitiveness and profitability.

- Payment terms : The payment for the purchase of products will be made in cash by the FH 1937 Group to the Group on a monthly basis within a maximum of 30 days after the issue of the month end statement.

Historical figures

For the years ended 31 December 2012, 2013 and 2014, the amounts paid by the CK PRC Group for food products sourced from the Group were approximately HK\$17.1 million, HK\$18.1 million and HK\$18.7 million, respectively.

Proposed cap amount

The maximum aggregate consideration payable by the FH 1937 Group to the Group under the Master Purchase Agreement during the term of the Master Purchase Agreement shall not exceed HK\$12 million (the "**Purchase Cap**"). The Purchase Cap was determined based on the Company's estimate of the demand for the products to be purchased by the FH 1937 Group with reference to the projected amount of sale of such products by the FH 1937 Group.

B3. REASONS AND BENEFITS OF ENTERING INTO THE MASTER PURCHASE AGREEMENT

Prior to the Completion, members of the Target Group were subsidiaries of the Company and purchased food products from other members (namely Saint Honore Cake Shop (Shenzhen) Limited and Saint Honore Cake Shop Guangzhou Limited) of the Group. Given the affiliation between the Group and FH 1937 Group, members of the Target Group, which has become members of the FH 1937 Group, will continue to purchase food products from members of the Group in view of business needs and administrative convenience.

The Directors are of the view that the purchase of food products by the FH 1937 Group from the Group are and will continue to be conducted in the ordinary course of business of the Group, the terms of the Master Purchase Agreement (together with Purchase Cap) are negotiated on arm's length basis and are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Dr. Victor Fung Kwok King and Dr. William Fung Kwok Lun, both being directors of FH 1937, are considered to have a material interest in the Master Purchase Agreement by virtue of their deemed interests in FH 1937, and therefore abstained from voting on the board resolution in respect of the Master Purchase Agreement. As Mr. Benedict Chang Yew Teck and Mr. Jeremy Paul Egerton Hobbins, both directors of the Company, are also directors of FH 1937, they have also abstained from voting on the board resolution in respect of the Master Purchase Agreement.

B4. REVIEW OF CONTINUING CONNECTED TRANSACTIONS WITH FH 1937 GROUP

Each of the Master Agreement I, Master Agreement II and the Master Purchase Agreement will expire on 31 December 2015. The Company shall conduct a review of all the continuing connected transactions between the FH 1937 Group and the Group by the end of 2015, and, where required, enter into new master agreements with member(s) of the FH 1937 Group. The Company will make further announcements as and when required.

B5. LISTING RULES IMPLICATIONS

As FH 1937, via its wholly owned subsidiary Fung Retailing Limited, is a controlling shareholder of the Company which is interested in 311,792,000 Shares in the Company as at the date of this announcement (representing approximately 41.33% of the existing issued share capital of the Company), FH 1937 is a connected person of the Company. Accordingly, members of the FH 1937 Group are connected persons of the Group and the purchase of food products by members of the FH 1937 Group from members of the Group constitute continuing connected transactions for the Company. Since the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the maximum aggregate consideration payable by the FH 1937 Group to the Group under the Master Purchase Agreement (i.e. the Purchase Cap) exceed 0.1% but all are less than 5%, the transactions contemplated under the Master Purchase Agreement are subject only to annual review, reporting and announcement requirements, but are exempt from independent shareholders' approval requirements.

GENERAL

The principal businesses of the Group are the operation of convenience stores and bakeries under the brand name of Circle K and Saint Honore respectively in Hong Kong, Macau and the Pearl River Delta region.

FH 1937 is an investment holding company. FH 1937 Group focuses on four main businesses - trading, logistics, distribution and retailing.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meaning:

“associate(s)”, “connected person(s)” and “controlling shareholder”	have the meanings ascribed to them in the Listing Rules
“Board”	the board of Directors
“CK PRC”	Circle K Convenience Stores PRC Limited (OK便利店中國投資有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company prior to Completion which became a subsidiary of FH 1937 after Completion
“CK PRC Group”	CK PRC and its subsidiaries
“CK Sale Shares”	two ordinary shares in the capital of CK PRC, representing all the issued shares of CK PRC
“CKP”	Circle K PRC Properties Limited (利亞中國物業投資有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company prior to Completion which became a subsidiary of FH 1937 after Completion
“CKP Sale Shares”	two ordinary shares in the capital of CKP, representing all the issued shares of CKP
“Company”	Convenience Retail Asia Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Completion”	completion of the Disposal in accordance with the terms of the SP Agreement
“Completion Accounts”	has the meaning given to it under the section headed “A1. SP Agreement — Consideration” of this announcement
“Completion Date”	the date on which Completion takes place
“Convenience Consultancy”	Convenience Consultancy Services Limited (利亞諮詢服務有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company prior to Completion which became a subsidiary of FH 1937 after Completion
“CRA”	Convenience Retail Asia (BVI) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company

“CRSC”	利亞華南便利店有限公司(Convenience Retail Southern China Limited), a company established in the PRC and a 99.3%-owned subsidiary of the Company prior to Completion which became a subsidiary of FH 1937 after Completion
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares and the Sale Indebtedness by CRA to FH 1937 pursuant to the SP Agreement
“FH 1937”	Fung Holdings (1937) Limited, a company incorporated under the laws of Hong Kong
“FH 1937 Group”	FH 1937 and its associates (excluding the Group), Li & Fung Limited, Global Brands Group Holding Limited and their respective subsidiaries
“Group”	the Company and its subsidiaries from time to time (excluding the Target Group)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Master Agreement I”	the master agreement entered into between the Company and FH 1937 on 22 November 2012 in relation to the purchases of various products (being both food and non-food products) by the Group from FH 1937 Group
“Master Agreement II”	the master agreement entered into between the Company and FH 1937 on 22 November 2012 in relation to the leasing of properties and / or licensing of the right to use properties (or any part thereof) by FH 1937 Group to the Group
“Master Purchase Agreement”	the master agreement entered into between the Company and FH 1937 on [25 August] 2015 in relation to the purchase of food products by the FH 1937 Group from the Group
“New Success”	New Success Ventures Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company prior to Completion which became a subsidiary of FH 1937 after Completion
“NS Sale Share”	one share of US\$1.00 each in the capital of New Success, representing the entire issued share capital of New Success

“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, Macau and Taiwan)
“Purchase Cap”	the maximum aggregate consideration payable by the FH 1937 Group to the Group under the Master Purchase Agreement
“Sale Indebtedness ”	the indebtedness owing by the Target Group to CRA as at the Completion Date
“Sale Shares”	collectively, the CK Sale Shares, the CKP Sale Shares and the NS Sale Share
“SP Agreement”	the sale and purchase agreement entered into between CRA and FH 1937 on 25 August 2015 in relation to the Disposal
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	CK PRC Group, CKP, New Success and Convenience Consultancy
“%”	per cent

On behalf of the Board
Convenience Retail Asia Limited
Richard YEUNG Lap Bun
Executive Director

Hong Kong, 25 August 2015

As at the date of this announcement, Executive Directors of the Company are Mr. Richard Yeung Lap Bun and Mr. Pak Chi Kin; Non-executive Directors are Dr. Victor Fung Kwok King, Dr. William Fung Kwok Lun, Mr. Jeremy Paul Egerton Hobbins, Mr. Godfrey Ernest Scotchbrook and Mr. Benedict Chang Yew Teck; Independent Non-executive Directors are Mr. Malcolm Au Man Chung, Mr. Anthony Lo Kai Yiu, Mr. Zhang Hongyi and Dr. Sarah Mary Liao Sau Tung.