CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors of Convenience Retail Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to Convenience Retail Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONVENIENCE RETAIL ASIA LIMITED

利亞零售有限公司

(Incorporated in the Cayman Islands with limited liability)

RESULT ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

Highlights

- Satisfactory growth in turnover and profit despite the challenging economic environment in Hong Kong and investment in the Guangzhou stores.
- Turnover increased by 9.5% over the previous year to HK$1.5 billion.
- Profit attributable to shareholders increased by 0.5% to HK$60.7 million.
- Basic earnings per share remained unchanged at 9.1 HK cents.
- Number of stores in Hong Kong increased by 20 to 186, while that in Guangzhou increased by 5 to 7 as at 31 December 2003.
- Strong cash position with HK$460 million cash on hand and free of bank borrowings as at 31 December 2003.
- Having acquired a full year's operational experience in Guangzhou, the pace of store-opening programme on the Chinese Mainland will be accelerated in 2004.
- The board of directors has resolved to recommend a final dividend of 3 HK cents per share.

RESULTS

The board of directors ("the Board") is pleased to announce the audited results of Convenience Retail Asia Limited ("the Company" or "CRA") and its subsidiaries (collectively the "Group") for the year ended 31 December 2003, together with the comparative audited figures for the corresponding year ended 31 December 2002 as follows:

	Note	**2003** HK$'000	**2002** HK$'000 (Restated)*
Turnover	2	1,526,099	1,393,542
Cost of sales		(1,141,575)	(1,044,124)
Gross profit		384,524	349,418
Other revenues	2	120,111	114,575
Store expenses		(354,832)	(316,596)
Distribution costs		(24,548)	(21,513)
Administrative expenses		(56,409)	(48,255)
Start-up costs for China operations		-	(8,339)
Profit before taxation	3	68,846	69,290
Taxation	4	(12,769)	(11,639)
Profit after taxation		56,077	57,651
Minority interests		4,630	2,739
Profit attributable to shareholders		60,707	60,390
Dividend	5	26,772	-
Basic earnings per share	6	9.1 cents	9.1 cents
Diluted earnings per share	6	9.0 cents	9.0 cents

* *Restated for income tax effect per Statement of Standard Accounting Practice ("SSAP") No. 12 (revised) "Income Taxes" and long service payment costs per SSAP No. 34 (revised) "Employee Benefits" issued by the Hong Kong Society of Accountants*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital	**Share premium**	**Merger reserve**	**Capital reserve**	**Exchange reserve**	**Retained earnings/ (accumulated losses)**	**Total shareholders' equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2002, as previously reported	65,560	103,915	177,087	13,433	-	(92,390)	267,605
Effect of changes in accounting policies							
- deferred tax (note 1(a))	-	-	-	-	-	13,798	13,798
- long service payment liabilities (note 1(b))	-	-	-	-	-	(7,132)	(7,132)
At 1 January 2002, as restated	65,560	103,915	177,087	13,433	-	(85,724)	274,271
Issuance of shares	1,162	9,529	-	-	-	-	10,691
Profit for the year attributable to shareholders	-	-	-	-	-	60,390	60,390
At 31 December 2002	66,722	113,444	177,087	13,433	-	(25,334)	345,352
At 1 January 2003, as previously reported	66,722	113,444	177,087	13,433	-	(20,273)	350,413
Effect of changes in accounting policies							
- deferred tax (note 1(a))	-	-	-	-	-	2,139	2,139
- long service payment liabilities (note 1(b))	-	-	-	-	-	(7,200)	(7,200)
At 1 January 2003, as restated	66,722	113,444	177,087	13,433	-	(25,334)	345,352
Issuance of shares	199	1,632	-	-	-	-	1,831
Exchange differences	-	-	-	-	43	-	43
Profit for the year attributable to shareholders	-	-	-	-	-	60,707	60,707
Dividend	-	-	-	-	-	(6,685)	(6,685)
At 31 December 2003	66,921	115,076	177,087	13,433	43	28,688	401,248

Notes:

1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised)	:	Income Taxes
SSAP 34 (revised)	:	Employee Benefits

The changes to the Group's accounting policies and the effect of adopting these revised policies are set out below.

(a) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the consolidated statement of changes in equity, opening accumulated losses at 1 January 2002 and 2003 have been reduced by HK$13,798,000 and HK$2,139,000 respectively which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK$2,779,000 and HK$647,000 respectively. The profit attributable to shareholders for the year ended 31 December 2002 has been reduced by HK$11,659,000.

(b) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) **Employee benefits** (continued)

(ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Pension obligations

The Group's contributions to a defined contribution retirement scheme which is available to all employees are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' salaries.

The assets of the schemes are held separately from those of the Group in an independently administered fund.

(iv) Long service payment liabilities

The Group's net obligation in respect of long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The long service payment liabilities are assessed using the projected unit credit method. The cost of providing the long service payment liabilities is charged to the profit and loss account so as to spread the costs over the service lives of employees in accordance with the advice of the actuaries who carried out a full valuation at 31 December 2003.

The long service payment liabilities are discounted to determine the present value and reduced by entitlements accrued under the Group's defined contribution retirement scheme that is attributable to contributions made by the Group. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

In prior year, the long service payment costs were charged to the profit and loss account when benefits were paid. The adoption of the revised SSAP 34 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the consolidated statement of changes in equity, opening accumulated losses at 1 January 2002 and 2003 have been increased by HK$7,132,000 and HK$7,200,000 respectively which represent the unprovided long service payment liabilities. This change has resulted in an increase in long service payment liabilities at 31 December 2002 by HK$7,200,000. The profit for the year ended 31 December 2002 has been reduced by HK$68,000.

(c) **Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude item such as taxation. Capital expenditure comprises additions to fixed assets. Unallocated items mainly comprise deposits held at call with banks and taxation.

In respect of geographical segment reporting, sales are based on the areas in which the assets are located. Total assets and capital expenditure are where the assets are located.

2. Turnover, other revenues and segment information

The Group is principally engaged in the operation of a chain of convenience stores. Revenues recognised during the year are as follows:

	2003	**2002**
	HK$'000	HK$'000
Turnover		
Merchandise sales revenue	1,526,099	1,393,542
Other revenues		
Supplier rebate and promotion fees	100,147	92,865
Service items income	13,503	14,584
Interest income	6,461	7,126
	120,111	114,575
Total revenues	1,646,210	1,508,117

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and the title has passed.

Supplier rebate and promotion fees are recognised in accordance with the terms of agreements with the vendors.

Revenue from provisions of services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2 **Turnover, other revenues and segment information** (continued)

Primary reporting format – geographical segments

The Group operates in two geographical areas: Hong Kong and Chinese Mainland.

	Hong Kong 2003 HK$'000	**Chinese Mainland 2003** HK$'000	**Group 2003** HK$'000
Turnover from external customers	1,517,078	9,021	1,526,099
Other revenues from external customers	112,698	952	113,650
	1,629,776	9,973	1,639,749
Segment results	75,601	(13,216)	62,385
Interest income			6,461
Profit before taxation			68,846
Taxation			(12,769)
Profit after taxation			56,077
Minority interests	72	4,558	4,630
Profit attributable to shareholders			60,707
Depreciation	31,465	3,240	34,705
Amortisation	78	-	78

2 Turnover, other revenues and segment information (continued)

Primary reporting format – geographical segments (continued)

	Hong Kong 2002 HK$'000	**Chinese Mainland 2002** HK$'000	**Group 2002** HK$'000 (Restated)
Turnover from external customers	1,393,288	254	1,393,542
Other revenues from external customers	107,431	18	107,449
	1,500,719	272	1,500,991
Segment results	65,842	(3,678)	62,164
Interest income			7,126
Profit before taxation			69,290
Taxation			(11,639)
Profit after taxation			57,651
Minority interests	290	2,449	2,739
Profit attributable to shareholders			60,390
Depreciation	25,621	142	25,763
Amortisation	78	-	78

There are no sales between the geographical segments.

No business activity analysis is presented for the years ended 31 December 2003 and 2002 as substantially all the Group's turnover and contribution to results were derived from the operation of a chain of convenience stores in Hong Kong and Chinese Mainland.

3. Profit before taxation

Profit before taxation is stated after charging the following:

	2003 HK$'000	2002 HK$'000
Amortisation of franchise licence	78	78
Cost of inventories sold	1,126,685	1,031,368
Depreciation of owned fixed assets	34,705	25,763

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year. No Hong Kong profits tax had been provided for the year ended 31 December 2002 as the Group had been able to utilise available tax losses brought forward from previous years to offset the assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. No provision for overseas profits tax has been made as the Group has no overseas estimated assessable profit for the years ended 31 December 2003 and 2002.

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK$'000	2002 HK$'000 (Restated)
Current taxation - Hong Kong profits tax	10,650	-
Deferred taxation relating to the origination and reversal of temporary differences	2,319	11,639
Deferred taxation resulting from an increase in tax rate	(200)	-
Taxation	12,769	11,639

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the companies as follows:

	2003 HK$'000	2002 HK$'000 (Restated)
Profit before taxation	68,846	69,290
Calculated at a taxation rate of 17.5% (2002: 16%)	12,048	11,087
Effect of different taxation rates in other jurisdiction	(2,018)	(617)
Income not subject to taxation	(1,103)	(1,132)
Expenses not deductible for tax purposes	495	1,056
Tax losses not recognised	4,304	984
Utilisation of previously unrecognised tax losses	(187)	-
Effect of change in tax rates	(200)	-
Utilisation of previously unrecognised temporary differences	(570)	-
Recognition of previously unrecognised temporary differences	-	261
Taxation	12,769	11,639

5. Dividend

	2003	2002
	HK$'000	HK$'000
Interim dividend, paid, of 1 HK cent (2002: Nil) per share	6,685	-
Final dividend, proposed, of 3 HK cents (2002: Nil) per share	20,087	-
	26,772	-

At a meeting held on 3 March 2004, the directors proposed a final dividend of 3 HK cents per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

6. Earnings per share

The calculation of the Group's basic and diluted earnings per share is based on the consolidated profit attributable to shareholders of HK$60,707,000 (2002: HK$60,390,000 (restated)).

The basic earnings per share is based on the weighted average of 668,371,945 (2002: 664,448,164) shares in issue during the year.

The diluted earnings per share is based on the weighted average number of 668,371,945 (2002: 664,448,164) shares in issue during the year plus the weighted average of 3,605,436 (2002: 6,501,518) shares deemed to be issued at no consideration if all outstanding options had been exercised.

CHAIRMAN'S STATEMENT

FINANCIAL OVERVIEW

Despite unfavourable market conditions in the first half of 2003, the Group was able to maintain a satisfactory sales growth of 9.5% and a small net profit increase of 0.5% for the year under review compared to 2002. Basic earnings per share remained unchanged at 9.1 HK cents.

It is also gratifying to note that the Group was able to maintain the momentum of net profit growth in the fourth quarter and net profit increased by 9.1% in the fourth quarter compared with the same period in 2002. The Group continued to register a strong balance sheet with a net cash position of HK$460 million, free of any bank borrowings.

REVIEW OF THE HONG KONG RETAIL MARKET

The year began with a depressed economy in Hong Kong as was reflected by major economic indicators. Though retail sales for the Chinese New Year holidays reported encouraging growth, deflation and high unemployment continued to plague the economy. The unfavourable market environment deteriorated further in mid-March with the outbreak of SARS, which abruptly curbed tourist arrivals and spending, especially after the travel advisory issued by the World Health Organization ("WHO").

An immediate downturn in retail sales across all market sectors accelerated increase in unemployment rate and persistent price deflation set the tone for an extremely challenging year.

In April and May, the economy was at its worst, registering a 15.2% and 11.1% drop in retail sales value respectively. Tourist arrivals plunged by -65% in April, reaching a new low of -67.8% in May 2003.

In June and July, a slight improvement in retail sales was registered with single instead of double digit decreases. Following the lifting of the WHO travel advisory on 23 May, tourist arrival figures improved significantly. Related sectors such as the retail trade, airlines and travel services began to show gradual yet noticeable recovery. Average daily passenger flow at the Hong Kong International Airport almost returned to the pre-SARS level, reaching nearly 80,000 in July. By December 2003, passenger traffic recorded for the month surpassed pre-SARS level. The unemployment rate also started to drop slowly from June onwards after hitting a new high of 8.7%.

The real turning point came with the signing of the Closer Economic Partnership Arrangement ("CEPA") on 30 June and the visa relaxation for frequent individual travellers to Hong Kong from major cities on the Chinese Mainland in the third quarter. By October, visitor arrivals hit a record 1.7 million, while visitors from the Chinese Mainland rose 31%.

Though the convenience store business was not a direct beneficiary of the increased tourist spending, the improvement in market sentiment helped to enhance the consumer mood. This was reflected in consumer surveys conducted by the Hong Kong Retail Management Association in August and November*, which showed marked improvement in consumer confidence in the overall economy and propensity for future spending.

COMPANY INITIATIVES FOR HONG KONG OPERATION

The key initiatives set for 2004 are to focus on further improving customer experiences to increase competitiveness, building a stronger brand presence with effective communication and investing in quality growth, through selective network expansion. In order to optimise operational productivity and efficiency, guidelines have been drawn to simplify systems and processes.

In anticipation of a much more favourable operating environment in 2004, the Group will embark on an aggressive new store-opening programme and has set a target of launching 24 stores by year-end, bringing the total number of stores in operation to 210. Comparable store sales is expected to reverse the negative trend in the last two years (-4.3% in 2002 and -1.1% in 2003) and the Group anticipates a neutral to positive growth rate.

REVIEW OF RETAIL MARKET ON THE CHINESE MAINLAND

In 2003, the Chinese Mainland still led the Asia Pacific region in retail market growth. According to the National Bureau of Statistics, total retail sales during the first half of the year was over US$260 billion, a year-on-year increase of 8%, despite the impact of SARS in major cities. An annual GDP growth of 9.1% was recorded for the year, the highest since 1997, providing strong evidence that the nation has fully recovered from SARS.

From January to November, retail sales in Guangzhou grew by 11%. Categories with significant growth included food, beverage, tobacco, wine and spirits, registering an impressive increase of 16.4% in wholesale and retail sales.

In terms of retail channel development, the expansion of hypermarket and mega-stores decelerated slightly as new official policies were announced to discourage price competition and regulate business structures in the spirit of the World Trade Organization agreement.

In the supermarket and convenience store sector, mergers and acquisitions would become the business solution to reduce operation costs and improve profitability. They would also provide the practical means to break out of the traditional retail modes and bring in modern trade with large-scale chain operation models. According to the 10th Five-Year Plan (2001-2005), chain store retailing is planned to grow at an annual rate of 35%.

* *According to the Shopometer Surveys presented by Hong Kong Retail Management Association and Synovate issued on 19 September and 19 December 2003*

REVIEW OF GUANGZHOU OPERATION

By the end of 2003, the Group had acquired a full year's operational experience in Guangzhou, with seven stores open for business. It was a year filled with learning about the market, experimenting with different store models and reviewing our strategies.

Consumer feedback from focus group studies indicated that our distinctive store model had achieved a niche positioning as a premium convenience store that is a cut above the market norm. Repeat customer traffic was generated by the exclusive product offerings in the Hot & In food services range i.e. in-store baked bread, freshly ground soya-milk and oven baked gourmet meals.

Daily store sales grew steadily through the year, supported by continual improvement in product offering across all categories, especially with the ongoing new product development programme for Hot & In food services, which registered a profit margin of 38%. In November and December, positive store contribution was recorded chain-wide for the first time.

The most exciting breakthrough was the experiment with a small store model at the Goldlion Digital Network Centre at Tiyu Road East. Working within the constraints of less than 60-square meters, the store was able to offer the same range of Hot & In food service offerings as a 120-square meter store. Sales have remained strong, and the store has made a positive contribution since launch.

In 2003, a number of new convenience chains made their presence felt in the Guangzhou market. While 7-Eleven remains the largest chain with over 100 stores, a few new entries were noted including Shanghai-based Kedi, a local chain Quik (part of the Lianhua Supermarket Group) and the Taiwan-based C'Store chain as well as 中旗Chung Chi, a subsidiary of Guangzhou's biggest hypermarket chain島內價. Judging from market feedback, the Group does not expect the newcomers to present a direct competition to our business development due to the very notable differences in store models.

FUTURE PROSPECTS

2004 promises to open up a new window of opportunity for growth and expansion in Hong Kong and on the Chinese Mainland.

With an increasing number of visitors from the Chinese Mainland, the stock market rally and the improving property market, there is good reason to believe that the Hong Kong economy is heading for a rebound. The Group anticipates that organic growth coupled with a more intensive store network expansion would be a prudent strategy to benefit from buoyant consumer sentiment.

As a 100% Hong Kong based company, the Group stands to benefit from CEPA with the opening up of major cities for future expansion and more flexibility in ownership structure.

With the GDP per capita reaching US$1,090 as announced by the National Bureau of Statistics, the overall market trend on the Chinese Mainland is moving towards a "broad-based economic development combined with rising consumption". Market penetration of convenience stores is still relatively low in major cities in the Pearl River Delta and the Yangtze River Delta areas with Shanghai being the exception. This would indicate that the market is ripe for rapid growth.

The Group will be carefully examining various options for expansion on the Chinese Mainland to ensure that it takes advantage of the prevailing favourable economic conditions.

In conclusion, I would like to express my gratitude to the management and staff of our operations in Hong Kong and the Chinese Mainland for their diligence and dedication in a year of exceptionally challenging circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Board is pleased to report the financial results of the Group for the year ended 31 December 2003. The Group's sales for the year and the fourth quarter increased to HK$1,526.1 million and HK$394 million respectively, representing a growth of 9.5% and 9.2% when compared to corresponding periods in 2002. Sales in comparable stores (stores that were in existence in 2002 and 2003) showed a decline of 1.1% for the full year and 1.6% for the fourth quarter. The bigger decline in comparable store sales for the fourth quarter was mainly due to the decrease in the sales of the non-food category compared to 2002 when two very successful premiums accounted for substantial sales increment in the same quarter.

The year on year sales growth was achieved through the opening of new stores in Hong Kong and Guangzhou. The directors of the Company (the "Directors") believe that opening new stores will be the driver for sales and profit growth, and the Group will continue the store expansion strategy in Hong Kong and the Chinese Mainland.

The slight drop in gross margin and other income (excluding interest) from 32.8% to 32.6% of sales for the year and from 34.6% to 34.2% of sales for the fourth quarter when compared to 2002 was mainly due to the decline in rebate income and promotion fees.

The increase in store expenses from 22.7% to 23.3% of sales for the year and from 23.5% to 24.1% of sales for the fourth quarter when compared to 2002 was mainly due to the full-year impact of store expenses in Guangzhou. Such expenses were recorded in the start-up costs separately until November 2002 when the first store was opened. Both distribution costs and administrative expenses were under control.

Net margin decreased from 4.3% to 4% of sales for the year and remained at 4.7% for the fourth quarter. The decrease for the year was mainly due to the slight decrease in other income as a percentage of sales as well as increase in store operating expenses as a result of store openings in Guangzhou.

The Group was able to achieve a continuous record of quarter-on-quarter growth in net profit since the Group's GEM listing on 18 January 2001 with the exception of the first quarter of 2003. Net profit attributable to shareholders increased by 0.5% to HK$60.7 million for the year and by 9.1% to HK$18.6 million for the fourth quarter. Basic earnings per share remained unchanged at 9.1 HK cents.

The Group's financial position continued to remain strong with a net cash position of HK$460 million, free of any bank borrowings. The Hong Kong business generated a free cash flow of approximately HK$81 million in 2003. The Group had a limited amount of foreign exchange exposure in RMB related to the joint venture operation on the Chinese Mainland. The exposure will be managed to a minimal level by holding surplus cash in Hong Kong dollars and borrowing in RMB (if required) to finance the operation in the Chinese Mainland.

OPERATION REVIEW – HONG KONG

In 2003, the Group opened 21 new stores and closed 1 store, ending the year with 186 stores and missing the target of 200 stores by 14. This was due to the fact that, with the outbreak of SARS, the pace of store opening was deliberately slowed down by the Group. As a result, only four stores were opened in the second quarter. The momentum picked up again in the third and the fourth quarters when eight and seven new stores were opened respectively to take advantage of the more reasonable retail rental rates in the aftermath of SARS.

Four mini-stores were added to the Circle K store chain in 2003. They are located at Tai Wo Hau, Wan Chai, Chai Wan and Heng Fa Chuen MTR stations. The Group currently has a total of 11 stores in MTR stations.

Interesting experiments were conducted with new store models customised for the niche segmentation of neighbourhoods such as the stores at the Western Market, Des Voeux Road Central and at the Hong Kong Spinners Industrial Building, Cheung Sha Wan Road. Both stores incorporate a Hot & In food services counter catering to office and blue collar workers from the catchment areas.

One of the smallest Circle K stores was opened at Russell Street opposite Times Square in Causeway Bay. It features prominent Circle K signage at the shop front and, with an ingenious design, includes a walk-in cooler for the selling of cold drinks. Consequently, the store generated substantial beverage sales as well as created strong brand exposure in a prime retail site with very heavy pedestrian traffic flow.

Employees

As of 31 December 2003, the Group had a total of 1,760 employees of whom 1,550 were based in Hong Kong and 210 were based in Guangzhou. Regular part-time staff accounted for 49% of the total headcount.

During the year, a comprehensive training programme was launched for the operation team, offering a well defined and progressive career ladder as an important motivational incentive.

A new training programme called "BASIC" was developed for newly joined trainees to help them acquire a better understanding and knowledge of the store operations in the shortest possible time.

On-going training programmes included product knowledge for chilled products, online game cards and media. Language training in English and Putonghua were also offered throughout 2003.

Overall training hours per staff member went up 8.6%, while the overall number of training courses increased by 85.5%.

Since the launch of Total Quality Culture in December 2002, awareness of the programme was further enhanced and put into practice during the year. A total of five Work Improvement Teams were assigned for the planning and implementation of various projects. Progress reports were regularly issued and shared by the teams.

The Group's commitment to community services and responsible corporate citizenship was well recognized when Circle K Convenience Stores (HK) Limited was nominated by the Tung Wah Group of Hospital to be a "Caring Company" 2003/04, awarded by the Hong Kong Council of Social Services.

Marketing and Promotion

In order to neutralise the negative market sentiment in 2003, the Group endeavoured to be proactive with a marketing calendar of non-stop promotional activities including innovative product introduction, trendy premium redemption and fast growth category promotion.

Timely introduction of protective products during the SARS outbreak such as facemasks, antiseptic wipes and hand sanitisers compensated significantly for the sales loss in major categories such as cold beverages and ice-cream. Launch of microwavable meal boxes in the second quarter also resulted in substantial and sustainable sales growth.

Joint premium promotions with Qoo, Sprite and Coke provided extra fun and novelty to customers while generating healthy incremental sales. Brand image of Circle K was further enhanced as the exclusive retailer offering a unique range of quality premiums which were not only one-of-a-kind, but were offered at reasonable pricing which allowed for enormous appreciation potential in the premium collectors' market.

Fast growth category promotions with notable sales results in 2003 included online game cards and the Lucky Star programme for magazines / newspapers. A television commercial campaign was launched in mid-November with the dual purpose of promoting a free pack of Lucky Star facial tissues with every media purchase as an exclusive Circle K offer and to build the Circle K brand as the preferred convenience store. Bus panels were employed concurrently as an outdoor medium to promote a range of quality products as selective "Very OK Brands".

Value offers scheduled for every weekend became a signature promotion event generating considerable sales momentum while promoting a "value" image.

To create more excitement for the launch of new stores in different neighbourhood, a store-opening programme package was designed with generous offers to lure neighbourhood traffic and to attract repeat customers.

A total of more than forty promotional themes were implemented throughout 2003 to arrest the decline of comparable store sales in an unfavourable market environment and to achieve chain-wide sales growth of 9.5% over 2002.

Category Management Excellence

With the hard work and dedication of the category management team, the Group managed to outperform the market in core categories such as food services, packaged beverages, confectionery and snack for 2003.

An important source of incremental sales was the premium redemption promotions conducted during the year accounting for around HK$6.5 million in premium sales and almost HK$3.6 million in product sales.

Online game cards is a fast growing category registering encouraging sales, increase of over 200% compared to 2002, with sustainable sales momentum. This was achieved with the timely sourcing of an up-to-date product range, improved product display at stores, intensive training for frontline staff to improve product knowledge and increased joint promotion activities with suppliers.

A regular promotion programme that became a major sales generator was the "Weekend Wow Specials" which offered popular impulse items at value pricing supported by suggested selling at the cashier point, highly effective newspaper advertising and optimum supply chain management. The programme managed to contribute HK$28.5 million or 1.9% of total sales volume in 2003.

Since the launch of the Ding-a-Meal microwavable meal box with favourable reception, a second tier brand "Rice Restaurant" was introduced specialising in traditional Chinese steamed rice recipes at a value pricing of HK$9.9. The two brands accounted for over HK$1.6 million average monthly sales, with a steady growth momentum and potential to become signature products in the food services category.

Service Excellence

Continuous improvement set the focus for the "Service Excellence" company culture. Various training programmes devoted to the improvement of customer services were implemented to promote a learning culture. The Service Star Programme introduced in 2003 was a notable effort in that direction.

A group of dedicated front line staff – "Service Stars" were hand-picked to be customer service field counselors to initiate and implement specific customer service themes such as "better communication with customers", "improving store displays" etc; with field coaching and service demonstration.

Circle K Convenience Stores (HK) Limited was the proud winner of the Silver Prize of the Hong Kong Management Association's Annual Award for Excellence in Training 2003. The winning programme was the "Phone Card Product Training: Better Knowledge, Better Service" — the brainchild of inter-departmental collaboration. It was the united effort of the Human Resources Training Team working closely with the Phone Card Category Management Team, with input and suggestions from frontline operation, after interaction and fine-tuning during execution which produced such gratifying result.

Supply Chain Management and Logistics

In order to keep pace with the Group's business growth, a series of renovation projects were implemented to upgrade its distribution centre. These initiatives included the re-design of product layout, a study to streamline operation flow and space optimisation of racking and shelving system. A powerful new server for warehouse management was installed which greatly improved the cycle time in data processing. The outcome was additional storage for future expansion and improved productivity with cost saving.

The centralised chilled delivery system introduced in the second quarter continued to support the food services category development by replacing vendor delivery with a much more efficient and direct control system. Speedy response to replenishment orders and better inventory management were achieved.

To ensure all Circle K stores enjoy immediate return of goods after weekly promotions, a quick-response product return procedure was successfully introduced. This serves to meet the needs of fast turn product categories as well as avoiding overstock situations in stores.

In the fourth quarter, preparation was underway to get ready for the launch of a Good Housekeeping Programme in the first quarter of 2004, which will further upgrade the hygiene, discipline and safety standards of the distribution centre.

Cost Saving Initiatives

With the concerted effort of all divisions and working closely with vendors and suppliers, the Group continued to make significant progress in the cost saving initiatives in a deflationary environment.

Notable savings were achieved in electricity via standardisation of store lighting intensity. Optimisation of delivery frequency; replacing big ice-making machines with smaller machines in adjustment to demand and replacing printed promotion price talker with re-usable plastic talker frame were just a few of the many cost saving measures implemented.

It was also decided to close down the operation of the distribution centre, the warehouse and all delivery activities on Sundays to reduce operation costs without any negative impact on frontline operation.

OPERATION REVIEW – GUANGZHOU

In Guangzhou, we opened five stores in 2003, ending the year with a total of seven stores, missing the target number of ten stores by three. This was mainly due to strict adherence to an optimum store-size operation model.

The quest for a minimum of 120-square metre premise as the ideal store-size operation model tended to limit the scope of options. Decisions were made to ensure a more efficient approach in new store site acquisition in 2004.

Firstly, more resources were allocated to the site acquisition team. Secondly, an experimental store model of around 60 square metres was opened at the Goldlion Digital Network Center, Tiyu Road East that recorded positive store contribution from its first month in operation. This opened up enormous possibilities and flexibility in the future search for store sites. Thirdly, customisation of product offering and category focus to fit different neighbourhoods also helped to improve the contribution of each store and to achieve a higher hit rate.

An Update on Market Performances

The Circle K stores in Guangzhou recorded stable sales growth in daily store sales chain-wide, with the Hot & In products accounting for a significant portion of the repeat customer traffic.

New product introductions such as croissants with fillings, baked spaghetti and Hong Kong style “milk-tea” were launched in the last quarter generating favourable sales results, and sustained the excitement and novelty of the Hot & In offering. Further new product developments are underway to ensure the continuity of the new product programme to increase sales.

Strong increases in the sales of cigarettes, packaged drinks, dairy products and confectionery were also registered. Operation cost and profit margins were well under control. As a result, the Guangzhou operation was able to achieve positive contribution at store level during November and December 2003.

A new store was opened in the Dongshan District, a business/commercial area, in December and registered the highest sales record of close to RMB24,000 in the first 24 hours. Two more new stores were committed to be opened in January/February 2004.

Consumer Insights

According to a focus group study conducted in-house, Circle K Stores in Guangzhou were perceived as brighter, cleaner, more spacious and more trendy than other convenience store chains in the market.

Reasons for visit were mainly for purchases of freshly baked bread, freshly ground soya-milk for breakfast, lunch or afternoon snack. Baked rice meal was another signature product for destination shopping. Because of these exclusive product offerings, Circle K Guangzhou has become the preferred convenience store brand for customers who have acquired a taste for these distinctive food and drink products.

Competition and New Entries

In 2003, several new convenience store chains were introduced to the Guangzhou market. The Shanghai-based Kedi was launched in the beginning of the year and ended the year with about 15 stores. Another local chain Quik, part of the Lianhua Supermarket Group, also embarked on rapid expansion during the year with over 70 stores opened by the end of the year. The Taiwan-based C'Store chain was launched in the middle of the year and currently operates about 50 stores. 中旗Chung Chi (part of Guangzhou's biggest hypermarket chain島內價) has 10 stores. Together with 7-Eleven, a total of over 250 chain-operated convenience stores are now in operation in Guangzhou.

The new entrants currently do not pose any immediate threat to the Circle K store business due to visible differences in store models and a perceived gap in service standards. However, the scramble for suitable store sites implies that retail rental prices will rise as a result.

FUTURE PROSPECTS

In Hong Kong, the increase in visitors from the Chinese Mainland has immediately benefited certain retail sectors but retailers relying mostly on local consumer spending will see a slower and more gradual improvement in 2004.

With the effect of CEPA starting to kick in as the catalyst for the overall economic growth in Hong Kong and the Pearl River Delta, the positive impact on the Group's business performance will be much more direct and significant.

In the meantime, a quality growth strategy will be maintained in Hong Kong by providing continued improvement in customer services to build brand preference for Circle K stores. With 20 to 30 quality new stores planned for opening in 2004, the Group foresees that quality growth in profitability and cash flow will be maintained.

In the Guangzhou operation, the business model will be subject to further review and modification. The focus on “Hot & In” gourmet food and drinks will be maintained to provide a point of differentiation and a barrier to entry.

Major adjustments would be required to reduce the capital expenditure per store, which needs to be lowered considerably. A scaled down store model to fit into a 60-square metre shop area would be a step in the right direction.

The only potential threats faced by the Group in Southern China would be increased competition in the convenience store market that causes the escalation of retail rental prices and the significant increases in social insurance costs. Otherwise the economy is robust and consumer sentiment remains very positive.

The Group is confident that the time has come for an aggressive expansion phase on the Chinese Mainland and a target is set to have a total of 40 stores in operation by the end of 2004. The Group will also commence preparations for expansion into the northern and the eastern cities of the Chinese Mainland.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the year.

BOARD PRACTICES AND PROCEDURES

The Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at 4:00 p.m. on Wednesday, 5 May 2004 at the Auditorium, 12/F., LiFung Centre, 2 On Ping Street, Shatin, New Territories, Hong Kong . Notice of the Annual General Meeting will be sent to the shareholders of the Company shortly.

FINAL DIVIDEND

The Board of Directors recommended to pay to the shareholders a final dividend of 3 HK cents (2002: Nil) per share for the year ended 31 December 2003 absorbing a total of HK$20,086,500 on 669,550,000 shares issued as at 3 March 2004 (2002 : Nil). An interim dividend of 1 HK cent (2002 : Nil) was paid by the Company on 20 August 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 29 April 2004 to 5 May 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Abacus Share Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 28 April 2004. Dividend warrants will be despatched on 6 May 2004, subject to shareholders' approval of payment of the final dividend at the Annual General Meeting on 5 May 2004.

On behalf of the Board
Convenience Retail Asia Limited
Fung Kwok King, Victor
Chairman

Hong Kong, 3 March 2004

This announcement will be available from the Company's website **www.cr-asia.com** *and will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of its posting.*